COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1280-14
Bill No.: Truly Agreed to and Finally Passed CCS for HCS for SS for SB 343
Subject: Economic Development; Appropriations; Employees - Employers.
Type: Original
Date: May 31, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	**$0 to (UNKNOWN)**	**$0 to (UNKNOWN)**	**$0 to (UNKNOWN)**

*** Could exceed $100,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
MO Supplemental Tax Increment Financing*	$0	$0	$0
Local Option Economic Development Sales Tax Trust Fund*	$0	$0	$0
Economic Development Advancement Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

**** Offsetting income and expenses.**
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

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

*** Requires voter approval**

FISCAL ANALYSIS

ASSUMPTION

Section 67.1305 - Allows local economic development sales tax;

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** assumed this would not have an impact on their agency. DOR assumed there would be a minor increase in General Revenue from this due to the one percent DOR retains for the cost of collection.

Officials from the **Department of Economic Development (DED)** assume that the reports required to be submitted to the Joint Committee on Economic Development for each project using the Economic Development sales tax would be submitted to DED by the communities participating in the program. As these reports increase in number, DED may need to request additional funding.

Officials from the **Office of Administration - Budget and Planning** states this is a local tax and the only impact on General Revenue will be an increase due to the 1% collection fee.

ASSUMPTION (continued)

Oversight assumes this part of the proposal is permissive. Voter approval is required before any county or municipal governing body would be authorized to adopt a sales tax for economic development. However, there would be fiscal impact if the governing body would attain such voter approval and additional sales taxes are administered. The fiscal impact would be a positive unknown revenue impact to the state's General Revenue fund from the 1 percent collection fee, as well as the economic development sales taxes collected on behalf of the city or county. Oversight will range this fiscal impact as $0 to Unknown, however, Oversight assumes the amount to be less than the sum of costs and losses to the General Revenue Fund from other sections of the proposal.

Sections 99.845 & 99.960 - Changes the annual caps of the State Tax Increment Financing program and the State Downtown Economic Stimulus program;

Officials from the **Department of Economic Development (DED)** state this section increases the state TIF funding cap from $15 million to $32 million for an increase of $17 million. The proposal also includes language allowing for staff salaries to be charged against TIF projects. DED states that some current GR funding requirements may be able to be reduced by collection of funding for these salaries based on work provided on the projects. The proposal also reduces MODESA funding from $150 million to $108 million.

Oversight has learned that there are several projects under the state's Tax Increment Financing (TIF) program that will soon exceed the current cap of $15 million. Therefore, increasing the TIF cap from $15 million to $32 million will result in a cost of up to $17 million annually.

Oversight also assumes DED was already allowed to recoup administrative costs from project developers on an annual basis per subsection 99.845.13, and the new language in the proposal again allows DED to recoup administrative costs, although this time from new state revenues deposited into the Missouri supplemental tax increment financing fund. Therefore, Oversight will assume the replacement language in subsection 99.845.13 will not result in additional revenues to the state's General Revenue Fund.

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 yet passed through this fund.

<u>ASSUMPTION</u> (continued)

Sections 100.710 - 100.850 - BUILD program changes;

In response to similar proposals from this year (SB 70), officials from the **Department of Revenue** and the **Department of Insurance** each assumed this part of the proposal would not fiscally impact their respective agencies.

In response to a previous version of this proposal (SB 70), officials from the **Department of Economic Development (DED)** assumed this clarifies the BUILD tax credit cap issue created by passage of multiple bills last session addressing the same statute. It also allows local development partners to be the beneficiary of the credits to offset public infrastructure costs necessary to cause the development to occur as long as the industry meets and maintains program compliance. DED assumed neither change would have a fiscal impact on their agency and no new impact to General Revenue.

Oversight assumes the BUILD program has an annual cap, as expressed in 100.850.5 RSMo. of either $11,000,000, $15,000,000 or $11,950,000. Oversight assumes the changes made in the program by this proposal will not change the annual cap. Therefore, Oversight assumes that the proposal <u>may result in an increased utilization</u> of the program, however the fiscal impact of the program has already been expressed in the fiscal note that accompanied the enabling legislation as well as in subsequent legislation that changed the annual limit of tax credits. Therefore, Oversight will assume no additional fiscal impact from the proposal.

Section 135.535 - Rebuilding Communities;

In response to a similar proposal from this year (HB 839), officials from the **Department of Insurance** stated this part of the proposal would not fiscally impact their agency.

In response to a similar proposal from this year (HB 839), officials from the **Department of Revenue** stated this will increase the number of credits claimed, however, the increase should be minimal. If this assumption is incorrect, the Division of Taxation would need 1 Tax Processing Tech 1 for every 4,000 additional tax credit.

In response to a similar proposal from this year (HB 839), officials from the **Department of Economic Development (DED)** assumed no impact from the proposal. DED assumed that while there may be additional businesses to qualify for the credit based on changes, the current statute caps the credit at $10 million and the cap stays the same.

ASSUMPTION (continued)

Oversight assumes the Rebuilding Communities program has an annual cap of $10 million (which is reduced to $8 million annually in Section 620.1881.5). Issuances in this program 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). Oversight assumes the changes made in the program by this section will not impact the annual cap. Therefore, Oversight assumes again that the proposal may result in an increased utilization of the program, however the fiscal impact of the program has already been expressed in the fiscal note that accompanied the enabling legislation as well as in subsequent legislation that changed the annual limit of tax credits. Therefore, Oversight will assume no additional fiscal impact from this part of the proposal.

Sections 620.1875 - 620.1890 - Missouri Quality Jobs Act;

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 16 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 24 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $984, 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.

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.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR) – Division of Taxation** assume the proposal could have very little impact on DOR or a huge impact on DOR depending on how this is reported. DOR state 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 DOR's other responsibilities.

Officials from the **Department of Economic Development (DED)** assume an unknown impact from the increases/decreases in program caps. The Missouri Quality Jobs act will cost $12 million which will likely be offset by some positive but unknown economic benefits. DED assumes no administrative impact from this part of the proposal.

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 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.

Section 620.1900 - Department of Economic Development may charge a fee for tax credit issuances;

Officials from the **Department of Economic Development (DED)** assume an unknown impact from combining the caps on programs plus unknown impact from the collection of the fees. If the 2.5% fee were applied to all tax credits the fees collected would total approximately $6 million. This is based on the amount of tax credits issued in FY 2004 less programs excluded by the proposal and tax credits that have or will sunset. It is unknown if the maximum fee will be charged to all tax credit issuances.

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 issuances 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 <u>may</u> 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.

ASSUMPTION (continued)

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) based on historical averages.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
Income - Department of Revenue			
1% collection fee from local economic development sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
Costs - 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	($250)	($309)	($318)
Total Costs – STO	($44,659)	($54,932)	($56,306)
Loss - Tax credits in the Missouri Quality Jobs Act	$0 to ($12,000,000)	$0 to ($12,000,000)	$0 to ($12,000,000)
Loss - Withholding payments retained by employers for new jobs created under the Missouri Quality Jobs Act	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Transfer Out - 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 ($17,000,000)	$0 to ($17,000,000)	$0 to ($17,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to UNKNOWN)**	**$0 to UNKNOWN)**	**$0 to UNKNOWN)**

*** Requires voter approval**

FISCAL IMPACT - State Government (continued)	FY 2006 (10 Mo.)	FY 2007	FY 2008
MISSOURI SUPPLEMENTAL TAX INCREMENT FINANCING FUND			
Transfer In - 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
Loss - Increase payments to municipalities for TIF project reimbursements	$0 to ($17,000,000)	$0 to ($17,000,000)	$0 to ($17,000,000)
ESTIMATED NET EFFECT TO THE MISSOURI SUPPLEMENTAL TAX INCREMENT FINANCING FUND	**$0**	**$0**	**$0**
LOCAL OPTION ECONOMIC DEVELOPMENT SALES TAX TRUST FUND			
Income - Collections from new sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
Costs - Distribution back to local political subdivisions (Section 67.1305)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
LOCAL OPTION ECONOMIC DEVELOPMENT SALES TAX TRUST FUND	**$0**	**$0**	**$0**

*** Requires voter approval**

FISCAL IMPACT - State Government (continued)	FY 2006 (10 Mo.)	FY 2007	FY 2008
ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
Income - 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
Costs - disbursement from fund as specified in Section 620.1900	$0 to ($6,500,000)	$0 to ($8,736,000)	$0 to ($9.784,320)
ESTIMATED NET EFFECT TO THE ECONOMIC DEVELOPMENT ADVANCEMENT FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
LOCAL POLITICAL SUBDIVISIONS			
Income - from economic development sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0 TO UNKNOWN**	**$0 TO UNKNOWN**	**$0 TO UNKNONW**

*** Requires voter approval**

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

This proposal changes the laws regarding job development programs administered by the Department of Economic Development.

TAX INCREMENT FINANCING - The act:

(1) Specifies that at no time can the annual amount approved for disbursement from the Missouri Supplemental Tax Increment Financing (TIF) Fund exceed $32 million. Currently, the aggregate appropriation cannot exceed $15 million (Section 99.845, RSMo); and

(2) Removes the requirement that all personnel and other costs incurred by the Department of Economic Development for the administration and operation of the Missouri Supplemental TIF Fund must be paid from general revenue and reimbursed by the TIF projects' developers. However, the state can still ask that the reasonably incurred expenses of the departments of Economic Development and Revenue for the administration of the TIF projects be reimbursed from the revenues deposited into the Missouri Supplemental TIF Fund (Section 99.845).

MODESA - The act decreases the annual amount approved for disbursement from the state supplemental downtown development fund from $150 million to $108 million (Section 99.960).

BUSINESS USE INCENTIVES FOR LARGE-SCALE DEVELOPMENT PROGRAM (BUILD) - The act:

(1) Authorizes certain development agencies or a corporation, limited liability company, or partnership that is formed on behalf of the development agency to act as an eligible industry for purposes of the Business Use Incentives for Large-Scale Development (BUILD) Program (Section 100.710); and

(2) Requires that $950,000 of the $15 million in tax credits authorized annually for BUILD be reserved for an approved project in the City of Kansas City (Section 100.850).

MISSOURI QUALITY JOBS PROGRAM - The act:

(1) Establishes the Missouri Quality Jobs Program to provide incentives to businesses in return for the new tax revenues and other economic stimulus that will be produced by the new jobs created as a result of the program (Sections 620.1875 - 620.1890);

DESCRIPTION (continued)

(2) Prohibits any qualified company that receives benefits through the program from receiving tax credits or exemptions for the same new jobs at the project facility through new or expanded business facilities, enterprise zones, relocating a business to a distressed community, and rural empowerment zones (Section 620.1881);

(3) Defines the following four project types (Section 620.1881):

(a) Small and expanding business projects which create at least 20 new jobs in two years if located in a rural area or 40 new jobs in two years if located elsewhere. In either case, the business cannot have more than 100 total employees. Qualified companies may retain for three years an amount equal to the withholding taxes from the new jobs if the average wage of the new payroll equals or exceeds the county's average wage. If the average wage of the new payroll is at least 120% of the county's average wage, the amount may be retained for five years;

(b) Technology business projects which create at least 10 new jobs within two years. Seventy-five percent of the jobs must be directly involved with the operations of the technology company.

Qualified companies may retain for five years an amount equal to a maximum of 5% of the new payroll from the withholding tax of the new jobs if the average wage of the new payroll equals or exceeds the county's average wage. An additional 0.5% of new payroll may be retained if the average wage of the new payroll exceeds 120% of the county's average wage in any year. If the average wage of the new payroll exceeds 140% of the county's average wage in any year, an additional 0.5% may be retained. The Department of Economic Development will issue a refundable tax credit for any difference between the benefit allowed and the withholding tax retained in the event that the withholding tax is not sufficient to provide the entire benefit due to the qualified company. The maximum amount of tax credits that can be issued in a calendar year is $500,000 and cannot be carried forward but can be sold. A refund will be issued to the qualified company if the credits exceed the company's tax liability;

(c) High-impact projects which create at least 100 new jobs within two years. Qualified companies may retain an amount from the withholding tax of the new jobs equal to 3% of new payroll for a period of five years if the average wage of the new payroll equals or exceeds the county's average wage. A qualified company may retain 3.5% of new payroll if the average wage of the new payroll in any year exceeds 120% of the county's average wage or 4% of the new payroll if the average wage in any year exceeds 140% of the county's average wage. An additional 1% of new payroll may be added if local incentives are between 10% and 24% of the new direct local revenues; 2% of new payroll may be added if the local incentives are between

DESCRIPTION (continued)

25% and 49%; or 3% of payroll may be added if the local incentives are 50% or more of the new direct revenue. The department will issue a refundable tax credit for any difference between the benefit allowed and the withholding tax retained in the event that the withholding tax is not sufficient to provide the entire benefit due to the qualified company. The maximum amount of tax credits that can be issued in a calendar year is $750,000. This amount can be increased to $1 million if the action is proposed by the department and approved by the Quality Jobs Advisory Task Force. This tax credit cannot be carried forward but can be sold. A refund will be issued to the qualified company if the credits exceed the company's tax liability; and

(d) Job retention projects are those in which the qualified company has employed at least 1,000 full-time, year-round employees during the two years prior to the year in which the application for the program is made. The average wage for these employees must be greater than the county's average wage and the same level of full-time, year-round employees must be retained after the application is made. The qualified company must make a $70 million investment or a $30 million investment while maintaining an annual payroll of at least $70 million. In either case, the investment must be made within two years of making an application for the program. Local taxing entities must provide local incentives of at least 50% of the new local revenues created by the project for 10 years. The tax credit may be up to 50% of the withholding tax generated by the full-time, year-round employees at the project facility for five years. The maximum amount of tax credits that can be issued in a calendar year is $750,000. This amount can be increased to $1 million if the action is proposed by the department and approved by the Quality Jobs Advisory Task Force. The total amount of tax credits issued for all projects cannot exceed $3 million annually, and no tax credits will be issued after August 30, 2007. This tax credit cannot be carried forward but can be sold. A refund will be issued to the qualified company if the credits exceed the Company's tax liability;

(4) Requires qualified companies to provide an annual report to the department documenting the basis for the benefits of this program (Section 620.1881);

(5) Stipulates that the maximum amount of tax credits that can be issued in a calendar year for the entire program is $12 million. The act reduces the annual amount of tax credits that can be authorized for relocating a business to a distressed community from $10 million to $8 million and specifies that the remaining $2 million must be transferred to the program. There is no limit on the amount of withholding taxes that may be retained by approved companies under the program (Section 620.1881);

(6) Requires that employees of qualified companies receive full credit for the amount of tax withheld (Section 620.1881);

DESCRIPTION (continued)

(7) Establishes the Quality Jobs Advisory Task Force consisting of the chairperson of the Senate's Economic Development Committee, the chairperson of the House of Representative's Economic Development Committee, a member of the House of Representative’s Economic Development Committee appointed by the Minority Leader of the House of Representatives, a member of the Senate's Economic Development Committee appointed by the Minority Leader of the Senate, the Director of the Department of Economic Development, and two members appointed by the Governor (Section 620.1887);

(8) Requires the department to submit an annual report to the General Assembly by March 1 of each year. The act specifies the requirements of the report (Section 620.1890);

(9) Authorizes the department to charge the recipient of any tax credit a fee in an amount of up to 2.5% of the tax credits issued. The fee must be paid when the tax credits are issued; however, no fee will be charged for youth opportunities and violence prevention, the Family Development Account, or neighborhood assistance tax credits (Section 620.1900); and

(10) Creates the Economic Development Advancement Fund for the deposit of all fees for tax credits. At least 50% will be appropriated for marketing, technical assistance, training, contracts for specialized economic development services, and new initiatives and pilot programming to address economic trends. The remaining money may be appropriated for staffing, operating expenses, and accountability functions of the department (Section 620.1900).

LOCAL OPTION SALES TAX - Any city or county is authorized to levy a sales tax of up to 0.5%, upon voter approval. This tax must be in lieu of the economic development sales tax allowed by Sections 67.1300 and 67.1303. Revenue collected from this tax will be deposited by the Director of the Department of Revenue in the city's or county's local option economic development sales tax trust fund. These funds will not be considered state money and will be distributed monthly to the city or county which levied the tax. The act specifies how the funds are to be spent and requires that the city or county establish an economic development tax board. Fund cannot be used for retail development except for the redevelopment of downtowns and historic districts. The Department of Economic Development must submit to the Joint Committee on Economic Development by March 1 of each year a report summarizing the status of each project using this sales tax. The act specifies what must be included in this report (Section 67.1305).

ENTERPRISE ZONES – RETAINED BUSINESS FACILITIES TAX CREDIT

The act extends the time for the approval of an essential industry retention project from

DESCRIPTION (continued)

December 31, 2005 to December 31, 2007 (Section 1).

INVESTING IN OR RELOCATING A BUSINESS TO A DISTRESSED COMMUNITY -

The act expands the term "computer programming" corporation to include Internet, web hosting, and other information technology and expands the term "telecommunications corporation" to include wireless, wired, or other telecommunications corporations allowing these corporations to receive a tax credit for investing in or relocating a business to a distressed community (Section 135.535).

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

Mickey Wilson

Mickey Wilson, CPA
Director
May 31, 2005