

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1280-09
Bill No.: Perfected SS for SB 343
Subject: Tax Credits; Economic Development; Appropriations; Employees - Employers
Type: Original
Date: April 4, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue* **	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund* **	(Unknown)	(Unknown)	(Unknown)

*Includes Transfer Out of \$0 to (\$17,000,000) which is Subject to Appropriation.

** Unknown costs could exceed \$100,000 per fiscal year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
MO Supplemental Tax Increment Financing	\$0	\$0	\$0
Economic Development Advancement Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 28 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 42 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$1,687, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTION (continued)

Officials from the **Office of the State Treasurer (STO)** state their office only ensures disbursements are made from a lawful appropriation and don't exceed the amount of the appropriation. The wording in the proposal states the STO "shall approve disbursements from the fund in accordance with sections 30.170 and 30.180, RSMo." The STO assumes with this language in the proposal, they will require an FTE Analyst I (at \$36,444 annually plus associated expenses) to monitor these disbursements.

Officials from the **Department of Revenue (DOR) – Division of Taxation** assume they will have internal costs associated with the implementation of this legislation; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

Oversight assumes the reduction in the annual limit of disbursements from the State Supplemental Downtown Development fund from \$150 million to \$108 million (Section 99.960) will not have an immediate fiscal impact the state since no activity has passed through this fund yet.

Oversight also assumes the reduction to the annual limitation of the Rebuilding Communities tax credit program from \$10 million per year to \$8 million per year would also not have a fiscal impact to the state, since the issuances for the last four fiscal years have been \$2,172,260 (FY 2002), \$3,322,480 (FY 2003), \$1,220,667 (FY 2004) and \$2,465,594 (projected for FY 2005). Therefore, the new cap of \$8 million is still higher than the historical issuances by DED.

According to the Report on Missouri Tax Credits Administered by the Department of Economic Development, February 2005, DED issued roughly \$313 million of tax credits in FY 2004 and is estimated to issue roughly \$344 million in FY 2005. Reducing this amount by the exempted programs, DED issued a net \$285.5 million in FY 2004 and is estimating \$311.4 million of issuance for FY 2005. Multiplying these amounts by the maximum 2 ½ percent allowed per Section 620.1900, DED could have charged fees of roughly \$7.8 million (\$311.4 million x 2.5%) in FY 2005. The proposal states that DED may charge a fee to recipients, and that this fee can be up to 2 ½ percent of the amount of tax credits issued. Therefore, **Oversight** will range the fiscal impact from Section 620.1900 from \$0 (DED decides not to charge a fee) to \$7.8 million. Oversight will assume ten months of impact in FY 2006 and also assume a growth rate of 12 percent for tax credit issuances (and potential corresponding fees).

Officials from the **Office of Administration – Budget and Planning** and **Department of Economic Development** did not respond to Oversight's request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Costs</u> - Department of Economic Development - to administer the Missouri Quality Jobs Act			
	(Unknown)	(Unknown)	(Unknown)
<u>Costs</u> - State Treasurer's Office (STO)			
Personal Service (1 FTE)	(\$31,129)	(\$38,289)	(\$39,246)
Fringe Benefits	(\$13,280)	(\$16,334)	(\$16,742)
Equipment and Expense	<u>(\$250)</u>	<u>(\$309)</u>	<u>(\$318)</u>
<u>Total Costs</u> – STO	(\$44,659)	(\$54,932)	(\$56,306)
<u>Loss</u> - Tax credits in the Missouri Quality Jobs Act			
	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)
<u>Loss</u> - Withholding payments retained by employers for new jobs created under the Missouri Quality Jobs Act			
	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Transfer Out</u> - Increase in tax increment financing from \$15 million to \$32 million (Section 99.845) to be transferred to the Missouri supplemental tax increment financing fund*			
	\$0 to <u>(\$17,000,000)</u>	\$0 to <u>(\$17,000,000)</u>	\$0 to <u>(\$17,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND**	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

* Subject to Appropriation

**Unknown costs could exceed \$100,000 per year.

**MISSOURI SUPPLEMENTAL TAX
 INCREMENT FINANCING FUND**

<u>Transfer In</u> - from General Revenue fund from increased cap on annual TIF payments	\$0 to \$17,000,000	\$0 to \$17,000,000	\$0 to \$17,000,000
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<u>Loss</u> - Increase payments to municipalities for TIF project reimbursements	\$0 to <u>(\$17,000,000)</u>	\$0 to <u>(\$17,000,000)</u>	\$0 to <u>(\$17,000,000)</u>
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ESTIMATED NET EFFECT TO THE MISSOURI SUPPLEMENTAL TAX INCREMENT FINANCING FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**ECONOMIC DEVELOPMENT
 ADVANCEMENT FUND**

<u>Income</u> - fees from up to 2 ½ percentage of certain tax credits issued by DED	\$0 to \$6,500,000	\$0 to \$8,736,000	\$0 to \$9,784,320
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<u>Costs</u> - disbursement from fund as specified in Section 620.1900	\$0 to <u>(\$6,500,000)</u>	\$0 to <u>(\$8,736,000)</u>	\$0 to <u>(\$9,784,320)</u>
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ESTIMATED NET EFFECT TO THE ECONOMIC DEVELOPMENT ADVANCEMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the various tax credit programs created or changed by this proposal could be impacted by this proposal.

DESCRIPTION

The proposal establishes the Missouri quality jobs program. The program allows qualified companies to retain a portion of the withholding tax or wages paid to employees in newly created jobs. To qualify for the program, employers must offer basic health insurance and pay at least 50% of the premiums. The three types of qualifying programs are as follows:

- **SMALL AND EXPANDING BUSINESS PROGRAM:** These programs must create more than 20 new jobs if in a rural area and 40 new jobs if in a non-rural area in two years. The program is unavailable if creating 100 jobs or more. The employers must pay at least the county average wage.
- **TECHNOLOGY BUSINESS PROGRAM:** These programs must create ten new jobs directly involved in the operations of a technology company as defined by the Department of Economic Development and appropriate NAICS (North American Industry Classification System) in two years.
- **HIGH IMPACT PROJECTS PROGRAM:** These programs must provide a minimum of 100 new jobs within two years.

For each of these programs, the employers may retain withholding tax for a set number of years based on what they are paying relative to the county average wage. The technology business program and high impact projects program may be eligible for tax credits. High impact projects may receive additional benefits if the local government provides benefits equal to their new local tax revenue.

Companies that have been found guilty of violating laws relating to labor, health and safety, or the environment in the last five years shall not qualify for this program.

DESCRIPTION (continued)

The proposal establishes the "Quality Jobs Advisory Task Force" which consists of the chairpersons of the economic development of the Missouri senate and the Missouri house or his or her designee, the director of the department of economic development or his or her designee, and two members appointed by the governor. If the department of economic development wants to increase the maximum amount of tax credit given to a qualified high impact project company, they may increase the amount up to one million dollars if the increase is proposed by the department and approved by the task force.

The act empowers the Department of Economic Development to charge a fee to the recipient of certain tax credits of two and one-half percent of the tax credits issued. DED may not charge a fee for credits issued for community service, crime prevention, education, job training, or physical revitalization. The fees are to be deposited in the economic development advancement fund which is established by this act.

The act caps the tax credits issued for the program at twelve million dollars and the maximum amount authorized for business relocation in a distressed community is reduced from ten million dollars to eight million dollars. The remaining balance of two million dollars in tax credits is transferred to the quality jobs program. The Missouri Downtown and Rural Economic Stimulus Act cap is reduced from one hundred fifty million dollars to one hundred eight million dollars. There shall be no limit on the amount of withholding taxes that may be retained by approved companies under the new program.

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

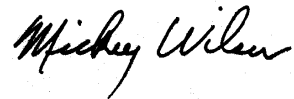
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SOURCES OF INFORMATION

Department of Revenue
Office of the Secretary of State
Office of the State Treasurer

NOT RESPONDING

**Department of Economic Development
Office of Administration – Budget and Planning**



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Director
April 4, 2005