

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4474-02
Bill No.: SCS for SB 550
Subject: Economic Development, Department of Economic Development, Tax Incentives
Type: Original
Date: February 5, 2018

Bill Summary: This proposal re-authorizes the Missouri Works and Missouri Works Training Programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	\$0	(Could Exceed \$129,100,000)
Total Estimated Net Effect on General Revenue	\$0	\$0	(Could Exceed \$129,100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§620.809 MO Works Training Programs

In response to similar legislation filed this year, SB 549, officials at the **Office of Administration Division of Budget and Planning** assumed this provision re-authorizes §620.800 to §620.809 and extends the expiration date to August 28, 2030. Since the proposal extends the expiration date of an existing program, it does not impact General and Total State Revenue. This proposal will not impact the calculation under Article X, Section 18(e).

In response to similar legislation filed this year, SB 549, officials at the **Department of Economic Development** assumed there was no fiscal impact from this proposal.

Officials at the **Department of Revenue** assume they will need minor programming to change the sunset date. These can be absorbed within existing resources.

Oversight notes this proposal extends the sunset date of the programs in §620.800 to §620.809 from July 1, 2019 to August 28, 2030. These programs are the Missouri Works Job Retention Training Program and the Missouri Works New Jobs Training Program.

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.

HB 93 of the 2017 Legislative session allowed for the General Assembly to appropriate money from General Revenue to help fund these programs.

The Job Retention Training Program has a debt cap of \$45 million with a five year issue average of \$6.7 million. The New Jobs Training program has a debt cap of \$55 million and a five year issue average of \$6.4 million. Per **Oversight** fiscal note policy, the fiscal note will reflect the extension of the tax credits starting in FY 2021. Oversight will show the impact as the five year issue average of these credits of \$13.1 million.

ASSUMPTION (continued)

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

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Projects	5	5	0	4	4
Amount Authorized	\$3,082,906	\$9,380,750	\$0	\$4,000,000	\$4,000,000
Amount Issued	\$4,105,906	\$9,380,750	\$0	\$4,000,000	\$4,000,000
Amount Redeemed	\$8,570,164	\$6,452,185	\$6,028,757	\$6,000,000	\$6,000,000

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

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Projects	6	5	4	4	5
Amount Authorized	\$6,798,676	\$2,611,078	\$10,783,057	\$8,000,000	\$8,000,000
Amount Issued	\$6,646,481	\$3,199,178	\$10,783,057	\$8,000,000	\$8,000,000
Amount Redeemed	\$6,319,681	\$2,816,374	\$4,379,900	\$6,000,000	\$7,000,000

Officials at the **State Technical College of Missouri** assume there is no fiscal impact from this proposal.

Officials at the **St. Louis Community College** assume there is no fiscal impact from this proposal.

Officials at the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Metropolitan Community College, Moberly Area Community College, State Technical College of Missouri, St. Charles Community College and Three Rivers Community College did not respond to **Oversight's** request for fiscal impact.

Oversight assumes the extension of the sunset of the these programs outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in this fiscal note.

ASSUMPTION (continued)

§620.2020 MO Works

In response to the previous version, officials at the **Office of Administration Division of Budget and Planning** assumed this provision re-authorizes §620.2000 to §620.2020 and extends the expiration date to August 28, 2030. Since this proposal extends the expiration date of an existing program, it does not impact General and Total State Revenue. This proposal will not impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue** assume they will need minor programming to change the sunset date. This can be absorbed within existing resources.

In response to the previous version, officials at the **Department of Economic Development (DED)** assumed this proposal amends Missouri Works, §620.2020 to extend the sunset date to 8-28-30. There is no impact for FY 2019 as the program does not sunset until FY 2020.

To calculate a benefit, DED's Division of Business and Community Services (BCS) determined the estimated redemptions that will likely occur in FY 2020 and 2021. For FY 2020 BCS estimates redemptions of \$147,233,155. However, for this program, the state sees an economic benefit of \$3.59 per dollar spent. The redemptions minus the benefit to the state equals a total positive benefit to the state of \$381,333,871 for FY 2020.

The estimated redemptions for FY 2021 are \$168,306,108. After calculating the benefit return to the state with the average of \$3.59 per dollar spent, the state will have a positive benefit of \$435,912,820.

Oversight assumes the re-authorized program would have a positive impact on the state (estimated to be a return of \$3.59 per dollar spent by DED above). However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in the fiscal note.

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

ASSUMPTION (continued)

Zone Works, Rural Works, Statewide Works, and Mega Works.

In addition to the tax credits, a company is allowed to retain withholding tax based on the creation of new jobs and retained jobs. There is no annual cap on the amount of withholding tax that can be retained.

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 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	0	4	17	51	84
Projects	150	136	144	145	145
Amount Authorized	\$288,867,941	\$114,719,436	\$155,506,188	\$186,045,440	\$186,045,440
Amount Issued	\$3,588,785	\$23,741,677	\$35,547,214	\$76,586,936	\$95,763,453
Amount Redeemed	\$3,588,785	\$12,075,789	\$35,065,683	\$75,603,837	\$94,214,896

Amount Outstanding - \$12,147,420.17 Amount Authorized but Unissued - \$568,188,990.08

Oversight notes the Missouri Works Program has a \$116 million annual cap for the tax credit and no cap on the retained withholding. Currently, this tax credit is to sunset on August 28, 2019 (FY 2020). This proposal would extend the sunset until August 28, 2030. This would extend the tax credit from FY 2021 to FY 2031.

Per **Oversight** fiscal note policy, the fiscal note will reflect the extension of the tax credits starting in FY 2021. Oversight will show the impact as Could Exceed the \$116 million annual tax credit cap.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Revenue Reduction</u> - extension of the sunset on the Missouri Works Job Retention Training Program §620.809	\$0	\$0	(\$6,700,000)
<u>Revenue Reduction</u> - extension of the sunset on the Missouri Works New Jobs Training Program §620.809	\$0	\$0	(\$6,400,000)
<u>Revenue Reduction</u> - extension of the sunset on the Missouri Works tax credit and retained withholding tax §620.2020 from 8/28/19 to 8/28/30	<u>\$0</u>	<u>\$0</u>	(Could Exceed <u>\$116,000,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	(Could Exceed <u>\$129,100,000</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that utilize the program would be impacted by this proposal.

FISCAL DESCRIPTION

The Missouri Works Training Programs are currently set to expire on July 1, 2019. This act re-authorizes the programs until August 28, 2030. (§620.809)

The Missouri Works Program is currently set to expire on August 28, 2019. This act re-authorizes the program until August 28, 2030. (§620.2020)

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 Economic Development
Department of Revenue
Office of Administration
Division of Budget and Planning
St. Louis Community College
State Technical College of Missouri

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director
February 5, 2018