

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0754-02
Bill No.: SB 149
Subject: Business and Commerce; Economic Development Department; Political Subdivisions; Revenue Department.; Taxation and Revenue - Sales and Use
Type: Original
Date: January 28, 2015

Bill Summary: Would create state and local sales and use tax exemptions for data storage centers and would allow municipalities to enter into loan agreements, or to sell, lease, or mortgage municipal property for a technology business facility project.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$92,826)	\$0	\$0 or (More than \$1,000,000)
Total Estimated Net Effect on General Revenue	(\$92,826)	\$0	\$0 or (More than \$1,000,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
School District Trust	\$0	\$0	\$0 or (More than \$100,000)
Conservation Commission	\$0	\$0	\$0 or (Less than \$100,000)
Parks, and Soil and Water	\$0	\$0	\$0 or (Less than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or (More than \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

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 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0 or (More than \$1,000,000)

FISCAL ANALYSIS

ASSUMPTION

Section 67.2050, RSMO. - Local government business facility projects

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would authorize local governments to carry out business facility projects, would exempt business facility project leases from local sales tax, and would exempt buildings owned by the local government from property tax.

BAP officials assume this provision may have a negative impact on Total State Revenue in the event that local governments buy, build, or hold more building properties than they otherwise would have.

Oversight notes the provision would allow but not require local governments to participate in business facility projects; the projects would be the result of a future local government decision. In addition, Oversight assumes properties owned by local governments would be exempt from property tax under existing law. Therefore, this provision would have no direct fiscal impact.

Section 144.810, RSMo. - Sales tax exemption for data centers

BAP officials noted this proposal would provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used in a new data center. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

ASSUMPTION (continued)

BAP officials also noted this proposal would create a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

BAP officials assume this provision would not impact current Total State Revenues but future revenues may be forgone. BAP officials also assume this provision could encourage other economic activity, but their organization does not have data to estimate the induced revenues, and assume the Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED)** assume the proposed legislation would create a state and local sales and use tax exemption for data storage centers. Owners of the data storage centers that seek a tax exemption under would be required to submit a project plan and Notice of Intent (NOI) to the Department.

The sales tax exemptions would be limited to the projected net fiscal benefit to the state over a period of ten years, as determined by DED; therefore, DED is unable to determine the exact impact the proposed legislation would have on Total State Revenue. DED officials deferred to the Department of Revenue for an estimate of the impact this proposal could have on Total State Revenue.

DED would be responsible for certifying the tax exemption in coordination with the Department of Revenue (DOR), and the proposal would require random audits to ensure compliance with the intent the data storage centers indicated in their project plan. DED officials anticipate the need for one additional employee, an Economic Development Incentive Specialist III who would be responsible for reviewing the project plan and NOI.

The DED estimate of cost to implement this proposal included one additional employee; the estimated cost including salary, benefits, equipment, and expense totaled \$77,021 for FY 2016, \$85,597 for FY 2017, and \$86,510 for FY 2018.

ASSUMPTION (continued)

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and DED could absorb the additional workload with existing resources. If this proposal creates an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

Officials from the **Department of Revenue (DOR)** assume the proposal would create sales and use tax exemptions for new data storage center projects for a period up to 15 years.

Administrative Impact

DOR officials assume Collections and Tax Assistance (CATA) would require one additional Revenue Processing Technicians I (Range 10, Step L) to respond to additional contacts in the registration section, and the technician would require CARES system equipment and license; Sales Tax would require one additional Revenue Processing Technician I to complete amended returns and process refunds.

The DOR estimate of cost to implement this proposal including two additional employees and the related employee benefits, equipment and expense totaled \$81,365 for FY 2016, \$83,264 for FY 2017, and \$84,130 for FY 2018.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and DOR could absorb the additional workload with existing resources. If this proposal creates an unanticipated increase in the DOR workload, or if multiple proposals were implemented which created a substantial increase in the DOR workload, resources could be requested through the budget process.

Oversight notes this proposal would provide a relatively broad sales tax exemption for the costs to create, maintain, and operate a data storage facility, but would require a minimum \$37 million investment in a new facility within thirty-six months, or a minimum \$5 million investment in an expanding facility within twelve months. The proposed project would need to meet job creation requirements, and would require approval by the Department of Economic Development (DED). DED would then conditionally certify the project to the Department of Revenue (DOR). Upon completion of the project, DED would certify project eligibility to DOR, and DOR would refund the sales tax paid on the project.

ASSUMPTION (continued)

If the proposal became effective August 28, 2015, construction could begin late in FY 2016 and would likely not be completed until late in FY 2017. Refunds would not likely be certified and paid to project owners until FY 2018.

Oversight is not aware of any existing or planned projects which could qualify for the program, but if one new facility project was completed in time for a refund to be paid in FY 2018, the sales tax amounts could be computed as follows. For fiscal note purposes, Oversight assumes the entire \$37 million investment would qualify for the exemption and has calculated the potential impact below.

Entity	Sales Tax Rate	Sales Tax
General Revenue Fund	3%	\$1,110,000
Conservation Commission Fund	1/8%	\$46,250
School District Trust Fund	1%	\$370,000
Parks, Soil & Water Funds	1/10%	\$37,000
Local Governments	Average 3.88%	\$1,435,600

Oversight will indicate a fiscal impact in FY 2018 for this provision for the General Revenue Fund and for local governments of \$0 (no project qualifies for the exemption) or a revenue reduction of More than \$1,000,000 (one or more projects qualify for the exemption), an impact of \$0 or a revenue reduction of More than \$100,000 for the School District Trust Fund, and an impact of \$0 or Less than \$100,000 for other state funds which receive sales tax revenues.

IT impact

DOR officials provided an estimate of the IT cost to implement this provision of \$92,826 for 1,238 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

Oversight notes the DOR estimate of IT cost to implement this proposal was based on the current state contract rate for IT consulting services. DOR officials told us OA-ITSD (DOR) had informed them employees would not be available in FY 2016 for projects required to implement new legislation and contractors would be required.

For fiscal note purposes only, **Oversight** will include the DOR estimate of IT cost in this fiscal note.

Bill as a whole responses

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 the 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 greater than 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown negative fiscal impact to their organization, but greater than \$100,000. MDC officials stated Conservation Sales Tax funds are derived from a one-eighth of one percent sales and use tax pursuant to the Missouri Constitution.

MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** deferred to the Department of Revenue and Office of Administration - Division of Budget and Planning for a more detailed account of the fiscal impact of this proposal.

ASSUMPTION (continued)

Officials from **St. Louis County** assumed the proposal would have a small negative impact on their organization but stated they could not provide an estimate of the impact.

Officials from the **City of Kansas City** assume this proposal would have no fiscal impact for the duration of the sales tax exemption, but could result in additional revenue if the project continued to operate after the expiration of the exemption.

Officials from **Kansas City Public School District** assume the proposed legislation may have a negative fiscal impact greater than \$1 million on their organization. School officials stated the City of Kansas City is aggressive in its recruitment of these types of businesses and the awarding of incentives and credits, and the school district currently loses more than \$25 million to incentives and credit programs. School officials assume this proposal could increase those revenue losses.

Officials from the **Department of Labor and Industrial Relations**, the **Platte County Board of Elections**, the **St. Louis County Directors of Elections**, and the **City of Independence Health Department** assume this proposal would have no impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Revenue reduction</u>			\$0 or (More than
Sales tax exemption for Data Storage Facilities	\$0	\$0	\$1,000,000)
<u>Cost - DOR</u>			
Programming	<u>(\$92,826)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$92,826)</u>	<u>\$0</u>	<u>\$0 or (More than \$1,000,000)</u>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u>			
Sales tax exemption for Data Storage Facilities	<u>\$0</u>	<u>\$0</u>	\$0 or (More than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u>			
Sales tax exemption for Data Storage Facilities	<u>\$0</u>	<u>\$0</u>	\$0 or (Less than <u>(\$100,000)</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Less than \$100,000)</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction</u>			
Sales tax exemption for Data Storage Facilities	<u>\$0</u>	<u>\$0</u>	\$0 or (Less than <u>(\$100,000)</u>)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Less than \$100,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
LOCAL GOVERNMENTS			
<u>Revenue reduction</u>			\$0 or (More than
Sales tax exemption for Data Storage Facilities	<u>\$0</u>	<u>\$0</u>	<u>\$1,000,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (More than \$1,000,000)</u>

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact on small businesses which operate data storage centers or participate in a technology business facility project.

FISCAL DESCRIPTION

This proposal would create state and local sales and use tax exemptions for data storage centers and would allow municipalities to enter into loan agreements, or to sell, lease, or mortgage municipal property for a technology business facility project.

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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Economic Development
Department of labor and Industrial Relations
Department of Natural Resources
Department of Revenue
St. Louis County
City of Independence
City of Kansas City
Kansas City public Schools
Platte County Board of Elections
St. Louis County Directors of Elections



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