

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0517-05
Bill No.: Perfected SS for SCS for SB 10
Subject: Economic Development; Tax Incentives; Tax Credits
Type: Original
Date: March 15, 2017

Bill Summary: This proposal modifies the Missouri Works and Missouri Works Training Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Community College Funds*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Transfers in from General Revenue and expenses net to zero.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this bill will make changes beginning August 28, 2017, to the financing structure of the various Missouri Works Training Programs. The proposal provides for direct General Revenue appropriations to be disbursed for training projects. B&P assumes that expenditures out of the existing training funds, especially those backed by withholding retentions, will decrease over a number of years. Instead, withholding revenues that would have otherwise been deposited in the designated training funds will now be deposited in General Revenue, offsetting the increased appropriations above.

This proposal should not directly impact Total State Revenues; however, going forward, funds will be deposited into General Revenue that might otherwise have been deposited into the designated training funds.

B&P notes that in FY 2016:

- \$8.5 million was spent from the Missouri Job Development Fund
- \$6.5 million was spent from the Community College Job Retention Training Program
- \$2.8 million was spent from the Community College New Jobs Training Program

Officials at the **Office of the State Treasurer** assume there is no fiscal impact to their agency from this proposal.

Officials at the **Department of Economic Development, Department of Higher Education** and the **Department of Revenue** each assumed there was no fiscal impact from this proposal.

In response to a previous version, officials at the **Metropolitan Community College** assumed the impact is unknown.

Officials at the **State Fair Community College, State Technical College of Missouri** and the **St. Louis Community College** each assume there is no fiscal impact from this proposal to their respective institutions.

§620.800 Definitions

Oversight notes this portion of the proposal changes the definition of “new capital investment”. Oversight assumes this portion of the proposal would not have a fiscal impact.

ASSUMPTION (continued)

§620.803

Oversight notes this portion of the proposal allows the DED to use some of their funding (not to exceed \$50,000) to contract out for advertising, marking or promotions. Oversight assumes since the agency is using their existing appropriation, there will not be a fiscal impact from this portion of the proposal.

§620.806

Oversight notes that under current statute, a consortium of qualified companies can qualify as a group for benefits. However, each of those companies must be qualified individually. Oversight notes this portion of the proposal would only require a “majority of” the companies to be qualified companies. Oversight is unable to determine how many additional companies would receive benefits under this proposal.

Oversight notes that according to DED’s website, “Missouri Works Training provides funds directly to companies based on the application and training plan.” According to DED’s budget submissions, the Missouri Works Job Development Training program had the following activity:

	FY 2014	FY 2015	FY 2016	FY 2017 (planned)
Missouri workers trained	37,355	18,738	36,038	35,000
Number of businesses served	395	200	332	300
Average company award	\$37,974	\$30,000	\$39,000	\$41,000
Total Expenditures for program	\$14,840,437	\$4,238,721	\$12,802,438	\$14,039,985

Oversight will not show a fiscal impact from this portion of the proposal.

§620.809

Oversight notes the Missouri Works Community College New Jobs Training Program Fund and the Community College Job Retention Training Fund provide assistance to eligible companies to train workers in newly created or retained jobs. These programs help offset the training costs associated with a new start-up or expanded company. The training is provided by community colleges. The Funds receive money from diverting a portion of the state employer withholding tax based on the payroll of the newly created or retained job. The money in the Funds is then used to reimburse the community college for the training they provided. Currently, statutes prohibit the General Assembly from transferring any General Revenue funding to these funds (620.809.1 and 620.809.2).

ASSUMPTION (continued)

Oversight notes a portion of this proposal would allow the General Assembly to disburse funds to DED from General Revenue to pay for the training. Subject to appropriation, this payment would be made to the community colleges upon commencement of the project. Currently they are paid after the training is complete.

Oversight will show the impact to General Revenue as \$0 (no money is appropriated) to Unknown. Oversight assumes the community colleges will spend the money upon receipt.

§620.2005 Mo Works

Oversight notes the MO Works Program was created in 2013 in HB 184. It replaced the Development tax credit in §32.100, the Rebuilding Communities tax credit in §135.535, the Enhanced Enterprise Zones tax credit in §135.950 and the Quality Jobs tax credit in §620.1875. MO Works was given a \$106 million cap in FY 2014, a \$111 million cap in FY 2015 and a \$116 million cap in FY 2016 and all subsequent years. This \$116 million cap includes outstanding authorizations under the previous tax credits.

To qualify for a tax credit under MO Works a company must create or retain a minimum number of jobs at the project facility with average wages of 80%, 90%, 120% or 140% of the county average wage and pay at least 50% of health insurance premiums. These projects are considered Zone Works, Rural Works, Statewide Works, and Mega Works.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Missouri Works tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Projects (#)	133	150	136	140	140
Amount Authorized	\$116,445,144	\$288,867,941	\$114,719,436	\$118,222,294	\$136,155,879
Amount Issued	\$146,923	\$3,588,785	\$23,741,677	\$72,885,551	\$81,152,646
Amount Redeemed	\$146,923	\$3,588,785	\$12,075,789	\$69,241,273	\$77,095,014

Oversight notes this portion of the proposal clarifies that a job is not considered a new job if the ownership of the company changes. This proposal allows clarifies the term base employment. Oversight assumes these changes would not have a fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Transfer Out</u> - to Community Colleges for training	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
COMMUNITY COLLEGE FUNDS			
<u>Transfer In</u> - from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - training expenses	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON COMMUNITY COLLEGE FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Small Business</u>			

Small businesses that join together as a consortium could qualify for these benefits.

FISCAL DESCRIPTION

This act modifies several provisions relating to financial incentives for job creation.

JOB TRAINING

This act modifies the definition of "new capital investment" by allowing costs incurred by a qualified company at the project facility prior to acceptance of the proposal for benefits to be considered new capital investment. (§620.800)

This act allows the Department of Economic Development to contract with other entities for the purpose of advertising, marketing, and promoting the Missouri Works Training program.

FISCAL DESCRIPTION (continued)

This act allows the Department of Economic Development to provide assistance through the Missouri Works Job Development Fund to a consortium of companies if a majority of the consortium are qualified companies. (§620.806)

Currently, Missouri Works Training projects are funded by redirecting withholding taxes remitted by a qualified company for new or retained jobs created by the company. This act allows the Department of Economic Development to provide up-front funding from appropriations from the General Revenue fund. For projects that utilize such funding, the amount of withholding taxes redirected for the project shall be reduced by the amount of funds received through the General Revenue appropriation. (§620.809)

MISSOURI WORKS

This act modifies several provisions of the Missouri Works program.

The definition of "new job" is changed to prohibit a job from being considered a new job because of a change of ownership in the company unless the company ceases to do business, there is a break in employment, and the company is subsequently restarted by new ownership, as described in the act.

A new definition of "owner" is included, which is defined as a person with an ownership interest in a company. The term shall not include persons with less than a ten percent ownership interest or persons whose interest is solely through an employee stock ownership plan, as described in the act.

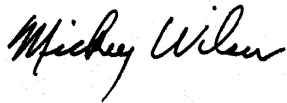
The definition of "project facility base employment" is changed to provided that awarded benefits shall not apply to base employment.

The definition of "project facility base payroll" is changed to provide that the amount of base payroll shall be equal to or greater than the previous year's base payroll while keeping the number of employees in the base constant. The company may choose the method of reporting the number of employees in the base, but the method shall remain in effect throughout the benefit period. (§620.2005)

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
Metropolitan Community College
Office of the State Treasurer
State Fair Community College
State Technical College of Missouri
St. Louis Community College



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March 15, 2017

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