

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0789-01  
Bill No.: HB 189  
Subject: Banks and Financial Institutions; Business and Commerce  
Type: Original  
Date: January 23, 2009

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Bill Summary: This proposal establishes provisions to encourage the development of technology-based businesses.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
General Revenue	(\$92,816) to (UNKNOWN)	(\$99,425) to (UNKNOWN)	(\$102,408) to (UNKNOWN)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$92,816) to (UNKNOWN)</b>	<b>(\$99,425) to (UNKNOWN)</b>	<b>(\$102,408) to (UNKNOWN)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Seed Capital Technology Business Finance Program	\$0	\$0	\$0
Proof of Concept Technology Business Finance Program	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Total Estimated Net Effect on <u>All Federal Funds</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
General Revenue	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates two new accounts under the Missouri Technology Investment Fund to be managed by the Missouri Technology Corporation (MTC). The new programs may be funded by appropriations made by the General Assembly. The bill also proposes a tax credit equal to 30% of the investor's equity investment or 40% of their investment if the business is located in a rural or distressed community. The total amount of tax credits available for this program is \$5 million per year.

This proposal could therefore lower general and total state revenues up to \$5 million. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates the Seed Capital Technology Business Finance Program Act and Proof of Concept Technology Business Finance Program Act to be administered by the Missouri Technology Corporation. It also creates the Equity Investment Tax Credit program to be administered by Business and Community Services (BCS) section within DED.

BCS requests one FTE to administer the Equity Investment Tax Credit program due to the assumed amount of administration involved. We assume the Equity Investment Tax Credit will have a negative impact to Total State Revenue of approximately \$5 million a year based on the redemption of tax credits. The purpose of the Equity Investment Tax Credit is to stimulate private investment in qualified Missouri businesses, which will in turn create additional jobs in these businesses; therefore, BCS assumes an unknown positive economic impact at some point in the future dependent on the number of jobs created.

Seed Capital Technology Business Finance Program Act and Proof of Concept Technology Business Finance Program Act - The proposed legislation does not have a mechanism in place for the Missouri Technology Corporation (MTC) to take an administrative fee on the program funds in order to administer the programs. The MTC assumes an unknown impact for two reasons: (1) the MTC will need an unknown amount of funds to administer the programs; and (2) the programs will have an unknown fiscal impact because there is an unknown appropriation amount. However, the MTC does believe the cost of the programs would be offset by an unknown increase in economic development activity (job creation) by the programs.

DED assumes the cost of the additional FTE to be roughly \$60,000 per year.

### ASSUMPTION (continued)

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**Oversight** assumes the new programs under the Missouri Technology Corporation may be funded through an appropriation made by the General Assembly. Therefore, Oversight will range the cost to the General Revenue Fund of \$0 (no appropriation made) to (Unknown). Oversight also assumes the amounts appropriated to the two new accounts under the Missouri Technology Fund, would be spent entirely in the year of the appropriation on equity investments, loans, professional equity fund managers as well as administrative costs.

Per Section 348.274.9, DED shall attempt to recoup administrative expenses from the qualified Missouri businesses and tax credit recipients. **Oversight** will range this potential income source from \$0 to the annual expenses estimated by DED.

Officials from the **Department of Revenue (DOR)** state due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 1 months for system modifications to COINS, Café and E-file. The estimated cost is \$13,323.

Officials from DOR assume their Corporate Tax section would require:

- One Revenue Processing Technician I (at \$25,380 annually) for every 5,200 additional returns verified; and
- One Revenue Processing Technician I (at \$25,380 annually) for every 2,080 pieces of additional correspondence generated from the new tax credit.

DOR assumes the need for two additional FTE from the tax credit, at a estimated total cost of \$95,000 annually.

**Oversight** assumes the number of investors in technology-based early stage Missouri companies who qualify for the tax credits will not rise to the thresholds specified by the Department of Revenue to need two FTE. Oversight assumes DOR could administer the new tax credit with one additional FTE. Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Revenue Processing Technician I to correspond to the second step above minimum for

ASSUMPTION (continued)

comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of Secretary of State (SOS)** state 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 this fiscal note to the SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

In response to a similar proposal from 2008 (HB 2377), officials from the **Office of the State Treasurer** assumed no fiscal impact to their agency.

**Oversight** will range the fiscal impact of the tax credits from \$0 (no tax credit issuances and/or redemptions) to the annual limit of \$5 million.

**Oversight** compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 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 83 percent of tax credits issued. Therefore, under this proposal, if \$5,000,000 of credits are issued, Oversight would assume \$4,150,000 (83%) of credits to be redeemed, reducing Total State Revenues.

**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.**

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>GENERAL REVENUE</b>			
<u>Costs - DOR</u>			
Personal Service (1 FTE)	(\$19,467)	(\$24,061)	(\$24,783)
Fringe Benefit	(\$9,467)	(\$11,701)	(\$12,052)
Expense and Equipment	<u>(\$6,236)</u>	<u>(\$1,066)</u>	<u>(\$1,099)</u>
<u>Total Costs - DOR</u>	(\$35,170)	(\$36,828)	(\$37,934)
FTE Change - DOR	` 1 FTE	1 FTE	1 FTE
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$32,012)	(\$39,567)	(\$40,754)
Fringe Benefits	(\$15,567)	(\$19,241)	(\$19,819)
Expense and equipment	<u>(\$10,067)</u>	<u>(\$3,789)</u>	<u>(\$3,901)</u>
<u>Total Costs - DED</u>	(\$57,646)	(\$62,597)	(\$64,474)
FTE Change - DED	` 1 FTE	1 FTE	1 FTE
<u>Income - DED</u>			
Per Section 348.274.9, DED may recoup administrative costs	\$0 to \$57,646	\$0 to \$62,597	\$0 to \$64,474
<u>Transfer Out - to Missouri Technology Investment Fund - Seed Capital Technology Business Finance Program Account</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Transfer Out - to Missouri Technology Fund - Proof of Concept Technology Business Finance Program Account</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss - Tax credits for equity investments into technology-based early stage Missouri companies</u>	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$92,816) to <u>(UNKNOWN)</u></b>	<b>(\$99,425) to <u>(UNKNOWN)</u></b>	<b>(\$102,408) to <u>(UNKNOWN)</u></b>
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
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**SEED CAPITAL TECHNOLOGY  
 BUSINESS FINANCE PROGRAM**

<u>Transfer In</u> - appropriation from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Costs</u> - Investments in Seed Capital Technology Businesses	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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<u>Costs</u> - Department of Economic Development / Missouri Technology Corp. - to administer the Seed Capital Technology Business Finance Program Act - including contracting with professional equity fund managers	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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**ESTIMATED NET EFFECT TO THE  
 SEED CAPITAL TECHNOLOGY  
 BUSINESS FINANCE PROGRAM  
 ACCOUNT**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**PROOF OF CONCEPT  
 TECHNOLOGY BUSINESS  
 FINANCE PROGRAM ACCOUNT**

<u>Transfer In</u> - appropriation from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Costs</u> - Missouri Technology Corporation - loans to companies in the early development stage of commercializing advanced technology	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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**ESTIMATED NET EFFECT TO THE  
 PROOF OF CONCEPT  
 TECHNOLOGY BUSINESS  
 FINANCE PROGRAM ACCOUNT**

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

FY 2010  
(10 Mo.)

FY 2011

FY 2012

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify for the programs within this bill could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal establishes the Seed Capital Technology Business Finance Program Act and the Proof of Concept Technology Business Finance Program Act and authorizes tax credits for investments in technology-based early state Missouri companies.

SEED CAPITAL TECHNOLOGY BUSINESS FINANCE PROGRAM ACT

The Seed Capital Technology Business Finance Program Act creates, within the Missouri Technology Investment Fund, the Seed Capital Technology Business Finance Program Account. The account will consist of appropriations, gifts, contributions, grants, bequests, payments on loans made from the account dividends paid on shares of stock purchased with moneys from the account, royalty proceeds, and any other form of return on authorized investments.

The Missouri Technology Corporation may use moneys in the account to make investments in an advanced technology company that is at the early development stage of commercializing advanced technology. Investments must be loans convertible to equity, equity, or loans with stock subscriptions or similar warrants that are beneficially owned by the corporation.

An eligible company must have 50% or more of its employees and assets in Missouri, be at the seed or start-up stage, and have innovative products and services. Eligible advanced technology industries include animal health, biotechnology, information technology, communications technology, aerospace, electronics, robotics, medical devices and instruments, telecommunications, plant sciences, and energy. Ineligible industries include banking and lending, development, management and investment companies, finance, insurance, mining, oil and gas exploration, real estate, wholesale, and retail.

FISCAL DESCRIPTION (continued)



The corporation is required to hire professional equity fund managers for professional review of applications, performance of due diligence, and other advisory services before any investments can be made. Investments can only be made upon the recommendation of the professional equity fund managers. The bill specifies the requirements which must be met before the corporation can make investments in eligible advanced technology companies.

Investments made by the corporation cannot be greater than the lesser of \$750,000 or the amount necessary to gain 49% ownership interest in any advanced technology company at the time of investment.

#### PROOF OF CONCEPT TECHNOLOGY BUSINESS FINANCE PROGRAM ACT

The Proof of Concept Technology Business Finance Program Act is established which creates, within the Missouri Technology Investment Fund, the Proof of Concept Technology Business Finance Program Account consisting of appropriations, gifts, grants, contributions, bequests, and payments on loans made from the account.

The Missouri Technology Corporation may use moneys in the fund to make a one-time loan to a company that is at the early development stage of commercializing advanced technology. The loan amount to any single company cannot exceed \$75,000. Loans must be repaid within five years in an amount equal to twice the amount loaned. Early repayment will result in prorating the repayment amount.

Eligible companies must be technology-based; sufficiently innovative to provide a competitive advantage in the marketplace; have the potential for significant, high-performance growth; be at the early development stage of commercializing advanced technology; have 50% or more of its employees and assets in Missouri; and have average wage levels of at least 35% higher than the average county wage level as determined by the Department of Economic Development for the most recently completed calendar year.

At the time a loan is made, the eligible company must be a small business concern that meets the requirements of the United States Small Business Administration's qualification size standards for its business loan program.

Eligible advanced technology industries include animal health, biotechnology, information technology, communications technology, aerospace, electronics, robotics, medical devices and instruments, telecommunications, plant sciences, and energy. Ineligible industries include banking and lending, development, management and investment companies, finance, insurance,

#### FISCAL DESCRIPTION (continued)

mining, oil and gas exploration, real estate, wholesale, and retail.

The bill specifies the requirements which must be met before the corporation can make a proof of concept loan.

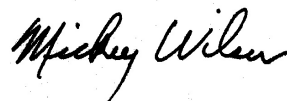
#### TAX CREDITS FOR TECHNOLOGY-BASED EARLY STAGE MISSOURI COMPANIES

The department is allowed to authorize up to \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly known as angel investments. Investors who contribute the first \$500,000 in equity investment to a qualified Missouri business may be issued a tax credit equal to 30% of the investment or 40% if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to \$50,000 for an investment in a single qualified business and up to \$100,000 for investments in more than one qualified business per year. Credits can be carried forward for up to three years or transferred.

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  
Office of the State Treasurer  
Office of Administration - Budget and Planning  
Office of the Secretary of State  
Department of Revenue



Mickey Wilson, CPA  
Director  
January 23, 2009