COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4717-02
Bill No.: SB 840
Subject: Boards; Commissions, Committees, Councils; Cities, Towns and Villages; Counties; Entertainment; Taxation and Revenue
Type: Original
Date: March 15, 2010

Bill Summary: This proposal provides creates a tax credit to attract sporting events to the state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	($63,561 to ($10,063,516)	($71,751 to $10,071,751)	($73,903 to $10,073,903)
Total Estimated Net Effect on General Revenue Fund*	**($63,561 to $10,063,516)**	**($71,751 to $10,071,751)**	**($73,903 to $10,073,903)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

In response to similar proposal from this year (HB 1786), officials from the **Office of Administration - Budget and Planning (BAP)** stated this proposal would allow ten million dollars in tax credits annually in order to attract sporting events to Missouri which could therefore lower general and total state revenues by an unknown amount up to ten million dollars annually. This proposal may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates a tax credit program to attract sporting events to Missouri. DED is responsible for reviewing the application to determine eligibility, certifying the project, determining the geographic boundaries of the market area for the event and determining the amount of incremental increase in tax revenues directly attributable to the event. The cap is $10m annual (per fiscal year) and is refundable based on the lesser of either 100% of the eligible costs incurred by the applicant of 90% of the incremental increase in tax revenues.

The creation of this tax credit would result in the need for one additional FTE to administer the program. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, certifying the project, determining the geographic boundaries of the market area for the event, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. The cap for this new tax credit is $10 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown short-term positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $6,000.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant

ASSUMPTION (continued)

impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at $22,260 (840 FTE hours to make programming changes to the individual income tax processing system (MINITS) and the corporate income tax processing system (COINS)).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

DOR also assumed the need for two additional FTE to administer the tax credits. Personal Tax would need one Revenue Processing Technician per 6,000 claims, and Corporate / Withholding would need one Revenue Processing Technician per 6,000 additional tax credit redemptions. The cost of these two FTE are anticipated to be roughly $85,000 per year.

Oversight assumes this tax credit is limited in scope, and that the Department of Revenue will not incur the number of credit redemptions (count) that will require additional FTE.

In response to similar proposal from this year (HB 1786), officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP also stated it will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for

ASSUMPTION (continued)

this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500.

The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 85 percent to 106 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 95 percent of tax credits issued. Therefore, if $10 million credits are issued, Oversight would assume $9,500,000 credits would be redeemed.

Oversight will range the fiscal impact of the programs from $0 (no additional tax credits will be issued) to the annual limit of $10 million. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($18,775)	($23,206)	($23,902)
Expense and Equipment	($8,983)	($4,293)	($4,421)
Total Costs - DED	($63,561)	($71,751)	($73,903)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - Tax credit for attracting sporting events to Missouri	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($63,561) to ($10,063,561)**	**($71,751) to ($10,071,751)**	**($73,903) to ($10,073,903)**
Estimated Net FTE Change for the General Revenue Fund	1 FTE	1 FTE	1 FTE

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for this program may be positively fiscal impacted by this proposal.

FISCAL DESCRIPTION

This act creates a refundable income and financial institutions tax credit which will be available for sports commissions, convention and visitors bureaus, certain nonprofit organizations, counties, and municipalities to offset expenses incurred in attracting sporting events to the state. Applicants for the tax credit must submit game support contracts to the department of economic development for approval. The tax credit will be equal to the lesser of fifty percent of the incremental increase in state sales and use tax revenues attributable to such event or one hundred percent of eligible expenses incurred. No more than ten million dollars in tax credits may be issued per fiscal year. The tax credits are fully transferrable, provided a notarized endorsement is filed with the department of economic development. The department of economic development is prohibited from certifying game support contracts after August 28, 2016, but may certify game support contracts prior to such date which pertain to games to be held after August 10, 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 Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration
Office of the Secretary of State

Mickey Wilson, CPA
Director
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