

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3423-01  
Bill No.: HB 1512  
Subject: Banks and Financial Institutions; Business and Commerce; Tax Credits  
Type: Original  
Date: January 15, 2010

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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>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$121,465) to (UNKNOWN)	(\$108,948) to (UNKNOWN)	(\$112,216) to (UNKNOWN)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$121,465) to (UNKNOWN)</b>	<b>(\$108,948) to (UNKNOWN)</b>	<b>(\$112,216) to (UNKNOWN)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 11 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<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 the State Treasurer** assume this proposal would not fiscally impact their agency.

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 this fiscal note to 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.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this on 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 system, changes cannot be made without significant impact to DOR's resources and budget. Therefore, the Information Technology portion of this fiscal note is estimated with a level of effort valued at \$22,205.

The value of the level of effort is calculated by taking 1 FTE for 336 hours to make updates of the individual income tax processing system (MINITS) and 3 FTE for a total of 504 hours to make updates to the corporate income tax processing system (COINS).

Officials from DOR assume their Corporate Tax section would require one Revenue Processing Technician I (at \$25,380 annually) for every 6,000 additional tax credit redemptions; and the Personal Tax section would require one Revenue Processing Technician I (at \$25,380 annually) for every 6,000 claims..

DOR assumes the need for two additional FTE from the tax credit plus programming expense, at a estimated total cost of \$101,506 in FY 2011, \$84,162 in FY 2012 and \$86,689 in FY 2013.

**Oversight** assumes the number of investors in technology-based early stage Missouri companies

ASSUMPTION (continued)

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 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 **Department of Economic Development (DED)** state the proposed legislation creates the Equity Investment Tax Credit, which will stimulate private investment in qualified Missouri businesses and create additional jobs in these businesses. The creation of this tax credit would result in the need for one additional FTE in Business and Community Services (BCS) to administer the Equity Investment Tax Credit program due to the assumed amount of administration involved. 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, 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 \$5 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Seed Capital Technology Business Finance Program Act & Proof of Concept Technology Business Finance Program Act - The proposed legislation does not have a mechanism in place for the 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.

**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.

ASSUMPTION (continued)

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 **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

**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 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Costs - DOR</u>			
Personal Service (1 FTE)	(\$19,467)	(\$24,061)	(\$24,783)
Fringe Benefit	(\$10,209)	(\$12,618)	(\$12,996)
Expense and Equipment	(\$6,023)	(\$518)	(\$534)
Programming	(\$22,205)	\$0	\$0
<u>Total Costs - DOR</u>	(\$57,904)	(\$37,197)	(\$38,313)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Costs - DED</u>			
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)
<u>Total Costs - DED</u>	(\$63,561)	(\$71,751)	(\$73,903)
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 \$63,561	\$0 to \$71,751	\$0 to \$73,903

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
<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><u>(\$121,465) to (UNKNOWN)</u></b>	<b><u>(\$108,948) to (UNKNOWN)</u></b>	<b><u>(\$112,216) to (UNKNOWN)</u></b>
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

**SEED CAPITAL TECHNOLOGY  
 BUSINESS FINANCE PROGRAM**

<u>Transfer In - appropriation from General Revenue</u>	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Costs - Investments in Seed Capital Advanced Technology Businesses</u>	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
<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 <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE SEED CAPITAL TECHNOLOGY BUSINESS FINANCE PROGRAM ACCOUNT</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>PROOF OF CONCEPT TECHNOLOGY BUSINESS FINANCE PROGRAM ACCOUNT</b>			
<u>Transfer In</u> - appropriation from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> - Missouri Technology Corporation - loans to companies in the early development stage of commercializing advanced technology	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE PROOF OF CONCEPT TECHNOLOGY BUSINESS FINANCE PROGRAM ACCOUNT</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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 bill 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 stage 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 made under the Seed Capital Technology Business Finance Program.

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 contract with 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. The investment can be used for intellectual property development, business prototypes, market studies, and business operations.

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 an 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

FISCAL DESCRIPTION (continued)

banking and lending, development, management and investment companies, finance, insurance, 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

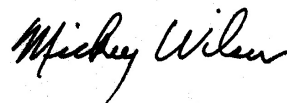
The department is allowed to authorize up to \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly known as angel investments. Investors who contribute the first \$500,000 in equity investment to a qualified Missouri business may 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 the Secretary of State  
Department of Revenue

**NOT RESPONDING:**  
**Office of Administration - Budget and Planning**



L.R. No. 3423-01  
Bill No. HB 1512  
Page 11 of 11  
January 15, 2010

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Director  
January 15, 2010

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