

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0206-01
Bill No.: HB 93
Subject: Minorities; Economic Development; Department of Economic Development
Type: Original
Date: March 22, 2019

Bill Summary: This proposal establishes the Missouri Minority Business Enterprise Loan Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or Could exceed (\$4,972,733)	\$0 or Could exceed (\$4,983,114)	\$0 or Could exceed (\$4,984,531)
Total Estimated Net Effect on General Revenue	\$0 or Could exceed (\$4,972,733)	\$0 or Could exceed (\$4,983,114)	\$0 or Could exceed (\$4,984,531)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
Total Estimated Net Effect on FTE	0 or 2 FTE	0 or 2 FTE	0 or 2 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 2020	FY 2021	FY 2022
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 Missouri Minority Business Enterprise Loan Program. Through this program the Department of Economic Development may loan or grant up to \$29 million in aggregate to qualified entities for the purpose of establishing loan revolving funds to assist in financing the economic development of minority businesses.

To the extent new appropriations are made from the General Revenue fund, resources otherwise available for other budget priorities will be reduced.

This proposal will not directly impact General and Total State Revenues, but could result in an unknown increase to General and Total State Revenue by an amount equal to the interest credited to General Revenue. This proposal will not impact the calculations under Article X, Section 18(e).

Officials at the **Department of Economic Development (DED)** assume the addition of §620.1940 would add costs of \$4,830,000 per year assuming a level distribution of total allowed funds. This amount, \$4,830,000, was calculated by dividing the overall program cap of \$29,000,000 by 6 years, which is the total program cap over the life of the program. Some years the amount might be higher and some lower, but this is the best way to divide the cap.

DED assumes that administration of the loan and the programming outlined for Qualified Entities and Minority Owned businesses would require the addition of 4 Economic Development Incentive Specialists III (\$53,136). These would require basic accommodations; cubicle, and computer equipment totaling \$16,978.

The Department does NOT have the spending authority that would be necessary to institute and extend the loan or grant funding as contemplated in 620.1940.

DED may loan or grant funds to a qualified entity (a planning and development district, a small business investment corporation, a bank-based community development corporation) for the purpose of establishing a loan revolving fund to assist in financing the economic development of minority businesses. The moneys loaned or granted by DED shall be drawn from General Revenue and shall not exceed \$29 million in the aggregate. The maximum loan to one borrower shall not exceed 50% of the total project cost or \$5 million, whichever is less. The Missouri minority Business Advocacy Commission shall review each loan before issuance. This also requires DED to develop a program to assist minority business enterprises by guaranteeing bid,

ASSUMPTION (continued)

performance, and payment bonds that such minority businesses are required to obtain in order to contract with federal agencies, state agencies, or political subdivisions of the state.

Oversight notes in response to last year's fiscal note regarding this program (HB 1706) DED stated they would only need 2 Economic Development Incentive Specialists III to handle this program. Oversight is going to show the need for 2 FTE and notes that should the number of loans increase to justify additional FTE, DED could request those FTE in the appropriation process. Also, Oversight has, for fiscal note purposes, changed the starting salary for the Economic Development Incentive Specialist III (from \$53,136 to \$45,052) to correspond to similar positions at DED.

Oversight notes this proposal sets an aggregate of \$29 million as the cap of the program. This proposal does not limit how much can be granted or loaned in one year. Therefore, Oversight will reflect an amount that "could exceed" the estimate provided by DED (\$4,830,000) per year.

Oversight notes §620.1940.3 states the department "may" loan or grant funds to a qualified entity. As this program is discretionary to DED and subject to appropriation, Oversight will range all of the costs from \$0 to the estimates provided above.

Oversight notes this proposal allows for interest to be collected on the loans. The interest rate may range from 2% below to 2% above the Federal Reserve discount rate. The current Federal Reserve rate is 3%. Oversight assumes this is interest collected by the qualified entities and is unsure if any of the loan payment proceeds would be paid back to the state. Therefore, we will reflect payments back to the state as \$0 or Unknown.

Officials at the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

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 \$5,000. 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

ASSUMPTION (continued)

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 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DED §620.1940.3 grants or loans given to qualified entities to establish revolving funds	\$0 or Could exceed (\$4,830,000)	\$0 or Could exceed (\$4,830,000)	\$0 or Could exceed (\$4,830,000)
<u>Cost</u> - DED §620.1940	\$0 or...	\$0 or...	\$0 or...
Personal Service	(\$75,087)	(\$91,005)	(\$91,915)
Fringe Benefits	(\$43,899)	(\$52,953)	(\$53,231)
Equipment & Expenses	<u>(\$23,747)</u>	<u>(\$9,156)</u>	<u>(\$9,385)</u>
<u>Total Cost</u> - DED	\$0 or (\$142,733)	\$0 or (\$153,114)	\$0 or (\$154,531)
FTE Cost - DED	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
<u>Revenue</u> - DED §620.1940.5 interest from repayment of loans	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or Could exceed <u>(\$4,972,733)</u>	\$0 or Could exceed <u>(\$4,983,114)</u>	\$0 or Could exceed <u>(\$4,984,531)</u>
Estimated Net FTE Change on General Revenue	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Businesses that qualify for this loan/grant may be impacted.

FISCAL DESCRIPTION

This bill establishes the "Missouri Minority Business Loan Program." Accordingly, the Department of Economic Development may loan or grant funds to qualified entities to create loan revolving funds to finance the economic development of minority owned businesses. Qualified entities include planning and development districts, small business investment corporations, bank-based community development corporations, or other entities that meet department standards. A minority business is a for-profit, small business that is owned and controlled by another minority business or one or more members of a minority, at least 50% of whom are Missouri residents. The funds for said program shall not exceed \$29 million in the aggregate.

The bill also provides certain restrictions and requirements for minority businesses receiving loans from the revolving fund.

The provisions of this program will sunset six years after the effective date.

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
Joint Committee on Administrative Rules
Office of Administration Division of Budget and Planning
Office of the Secretary of State



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March 22, 2019

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