

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5150-01
Bill No.: HB 2201
Subject: Economic Development, Business and Commerce, Department of Economic Development
Type: Original
Date: March 5, 2018

Bill Summary: This proposal establishes the Show Me Rural Jobs Fund.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	Up to (\$50,044,008)	(\$48,615)	(\$49,313)
Total Estimated Net Effect on General Revenue	Up to (\$50,044,008)	(\$48,615)	(\$49,313)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Show Me Rural Jobs	\$0	\$0 or Unknown	\$0 or Unknown
Total Estimated Net Effect on Other State Funds	\$0	\$0 or Unknown	\$0 or Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal creates the "Show Me Rural Jobs Fund" in the State Treasury, which shall consist of monies appropriated to it by the General Assembly. The Department of Economic Development (DED) shall provide allocations from the fund to a qualifying "rural fund" in an amount equal to one-half of its investment authority. This proposal provides that DED shall not approve more than \$100 million in investment authority.

This proposal will not directly impact General and Total State Revenues; however, to the extent appropriations are made to the new fund, it could reduce resources available for other priorities.

Officials at the **Department of Economic Development (DED)** assume this proposal creates the Show Me Rural Jobs Fund. This program is designed to get "Rural Funds" (a group of investors) to invest in rural businesses. DED approves a maximum investment for a Rural Fund, the fund goes and collects that amount from private investors, then DED matches half of that in a grant from appropriated money. The annual approval is \$100 million, so the most DED could match is \$50 million.

Section 620.1962 requires DED to accept and review applications. DED shall not approve more than \$100 million in investment authority and shall proportionally allot the investment authority among the approved applications. After approved, the rural fund collects private contributions from its investors equal to the rural fund's investment authority.

Section 620.1963 creates the Show Me Rural Jobs Fund in the treasury that contains money appropriated by then General Assembly. The money is used to administer this program. DED approves allocations from the fund to an approved rural fund equal to one-half of the allowed investment authority.

Section 620.1965 requires DED to provide a written opinion to rural funds as to whether the business in which it proposes to invest is a "business concern" defined as a company that at the time of the initial investment by the rural fund has fewer than 150 employees and whose principal place of business is located in this state but not in a county with a charter form of government or a county of the first classification.

Section 620.1966 provides annual Rural Fund requirements such as an annual report.

ASSUMPTION (continued)

Section 620.1967 requires the rural fund to pay an annual fee that DED calculates using the provided formula. It is not a set amount.

Section 620.1968 provides when a Rural Fund may exit the program.

Due to these requirements DED will need 2 Economic Development Incentive Specialist III (\$53,136) to administer the program. The impact will be \$50 million, as that is the cap, but will recoup an unknown amount of fees.

Oversight notes this proposal allows DED to approve not more than \$100 million in investment authority for the Show Me Rural Jobs Fund. Investment Authority is defined as equal amounts repayable grants contributions and private contributions. Therefore, the amount of repayable grants authorized by DED will be \$50 million.

Oversight notes that DED is to begin accepting applications on October 1, 2018 and make determinations by November 30, 2018 as to who will receive the repayable grants per §620.1962. Oversight will show the distribution of the \$50 million in FY 2019.

Oversight notes that per §620.1963.3, DED is to execute binding agreements with the applicants that include terms of repayment, duties of the fund and clawback provisions. Oversight will show a \$0 or an Unknown amount of revenue starting FY 2020 from the clawback provisions.

Oversight notes this proposal establishes in §620.1967 a \$25,000 annual fee that is to be split amongst the recipients of the grant money. Oversight will show the collection of the annual fee.

Oversight notes the contract period is for six years. Oversight is unsure when the repayment of the grants would begin and assume it would be outside the fiscal note period.

Oversight notes there is no limit as to the amount one applicant can receive in grant funding. Oversight notes there may be a limited number of applicants and since the program requires annual reports from those applicants, Oversight assumes DED could handle the administration of this grant with one FTE.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (from \$53,136 to \$44,352) 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.

ASSUMPTION (continued)

Officials at the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the 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.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Revenue</u> - Annual Fee paid by the Rural funds §620.1967	\$25,000	\$25,000	\$25,000
<u>Transfer Out</u> - to the Show Me Rural Jobs Fund	Up to (\$50,000,000)	\$0	\$0
<u>Cost</u> - DED			
Personal Service	(\$36,960)	(\$44,796)	(\$45,243)
Fringe Benefits	(\$19,967)	(\$24,092)	(\$24,225)
Equipment and Expense	(\$12,081)	(\$4,727)	(\$4,845)
<u>Total Costs</u> - DED	<u>(\$69,008)</u>	<u>(\$73,615)</u>	<u>(\$74,313)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>(\$50,044,008)</u>	<u>(\$48,615)</u>	<u>(\$49,313)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
SHOW ME RURAL JOBS FUND			
<u>Transfer In</u> - from General Revenue	Up to \$50,000,000	\$0	\$0
<u>Revenue</u> - Clawback provisions regarding the grants §620.1964	\$0	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - distribution of grants §620.1963	Up to <u>(\$50,000,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE SHOW ME RURAL JOBS FUND	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill creates the "Show Me Rural Jobs Fund."

Beginning October 1, 2018, the Department of Economic Development will accept and review applications for approval as a rural fund, as defined in the bill. The department shall review applications in the order they are received, but may not approve more than \$100 million in investment authority. After receiving approval, a rural fund shall collect private contributions from investors that, when added to a repayable matched grant to be received from the department, equal the rural fund's investment authority. Any approved rural fund shall make growth investments in business concerns as defined by the bill.

The Show Me Rural Jobs Fund shall consist of moneys appropriated by the General Assembly. The department is required to demand repayment of any grant made to a rural fund under certain circumstances, including if a rural fund does not invest at least 70% of its authority in growth investments in rural areas of the state. The bill provides that the department may issue an advisory opinion to a rural fund as to whether a proposed investment is a business concern under the provisions of the bill.

Each rural fund shall submit to the department an annual report containing specified information and documentation of the rural fund's growth investments. The department shall submit an annual report to the General Assembly concerning the rural funds participating in the program. Each rural fund shall pay an annual fee to be determined by the department. Six years after the closing date, a rural fund may exit the program. After exiting, the rural fund will no longer be subject to the provisions of the bill, but may incur a repayment obligation to be calculated by the department.

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

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SOURCES OF INFORMATION

Department of Economic Development
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State
Office of the State Treasurer

Ross Strobe

A handwritten signature in black ink, appearing to read "Ross Strobe", with a stylized flourish at the end.

Acting Director
March 5, 2018