COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1361-05
Bill No.: SCS for SB 282
Subject: Business and Commerce; Economic Development; Insurance Department; Taxation and Revenue
Type: Original
Date: February 23, 2007

Bill Summary: This proposal modifies provisions of certain Department of Economic Development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($129,801 to $83,129,801)	($138,883 to $95,138,883)	($142,679 to $95,142,679)
Total Estimated Net Effect on General Revenue Fund*	**($129,801 to $83,129,801)**	**($138,883 to $95,138,883)**	**($142,679 to $95,142,679)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**3 FTE**	**3 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a fifty percent tax credit on acquisition costs and one hundred percent on interest costs incurred on an eligible parcel of land for a period of five years. The total aggregate amount of tax credits authorized under this program shall not exceed one hundred million dollars and the proposal sets an annual cap of twelve million dollars for the program. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposal modifies the enhanced enterprise zone program by increasing the annual cap of tax credits available from seven million dollars to twenty-five million dollars. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposed legislation extends the date for the Missouri Community College Job Training program until 2028 and the date for community college districts to sell certificates until 2018.

The proposal modifies the Missouri quality jobs program by increasing the annual cap of tax credits available from twelve million dollars to seventy-five million dollars. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED)** state each year an additional $12 million in Missouri Quality Jobs credits would be issued but these credits will not be earned or claimed until the start of the third year fiscal year. Projections prepared by the DED Missouri Economic Research and Information Center indicate a cumulative net positive economic benefit to GR of $5 million will be realized in the first three fiscal years. This proposal will show a positive impact on general revenue of $70 million at the end of 10 years and create 4,200 new jobs. Changes to the New Jobs Training Credit (NJTC) program would also result in a positive economic impact. The return on investment (ROI) for the New Jobs Training Credit was 2.24 to 1 in FY 2006. This positive economic benefit exists now and would still be in effect through FY 2008. The benefit would continue to be realized if the extension of this tax credit was implemented extending the program through 2018. The ROI factors times the dollars of credit

ASSUMPTION (continued)

issued would be the positive benefit realized with roughly $8 million in direct and 4 million in indirect benefits.

FY 2008 economic benefits of $4,481,096, FY 2009 benefits of $16,775,619, and FY 2010 benefits of $9,835,445 would be realized from changes to the MQJ program.

The Distressed Areas Land Assemblage Tax Credit Act authorizes $12 million per year in tax credits. DED assumes these credits will generate positive economic benefit to the state but, the response to this fiscal note only shows the cost of the credits.

DED assumes the change to the Missouri Quality Jobs program will create positive direct net economic benefit to Missouri of $5 million in the first 3 fiscal years. At the end of 10 fiscal years, cumulative net general revenue will increase by $70 million and 4,200 new jobs will be created. DED assumes the NJTC would create an estimated 1600 new jobs per year and an estimated $8 million in direct economic benefits plus $4 million in indirect benefits per year resulting in $12 million increase in GR. Future NJTC benefits would begin to decline in FY 2009 if the program is not extended. DED assumes the need for one person and expenses to administer the Distressed Areas Land Assemblage Tax Credit Act. DED assumes the Distressed Area Land Assemblage Tax Credit will generate an unknown amount of positive economic benefits to GR and Missouri.

DED assumes the need for one Economic Development Incentive Specialist III (at $46,776 annually) plus associated equipment and expenses. DED assumes the total cost for the additional FTE to be roughly $91,000 per year.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Development Incentive Specialist II to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED will not require additional office space for the one additional FTE and has reduced DED's estimated expense accordingly.

Officials from the **Department of Revenue (DOR)** state due to the changes made to the Missouri Quality Jobs Act, Customer Assistance anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 1 Tax Collection Technician I for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact

ASSUMPTION (continued)

our offices by phone, therefore, believe the field contacts could be handled with existing staff. Due to the establishment of the new tax credit, Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

No additional FTE would be needed for the Withholding/Financial Institution Tax Sections, or Corporate/Franchise Tax Section.

In summary, DOR assumes the need for two additional Tax Collections Tech Is (at $23,916 annually), with corresponding fringe benefits and expense and equipment. DOR assumes a total cost of these FTE to be roughly $80,000 to the General Revenue Fund.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 2 existing CIT III for 1 month at a rate of $8,372.

Officials from the **Office of the Secretary of State - Administrative Rules (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 Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office 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 in excess of what 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 **Office of the Secretary of State - Missouri State Library** state they advise public library districts on development of best library services for the public. Library districts depend on local tax revenues for 92% - 97% of their total revenue. Any legislative exemptions

ASSUMPTION (continued)

from the property tax erode the support for library districts. This makes it more difficult for libraries to maintain and improve their services to meet the public's demands. Libraries are required to provide local revenue as match for state aid certification and for certain grant programs. This legislation will make it more difficult for libraries to meet the match requirements.

Oversight assumes the many changes made to the Enhanced Enterprise Zone program and the Quality Jobs program may increase the utilization of the programs and therefore increase the issuances of the tax credits.

Oversight assumes extending the sunset date in which community colleges may sell certificates for the Community College New Jobs Training program from 2008 to 2018 will have a negative fiscal impact to the state, but would be in fiscal years beyond the scope of this fiscal note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued.

Oversight will range the fiscal impact of the new program and the expansion of the existing programs from $0 (no additional tax credits will be issued) to the annual limit on the new program or the change in annual limits on the existing programs.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010

GENERAL REVENUE

Costs - Department of Economic Development (DED)			
Personal Service	($33,145)	($40,968)	($42,197)
Fringe Benefits	($15,001)	($18,542)	($19,098)
Expense and Equipment	($17,396)	($13,104)	($13,496)
Total Costs - DED	($65,542)	($72,614)	($74,791)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Costs - Department of Revenue			
Personal Service (2 FTE)	($36,132)	($44,660)	($46,000)
Fringe Benefits	($16,353)	($20,213)	($20,820)
Expense and Equipment	($11,774)	($1,396)	($1,068)
Total Costs - DOR	($64,259)	($66,269)	($67,888)
FTE Change - DOR	2 FTE	2 FTE	2 FTE
Loss - DED Distressed Areas Land Assemblage Tax Credit (Section 99.1200)	$0	$0 to ($12,000,000)	$0 to ($12,000,000)
Loss - DED Tax credits for the Enhanced Enterprise Zone program (increase annual cap from $7 million to $25 million) Section 135.967	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)
Loss - DED Tax credits for Rebuilding Communities Program (change in 620.1881.5)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Loss - DED Tax credits for the Missouri Quality Jobs Act (increase to annual cap in 620.1881.5)	$0 to ($63,000,000)	$0 to ($63,000,000)	$0 to ($63,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($129,801 to $83,129,801)**	**($138,883 to ($95,138,883)**	**($142,679 to $95,142,679)**
FISCAL IMPACT - State Government (continued)	FY 2008 (10 Mo.)	FY 2009	FY 2010

Estimated Net FTE Change for General Revenue Fund	3 FTE	3 FTE	3 FTE

Note: This proposal expands the Quality Jobs program by allowing tax credits to be utilized against Chapter 148 taxes. The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs added or changed in this proposal could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal creates the distressed areas land assemblage tax credit program, administered by the department of economic development. Tax credits issued under the distressed area land assemblage tax credit act, are non-refundable, fully transferrable income, corporate franchise, and financial institutions, tax credits. Tax credits issued under the act will be equal to fifty percent of the acquisition costs for the land, and one hundred percent of the interest costs. The tax credit program is capped at one hundred million dollars and the total amount of tax credits issued annually is limited to twelve million dollars.

This act modifies provisions of the Enhanced Enterprise Zone Tax Benefit Program. The act modifies the definition of the term "employee". The act places new requirements on eligibility regarding the number of new employees and average employee wage. The act extends tax benefits under the enhanced enterprise zone tax benefit program to certain speculative industrial

FISCAL DESCRIPTION (continued)

or warehouse buildings. The amount of money which may be issued for enhanced business enterprises by the department of economic development after December 31, 2006, is increased from seven million to twenty-five million dollars.

Prior to the issuance of tax credits for enhanced business enterprises, the Department of Economic Development must verify through the Department of Revenue that the enhanced business enterprise does not owe any delinquent income, sales, or use taxes, or interest or penalties on such taxes and through the Department of Insurance that the applicant does not owe any delinquent insurance taxes. If the enhanced business enterprise has a tax delinquency, the tax credits issued for enhanced business enterprises shall first be applied to such delinquency with the remainder, if any, to then be issued to the enhanced business enterprise.

The act extends the sunset for the Community College New Jobs Training Program and allows community college districts to continue to sell certificates until July 1, 2018. The act modifies the determination of county average wage where a qualified company relocates employees from one Missouri county to another. A county from which a qualified company plans to relocate may object to the issuance of benefits under this section and preclude such issuance of certain benefits upon proper notification to the department of economic development.

The act requires that businesses offer health insurance to all full-time employees in the state and pay at least fifty percent of such premiums in order to be a qualified company. The act excludes educational services, religious organizations, and public administration from the term "qualified company". The act allows companies which are excluded from the definition of qualified company to receive benefits under the program provided they meet certain additional requirements. The act allows for the use of tax credits issued under the Missouri Quality Jobs Act to be used to offset both Missouri income tax and the financial institutions tax liabilities.

The act allows for the increase of the calendar year annual maximum number of quality jobs training tax credits issued to a qualified company which also participates in the new job training program by an amount equal to the withholding tax retained by such company under the new job training program provided it does not exceed the projected state benefit of the project. The act allows for an increase in the calendar year annual maximum amount of tax credits issued for high impact projects if the number of new jobs will exceed five hundred and such action is proposed by the department and approved by the quality jobs advisory task force.

The act allows a qualified company to begin retaining withholding taxes upon reaching the minimum number of new jobs where the average wage exceeds the county average wage. A qualified company will not receive tax credits if in its annual report, the average wage is below the county average wage, the company has not maintained the required employee insurance, or if

<u>FISCAL DESCRIPTION</u> (continued)

the number of new jobs is below the minimum.

The maximum calendar year annual tax credits issued under the Missouri Quality Jobs Act is increased from twelve million dollars to seventy-five million dollars. Prior to the issuance of tax credits under the Missouri Quality Jobs Act, the department of economic development must verify through the department of revenue that the qualified company does not owe any delinquent income, sales, or use taxes, or interest or penalties on such taxes and through the department of insurance that the applicant does not owe any delinquent insurance taxes. If the qualified company has a tax delinquency, the tax credits issued under the Missouri Quality Jobs Act shall first be applied to such delinquency with the remainder, if any, to then be issued to the company.

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
Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State

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February 23, 2007