

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2912H.03C
 Bill No.: HCS for SB 1039
 Subject: Office of Administration; Science and Technology; Education, Elementary and Secondary; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Utilities
 Type: Original
 Date: April 26, 2024

Bill Summary: This proposal modifies provisions for business infrastructure development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(\$4,242,585)	*Could be greater than (\$169,410)	*Could be greater than (\$169,410)
Total Estimated Net Effect on General Revenue	(\$4,242,585)	Could be greater than (\$169,410)	Could be greater than (\$169,410)

* Stem Career Awareness Activity Program is subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Various State Funds	(Could exceed \$50,000)	(Could exceed \$50,000)	(Could exceed \$50,000)
State Road Fund	(Up to \$35,000,000)	(Up to \$35,000,000)	(Up to \$35,000,000)
Stem Career Awareness Activity Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$35,050,000)	(Could exceed \$35,050,000)	(Could exceed \$35,050,000)

*Distributions and transfers net to zero.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE			

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

§§37.1300 – 137.1330 - Missouri Geospatial Advisory Council

Officials from the **Office of Administration (OA) - Facilities Management, Design and Construction (FMDC)** state, at this time, it is believed that the additional staff time and resources, mentioned in Section 37.1300-23 can be absorbed by FMDC. However, if there are multiple pieces of legislation passed where FMDC has responded that the costs can be absorbed, FMDC would need to reevaluate to see if additional staff and associated expenses would then be required. FMDC assumes the responsibilities of the Missouri Geospatial Advisory Council created under this proposed legislation can be absorbed with existing resources. However, if multiple pieces of legislation pass which warrant additional expense and equipment, FMDC may request additional resources through the appropriation process.

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

Officials from the **Missouri Department of Agriculture (MDA)** assumed this legislation would require the Director of the Missouri Department of Agriculture to travel a 300 mile round trip (MDA office to Kansas City, MO) for 12 meetings. Fiscal impact would include mileage (\$0.66 per mile) and a \$48 meal per diem per day. MDA would incur a total fiscal impact of \$2,952 in FY 2025, \$3,011 in FY 2026 and \$3,071 in FY 2027 to implement the changes in this proposal.

Officials from the **Missouri National Guard** state that a codified council may result in additional statutory requirements/due outs that may result in increased FTE time/effort spent on required council business. Adding future statutory or data requirements/responsibilities to the Department could lead to increased staffing requirements. It is possible that a codified council will result in additional direct or indirect costs through increased travel. A codified council charged with this duty would most likely result in increased geospatial data development across the state, potentially reducing reliance on third party contracted data/imagery for Missouri Air National Guard (MOARNG) sites. Actual cost increase or avoidance will depend on the scope and direction the council would take.

Officials from the **Missouri State Senate** anticipate a negative fiscal impact to reimburse one Senator for travel to Geospatial Advisory Council meetings. In summary, it will cost approximately \$2,012.16 per year.

Oversight notes the new council will consist of roughly 34 members, meets monthly and the members will be reimbursed for actual and necessary expenses. Oversight assumes this proposal

will require roughly \$50,000 in expense reimbursement to the 34 members for 12 meetings (34 members x 12 meetings per year x \$122 in expenses (mileage, meals, etc.)). Oversight will reflect the cost to various state funds as could exceed \$50,000.

§§71.340, 226.220, 226.224 Non-rate Regulated Utilities Reimbursement

Officials from the **Missouri Department of Transportation (MoDOT)** state currently, if a utility sits in the state right-of-way without pre-existing land rights, the utility owner bears the cost for adjustments to facilitate highway maintenance and construction. The proposed bill would render all utility adjustments reimbursable, potentially incurring millions in annual costs to the State Road Fund. Based on relocation information from previous years statewide, MoDOT estimates annual negative impact to the State Road Fund of \$30 to \$35 million.

Oversight does not have information to the contrary and therefore, Oversight will reflect a fiscal impact of “Up to \$35 million” to MoDOT per fiscal year.

Officials from the **City of Kansas City** assumed this proposal has a negative fiscal impact of an indeterminate amount.

The **City of O’Fallon** state the provisions in sections 71.340 and 226.200 will cause the City to pay for relocating utilities for road projects. The estimated costs to the City of O’Fallon will vary from \$100,000 to \$250,000 each year. With the increase in utilities locating in the ROW (like fiber optics) these costs will grow ever higher for cities in the future.

Oversight assumes local political subdivisions could incur costs related to this proposal; therefore, Oversight will reflect a fiscal impact of “Unknown” to local political subdivisions.

Officials from the **Office of Administration - Budget and Planning** assume Section 226.220.2 (2) and Section 226.224 will create additional annual costs for the State Road Fund. B&P defers to MoDOT for specific estimates.

§143.121.3(13) Subtraction for Broadband Grants

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would expand the income tax exemption for federal broadband grants to include state and local grants. This proposal would also begin the income subtraction for all tax years starting with 2022.

B&P notes that SB 25 (2023), which authorized a subtraction for federal grants, became effective August 18, 2023. The estimated impact for SB 25 included the assumption that all grants received during tax year 2023 would be exempted. Therefore, this proposal would only add grants received during 2022 to the exemption.

In the fiscal response for SB 25, B&P included information on federal grants received in Missouri during tax year 2022.

Table 1: Estimated Taxable Grants

Tax Year	Federal Grants
2019	\$22,716,387
2020	\$121,174,813
2021	\$30,805,895
2022	\$86,151,208
2023	\$356,005,895

In addition, based on historic award data, B&P estimated that approximately 28.9% of awards go to corporations and 71.1% go to pass-through entities.

Table 2: Estimated Taxable Grants by Entity Type

Tax Year	Corporate Awards	Pass-Through Awards
2019	\$6,560,151	\$16,156,236
2020	\$34,993,464	\$86,181,350
2021	\$8,896,279	\$21,909,616
2022	\$24,879,173	\$61,272,035
2023	\$102,809,148	\$253,196,747

B&P notes that subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. For tax year 2022, the corporate tax rate was 4.0% and the pass-through business tax rate was 5.3%.

B&P notes that this proposal would not become effective until August 28, 2024 (i.e., FY25). B&P assumes that impacted businesses would have to amend their tax year 2022 tax returns to subtract any eligible broadband grant income. For the purpose of this fiscal note, B&P will assume that all eligible companies amend their tax year 2022 returns during FY25.

Based on the above information, B&P estimates that this proposal could reduce TSR and GR by **\$4,242,585** [(\$24,879,173 corporate grants x 4.0%) + (\$61,272,035 pass-through grants x 5.3%)] in FY25.

This proposal would also expand the subtraction to include any state and local grants. B&P is unaware of any state or local only grants that have been awarded since FY20 that are not simply

passing on federal grant money. Therefore, this expansion could reduce TSR and GR by an unknown amount beginning in FY25.

Officials from the **Department of Revenue (DOR)** note in 2023, the General Assembly adopted SB 25 that allowed a subtraction from federal adjusted gross income of 100% of the amount of money received from a federal grant expanding broadband across the state. That proposal was effective August 28, 2023, and the fiscal note assumed that all grant money awarded in 2023 was allowed the subtraction. The first change in this proposal is to allow the subtraction to be retroactive to January 1, 2022.

This proposal would become effective on August 28, 2023, but makes this tax subtraction retroactively applicable to tax years beginning on or after January 1, 2022. This fiscal note will show the impact for tax year 2022 grants. DOR assume that the companies will all amend their returns beginning August 28, 2024, the effective date of this proposal, therefore, the fiscal impact will all occur in FY 2025.

In 2022, DOR notes that the corporate tax rate was 4% while the rate for the pass-through entities was 5.3%. In the fiscal note for SB 25 DOR provided the following information on the number of grants distributed in Missouri.

Tax Year	Federal Grants
2019	\$22,716,387
2020	\$121,174,813
2021	\$30,805,895
2022	\$86,151,208
2023	\$356,005,895

DOR also noted that based on research of award amounts, 28.9% of the grant awards go to corporations and 71.1% go to the pass-through entities. DOR assumed the distribution of the grants per entity type.

Table 2: Estimated Taxable Grants by Entity Type

Tax Year	Corporate Awards	Pass-Through Awards
2019	\$6,560,151	\$16,156,236
2020	\$34,993,464	\$86,181,350
2021	\$8,896,279	\$21,909,616
2022	\$24,879,173	\$61,272,035
2023	\$102,809,148	\$253,196,747

Therefore, when these organizations file their amended return in FY 2025, it will result in an additional loss to the state of **\$4,242,585** [(\$24,879,173 corporate grants x 4.0%) + (\$61,272,035 pass-through grants x 5.3%)].

Additionally, this proposal expands the subtraction to state and local grants as well. DOR is unaware of any broadband grants that are distributed by the state or local governments. The only grants DOR knows of are distributed by the state on behalf of the federal government. DOR notes that should the state or a local political subdivision be handing out any grants for broadband purposes, those grants would be allowed the subtraction and the cost of this fiscal note will be higher than estimated.

This will require DOR to update the department's instructions for the MO-1040 and the MO-A forms and this is estimated to cost \$8,923.

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

Oversight notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's and B&P's estimated impact in the fiscal note for FY 2025.

Oversight notes this proposal expands the subtraction to grants distributed by state and local governments. DOR and B&P both note the only grants currently distributed are distributed by the federal government. Should a local or state grant be distributed and a subsequent subtraction issued in the future, there would be a negative impact on general revenue. Oversight is unable to quantify future local grant disbursements. Therefore, Oversight will show a potential unknown negative fiscal impact beginning in FY 2026. Oversight assumes the negative unknown could be greater than \$250,000.

§161.264 Stem Career Awareness

Officials from **Department of Elementary and Secondary Education (DESE)** assume this would require DESE to solicit proposals to provide STEM Career Awareness activities and programs for students in grades nine through twelve. Based on a current program and contract for students in grades six through eight that began in FY 2021 the contract cost could be between \$150,000 and \$370,000 (Year one expenditures up to current appropriation level), dependent upon appropriation. DESE assumes a transfer would be made for this contract into the STEM Career Awareness Fund.

Oversight assumes the cost for a vender would be similar to the cost for the existing STEM Career Awareness Program (grades 6-8, created in HB 3 2018 1st Extraordinary Session).

Oversight notes the following transfers and disbursements to the STEM Career Awareness Program Fund (0997) per the Office of the State Treasurer's Fiscal Year End Funds Reports:

Fiscal Year	Disbursements	Transfers In
FY 2019	\$150,000	\$150,000
FY 2020	\$150,000	\$210,625
FY 2021	\$150,000	\$150,000
FY 2022	\$194,250	\$132,116
FY 2023	\$202,800	\$242,500
Average	\$169,410	\$177,048

Oversight will show a cost that could be more or less than average disbursement for the existing STEM Career Awareness Program.

Oversight assumes this proposal creates the STEM Career Awareness Activity Fund. For simplicity, Oversight assumes all funds will be utilized in the year in each they were received.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the provisions in Section 161.264 could require additional state funding to establish the STEM Career Awareness Activity Program. B&P defers to DESE for specific estimates.

Rule Promulgation

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

Officials from the **Office of the Secretary of State (SOS)** note 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 its 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 received zero responses from school districts related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek approval to publish a new fiscal note. Oversight only reflects the responses received from state agencies and political subdivisions; however, school districts were requested to respond to this proposed legislation but did not. A listing of political subdivisions

included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Officials from the **Department of Higher Education and Workforce Development**, the **Office of the State Treasurer**, **Department of Public Safety – Directors Office**, **Department of Health and Senior Services**, the **Missouri House of Representatives**, the **Department of Economic Development**, the **Department of Natural Resources** and the **University of Missouri** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction</u> - §143.121 Broadband Grant Subtraction p. 5, 7	(\$4,242,585)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Transfer Out</u> – to the STEM Career Awareness Activity Program Fund - §161.264 p. 7-8	\$0	<u>More or less than</u> (\$169,410)	<u>More or less than</u> (\$169,410)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$4,242,585)</u>	<u>Could be greater than</u> <u>(\$169,410)</u>	<u>Could be greater than</u> <u>(\$169,410)</u>
STEM CAREER AWARENESS ACTIVITY FUND			
<u>Transfer In</u> – from General Revenue §161.264 p. 7-8	\$0	More or less than \$169,410	More or less than \$169,410
<u>Income</u> – gifts, bequests or donations §161.264 p. 7-8	\$0	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> - for a vendor to implement the statewide program - §161.264 p. 7-8	\$0	<u>More or less than</u> (\$169,410)	<u>More or less than</u> (\$169,410)
ESTIMATED NET EFFECT ON THE STEM CAREER AWARENESS ACTIVITY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
STATE ROAD FUND			
<u>Cost – MoDOT – reimbursing costs of non-rate regulated utility providers for facility relocation §§226.220, 226.224 p. 4</u>	<u>(Up to \$35,000,000)</u>	<u>(Up to \$35,000,000)</u>	<u>(Up to \$35,000,000)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	<u>(Up to \$35,000,000)</u>	<u>(Up to \$35,000,000)</u>	<u>(Up to \$35,000,000)</u>
VARIOUS STATE FUNDS			
<u>Cost – §37.1310 Reimbursement for actual and necessary expenses for 34 members for 12 meetings per year p. 4</u>	<u>(Could exceed \$50,000)</u>	<u>(Could exceed \$50,000)</u>	<u>(Could exceed \$50,000)</u>
ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS	<u>(Could exceed \$50,000)</u>	<u>(Could exceed \$50,000)</u>	<u>(Could exceed \$50,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost – Reimbursing costs of non-rate regulated utility providers for facility relocation §71.340 p. 4</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

Small non-rate regulated utility providers could be positively impacted as a result of this proposal.

This provision would positively impact small businesses that qualify for the subtraction.

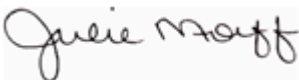
FISCAL DESCRIPTION

This proposal modifies provisions for business infrastructure development.

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

Office of Administration - Budget and Planning
Department of Economic Development
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Natural Resources
Department of Revenue
Department of Public Safety
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Department of Transportation
Missouri National Guard
Office of Administration
Missouri Senate
Missouri House of Representatives
Office of the State Treasurer
Office of the Secretary of State
Joint Committee on Administrative Rules
Kansas City
City of O'Fallon



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