COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0509-03
Bill No.: Truly Agreed To and Finally Passed HCS for SB 68
Subject: Department of Economic Development
Type: Original
Date: June 26, 2019

Bill Summary: This proposal modifies provisions relating to workforce development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
General Revenue	Up to ($35,206,355)	Up to ($79,357,594)	Up to ($79,849,486)	Up to ($90,351,075)
Total Estimated Net Effect on General Revenue	**Up to ($35,206,355)**	**Up to ($79,357,594)**	**Up to ($79,849,486)**	**Up to ($90,351,075)**

Note: 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.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 31 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Lottery Proceeds (0291)	($10,000,000)	$0	$0	$0
Fast-track Workforce Incentive Grant*	$0	$0	$0	$0
MO One Start Job Development	$52,500	$63,000	$63,000	$63,000
MO One Start Community College New Jobs Training	$0	$0	$0	$0
MO One Start Community College Job Retention Training	$0	$0	$0	$0
Community Colleges	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)
Total Estimated Net Effect on Other State Funds	**($9,947,500)**	**$63,000**	**$63,000**	**$63,000**

*Appropriations and Expenditures net to $0

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Federal	($342,489)	($342,489)	($342,489)	($342,489)
Total Estimated Net Effect on <u>All</u> Federal Funds	**($342,489)**	**($342,489)**	**($342,489)**	**($342,489)**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
General Revenue	1 or Could exceed 6 FTE	1 or Could exceed 6 FTE	1 or Could exceed 6 FTE	1 or Could exceed 6 FTE
Federal DWD	3 FTE	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**4 or Could exceed 9 FTE**	**4 or Could exceed 9 FTE**	**4 or Could exceed 9 FTE**	**4 or Could exceed 9 FTE**

☒ 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 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§135.100 New Business Facility Tax Credit

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal expands the types of businesses eligible for the Business Facility Tax Credit. To the extent businesses qualify for additional tax credits, this proposal could impact General and Total State Revenues by an unknown amount and the calculation pursuant to Article X, Section 18(e). Additionally, to the extent this proposal encourages other economic activity, General and Total State Revenue may increase, but B&P cannot estimate the induced revenues.

Officials of the **Department of Economic Development** (**DED**) assume this legislation modifies the Business Facility Tax Credit by amending the definition of New Business Facility Investment under 135.100 to remove the requirement that it be "real and depreciable tangible personal property" and adds that it can be the purchase, lease, or license of software and hardware.

It allows the company to get eight times the amount of the license. The statute is written for a specific company that tried to get this amount previously but was denied because a software license is not real and depreciable personal property. This company will have at least 9 projects over the next 15 years. The statute sunsets in 2025 and the company will get 10 years of benefits after the last year the project is approved. The amount that they would have gotten for the first project is $36 million over 10 years. Assuming they do all 9 projects and do the same software purchases at each location, that is a cost of $324 million to the state over 15 years, for a cost of $21,600,000 per year.

Office of the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials of the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown decrease of premium tax revenues may occur as a result of the changes to the Expanded Business Facility tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

ASSUMPTION (continued)

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

	FY 2016	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	10	7	8	9	10
Projects	10	7	8	9	10
Amount Authorized	$4,778,641	$8,044,858	$8,762,244	$9,993,516	$11,242,705
Amount Issued	$4,778,641	$8,044,858	$8,762,244	$9,993,516	$11,242,705
Amount Redeemed	$4,593,362	$4,046,742	$6,329,689	$6,895,526	$7,757,466

Amount Outstanding - $8,672,825 Amount Authorized but Unissued - not declared

Oversight notes that the New and Expanded Business Facility Credit program awards credits from $75 to $125 per job (for a new company) and per $100,000 of new investment each year for 10 years. The program has no cap. Oversight also notes that if a company meets the requirements and receives the credits, the state could receive positive benefits; however, Oversight assumes these benefits (additional workers hired and business capital expenditures) to be indirect benefits and will not reflect them in the fiscal note.

Oversight does not have any information to the contrary of DED. The House Budget Committee on May 16, 2019, voted to not allow the authorization of more than $12 million in tax credits under the New Business Facility Tax Credit Program. Therefore, Oversight will show the impact as the $12 million limit in FY 2020 and the estimate provided by DED of $21.6 million for future fiscal years.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of $192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least $150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated $160.0 million annually. Oversight notes the proposed legislation may impact

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future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

§173.2553 - §173.2554 Fast-Track Workforce Incentive Grant
Officials from **Department of Higher Education (DHE**) assume this proposal would establish the Fast-Track Workforce Incentive Grant, a need-based program designed to assist adult students enroll and complete instructional programs leading to high demand and high wage employment. Eligible programs of study would be designated by the Coordinating Board. Eligible students would be U.S. citizens or permanent residents with an adjusted gross income (AGI) of $80,000 or less if married filing jointly or $40,000 or less if filing in any other status, and who are 25 years of age or older or have not been enrolled in a postsecondary education program for the prior two academic years. Awards would cover any remaining tuition and fee costs after all other governmental student financial aid (federal, state and local). Students whose tuition and fee cost are fully covered by such aid would receive an award to cover any remaining cost of attendance up to $500 per term.

Current enrollment in programs that are likely to be designed as required by the statute is 26,928 (SY 2017-2018). Based on data provided as part of the Free Application for Federal Student Aid (FAFSA), 45.8 percent of those individuals are age 25 or older (12,345). Of those aged students, 42 percent meet the income eligibility criteria (5,196). The remaining 14,583 students are enrolled but under the age of 25. Among students in this group, whom would be considered dependent by financial aid definition, 95 percent would meet the income eligibility criteria (13,854). Because of the two year enrollment limitation, which will have the greatest impact on this student group, it is estimated that 33 percent (4,571) would not have been enrolled for at least two years. This results in a total estimate of 9,768 eligible students.

It is assumed that the availability of this grant will increase interest and enrollment in eligible programs. Consequently, this estimate assumes enrollment will increase by 10 percent, resulting in a total eligible population of 10,744. Based on FAFSA data for this population, it is assumed 91 percent of the eligible population would be eligible for a federal Pell grant (9,777). Because most or all of the tuition and fee costs for these individuals would be covered by other financial aid, it is assumed the average award for this group would be $1,000. The remaining 9 percent (967) would likely be eligible for a more limited package of financial aid. Consequently, it is assumed these individuals would receive an average award of $2,600. The total cost to fully fund the program for this population of eligible students would be $12,291,200 (($1,000 X 9,777 = $9,777,000) + ($2,600 X 967 = $2,514,200)).

The program also offers the opportunity for individuals with some college but no degree to receive assistance for a limited time (two years). Based on the most recent US Census data,

ASSUMPTION (continued)

approximately 710,000 Missouri residents have some college but no degree. Of this group, approximately 357,000 are between the ages of 25 and 45, the age group most likely to take advantage of the proposed program. Given the difficulty of convincing these individuals to return to post-secondary education and the limited program areas likely to be approved by the Coordinating Board, we assume only 2 percent of the 25 to 45 population or 7,140 would be eligible for payment under the program. Of those, we estimate 91 percent would be Pell grant eligible (6,497) and would receive an average award of $1,500. Higher awards are assumed here because it would be expected that many of these students would enroll in four-year institutions, where tuition is substantially higher than for the direct workplace entry programs described above. The remaining 9 percent (643) are not Pell eligible and, as a consequence, would receive an average award of $3,000. The total cost to fully fund this component of the program would be $11,674,500 (($1,500 X 6,497 = $9,745,500) + ($3,000 X 643 = $1,929,000)).

Based on these estimates and assumptions, the total cost for the scholarship component of the program would be $23,965,700 ($12,291,200 + $11,674,500) for the initial year of operation. Assuming average annual tuition increases of two percent, the second year cost would be $24,445,014 and the third year cost would be $24,933,915.

Est. Number of Recipients	Est. Award Amount	Year 1	Year 2	Year 3
9,777	$1,000	$9,777,000	$9,972,540	$10,171,991
967	$2,600	$2,514,200	$2,564,484	$2,615,774
6,497	$1,500	$9,745,500	$9,940,410	$10,139,218
643	$3,000	$1,929,000	$1,967,580	$2,006,932
17,884		**$23,965,700**	**$24,445,014**	**$24,933,915**

Oversight notes that this proposal does not provide for a cap; therefore, Oversight will show a range of cost from $0 to could exceed DHE's estimates, depending upon state appropriations.

DHE will use existing personnel funding to handle any administration of this program with the exception of the loan repayment provisions of the bill. That will require the addition of one professional ($35,000) and one clerical staff ($28,036) and related expense and equipment.

DHE is also requesting $50,000 in external audit funds for the loan program beginning in year two moving forward to fulfill the agencies fiduciary responsibilities associated with the bill.

ASSUMPTION (continued)

It is also assumed DHE will have significant support for this program through public service announcements and other partnerships with community groups, chambers of commerce and higher education institutions in helping promote these programs to reach the population to be served. DHE will also leverage existing state and department social media marketing opportunities available to educate the public about this new program.

The total cost for DHE in year one would be $24,530,542 for FY 2020, $24,608,037 in year two for FY 2021 and $25,097,887 in year 3.

Although enrollment in the program will likely be reduced by the timing of the program effective date (August 28) and the limited ability to provide prospective students with actionable information, it is impossible to project that impact. Given this situation and the level of funding projected for initial implementation of the program, the MDHE is prepared to adjust the initial implementation of the program in order to balance available appropriations with the student demand by delaying implementation until later in the academic year. MHDE notes they will adjust the program to fit within state appropriations provided.

Officials from DHE state the estimate provided by the **Office of Administration - Information Technology (ITSD)** for this program is $455,544 (6,074 hours x $75 per hour).

Oversight notes ITSD assumes that every new IT project/system will be bid out because all their resources are at full capacity. For this bill, ITSD assumes they will contract out the programming changes needed to update the systems. ITSD estimates the project would take 6,074 hours at a contract rate of $75 per hour for a total cost to the state of $455,544. Oversight notes that an average salary for a current IT Specialist within ITSD is $51,618, which totals roughly $80,000 per year when fringe benefits are added. Assuming that all ITSD resources are at full capacity, Oversight assumes ITSD may (instead of contracting out the programming) hire 3 additional IT Specialists to perform the work required from this bill. Therefore, Oversight will range the fiscal impact from the cost of contracting out the work ($455,544) to hiring three additional FTE IT Specialist (roughly $240,000 per year).

Oversight assumes this section creates the Fast-Track Workforce Incentive Grant Fund which consists of appropriations to be used for establishing and supporting the Fast-Track Workforce Incentive Grant program. For purposes of this fiscal note, Oversight assumes that all money will be used by the Fund in the year in which it is received.

Oversight notes this proposal has a loan repayment provision for participants who fail to comply with the program requirements. Oversight is unsure how long the loan repayment period would be, but notes the current interest rate for Direct Subsidized Undergraduate loans is 5.05% for

ASSUMPTION (continued)

2018-2019. Oversight will show a range of impact of $0 (no loan repayments) to an unknown revenue from loan repayments for participants who fail to comply. Oversight assumes an increase in revenue from the loan repayment provisions could offset the cost to General Revenue in future years.

Oversight notes DHE indicated they will use existing personnel funding to administer the program except for the loan repayment provisions. Oversight is uncertain if using existing personnel funding would result in a reduction of other services currently provided by DHE. Therefore, Oversight will show a range of impact for personnel funding of $0 (no appropriation) to could exceed the 2 FTE as estimated by DHE as appropriated by the State.

DHE also indicated they anticipated designating programs and awarding scholarships for the 2019-2020 school year (FY 2020); therefore, Oversight will show costs beginning in FY 2020.

Oversight notes, per the transcript of Governor Parson's 2019 State of the State speech, the Governor is "advocating that we provide $22 million dollars to fund a program known as Fast Track". Oversight notes the 2019 TAFP version of the budget (signed by the Governor on June 10, 2019) provides $10 million in FY 2020 funding from the Lottery Proceeds Fund (0291) to this proposal. Oversight will show $10 million from the Lottery Proceeds Fund for FY 2020. Oversight will show the estimate provided by DHE in the fiscal note for future fiscal years from General Revenue.

Officials from the **Office of the State Treasurer** assume the proposal will have no fiscal impact on their organization.

§620.511 Workforce Development
Officials at the **B&P** assume this will have no direct impact on general and total state revenues and will not impact the calculation pursuant to Art. X, Sec. 18(e).

Officials at the **DED** anticipate no impact as a result of this proposed legislation.

Oversight notes this provision allows the Missouri Workforce Development Board to post the names of their members on their website with contact information for the members. Oversight assumes this would not result in a fiscal impact.

Oversight notes that Department of Economic Development has stated the provision would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for this section.

ASSUMPTION (continued)

§620.800 - §620.809 and §620.2475 Missouri One Start
Officials of the **B&P** assume this proposal will not directly impact General Revenue. However, if more projects utilize the training programs, these projects could also apply for other tax credits. If more tax credits are issued, there could be an unknown decrease in General Revenue. Conversely, to the extent this proposal encourages other economic activity, General and Total State Revenue may be impacted, but B&P cannot estimate the induced revenues.

Officials of the **DED** assume these sections would have no fiscal impact on the Department.

In response to very similar language in another proposal (HB 469, LR 1063-1) and after questioning, **DED** stated that currently, the Missouri Job Development Fund, the New Jobs Training Program, and the Job Retention Training Programs are located in the budget of DED's Division of Workforce Development. These programs are being renamed the Missouri One Start Program and a new unit is being built around these existing programs.

DED assumes this bill uses the 3 existing programs - the Missouri Job Development Fund, the New Jobs Training Program and the Job Retention Training Program - and the changes in this bill therefore do not result in an increase to General Revenue. The Governor's Executive budget calls for an increase in funding for these programs however, this is not a result of or in any way correlated to the changes in this bill. DED assumed the several structural changes in the bill would not result in an increase in General Revenue.

Officials at the **DOR** assume there is no fiscal impact from this part of the proposal.

Oversight notes that DOR has stated this part of the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for this organization for these sections.

Oversight notes that this proposal is changing the name of the Missouri Works Training Programs to Missouri One Start Program. Additionally, this proposal is changing the name of the Missouri Works Job Development Fund to the Missouri One Start Job Development Fund. Oversight assumes there is a net zero impact from the name changes.

In response to HB 469 and after questioning, **DED** stated this proposal changes the 15% administrative fee for community colleges to a performance-based measure; however the bill does not call for a change in the total amount that would be spent on administration of the program. DED stated these funds are limited to the core budget appropriation as well, included in HB 7 and in no way changed by this bill.

ASSUMPTION (continued)

Oversight notes in §620.800(27)(f) this proposal changes from 15% for administrative expenses to a "reasonable amount determined by the Department." Oversight notes the Missouri Works New Jobs Training Program spent $5.6 million in FY 2018 from the Community College New Jobs Training Fund (0563) and the Missouri Works Retained Jobs Training Program spent $3.5 million in FY 2018 from the Community College Job Retention Training Fund (0717). Under current law $1,365,000 (15%) could have been spent for administrative expenses of community colleges. DED assumes that by using a performance-based system, they could reduce the administrative expenses and reinvest that savings into other companies. Oversight notes DED could raise or lower the rate and assumes the rate will not exceed 30%, therefore, Oversight will show this as a ($1,365,000) to $1,365,000 for community colleges.

Oversight notes that §620.806.3 requires petition review and contracts with community colleges in lieu of the guaranteed 15% payment. Oversight assumes that existing and reallocated staff will be able to handle these additional duties.

In response to HB 469 and after questioning, **DED** noted this proposal removes the limit on how much can be spent to market the program; however, this proposal does not call for additional funds for this purpose. These funds would be spent out of the program's core budget, which is included in HB 7 and in no way changed by this bill.

Oversight notes this proposal, in §620.803.5, removes the limit of $50,000 to contract with external entities for advertising, marketing and promoting this program. DED stated they have not used funding for external contracting for marketing but will need to do so if Missouri One Start can compete with other states to effectively market regionally and nationally. Oversight notes that any funding used for marketing would be an increase in administrative costs to the program. Oversight assumes $50,001 - $250,000 will be spent for external marketing.

In response to HB 469 and after questioning, **DED** noted this proposal adds the ability to add interest if determined to be needed for clawback repayments. Over the last 5 years, $562,520 has been collected in clawback repayments. Of that amount, $344,967 was collected from New Jobs withholding repayments and the funds were returned to General Revenue DOR's withholding unit. The remaining $217,553 was collected from Missouri Job Development Fund Projects, and deposited into the Missouri Job Development Fund (0600). This interest would be paid to the state, and would not result in a negative fiscal impact to the state.

Oversight notes this proposal in §620.803.8 allows DED to recapture all benefits awarded under the MO One Start Program. DED stated all three existing programs have Clawback provisions which pertain to them - Missouri Job Development Fund is a grant program and New Jobs Training/Job Retention Training Programs use the diversion of withholding credits. There have

ASSUMPTION (continued)

been occasions in the past when DED recovered funds. The new language strengthens the Clawback provision to include the ability to add interest if necessary when repayment is required. Repayment would be in play if the company didn't create/maintain the jobs and/or moved the jobs out of state. Oversight assumes a 5% interest rate pursuant to DOR's interest rate and estimates an increase in interest revenue for each fund and notes that $5,625 ($562,620 x 5% / 5 years) annually could have been recouped previously. Oversight notes that any money that is clawed back from the New & Retained Jobs Funds is withholding tax money and would be forwarded to DOR to be deposited with all other withholding funds. Any interest recovered from the withholding tax would be forwarded to General Revenue. Any funds from the Job Development program would be deposited into the Job Development program and any interest from that program would be also deposited into the fund.

Officials of the **Office of the State Treasurer** (**STO**) assume this proposal is taking interest earnings from General Revenue and placing them with the renamed Missouri One Start Job Development Fund (0600). Currently, earnings on this fund are posted to General Revenue. Estimated costs to General Revenue are:

FY 2020	$52,500
FY 2021	$63,000
FY 2022	$63,000

Oversight will show the loss to General Revenue and gain to the Missouri One Start Job Development Fund of the interest estimated by the STO.

In response to HB 469 and after questioning, **DED** noted there are currently 8 staff assigned to the 3 programs that will form Missouri One Start. In addition, 4 staff from the Division of Workforce Development Administration currently provide some support to these three programs, and will be reassigned organizationally. These positions are and will continue to be funded out of federal workforce development funds. Their positions will not be back-filled at the Division of Workforce Development, resulting in no net change in General Revenue. Funding for these FTEs is included in HB 7, and in no way changed by this bill.

Oversight notes that DED states the transfer of 4 FTE would not have a fiscal impact; however, there could be an increase. The Executive Budget for FY 2020 proposes moving the current 8 FTE to the MO One Start Program and additionally moving 1 FTE from General Revenue and 3 from Federal Funds to the MO One Start Program. Oversight assumes these 4 positions were no longer needed due to policy decisions that are external to the provisions of this bill. Oversight will show the transfer of the 4 new employees (salary, fringe and equipment) to the program in the fiscal note.

ASSUMPTION (continued)

Oversight notes that §620.809(4) allows employees in retained jobs with a company to train with the potential employees that will be filling the new jobs. Oversight is unable to determine if this would result in a decrease in the number of training programs that could be funded.

§620.2005, §620.2010 & §620.2020 Missouri Works Tax Credit Program
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.

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 currently no annual cap on the amount of withholding tax that can be retained for new jobs and there is a $6 million cap for retained jobs.

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

	FY 2016	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	4	17	31	92	103
Projects	136	144	141	140	142
Amount Authorized	$114,719,436	$155,506,188	$185,732,973	$172,254,336	$183,158,205
Amount Issued	$23,741,677	$35,547,214	$45,830,250	$95,576,322	$110,506,953
Amount Redeemed	$12,075,789	$35,065,683	$56,398,909	$93,664,796	$108,296,814

Amount Outstanding - $1,559,276.84 Amount Authorized but Unissued - $632,066,458.08

Officials at the **B&P** assume to the extent businesses qualify for additional tax credits this proposal could impact General and Total State Revenues and the calculation pursuant to Article X, Section 18(e). Additionally, to the extent this proposal encourages other economic activity, General and Total State Revenue may increase, but B&P cannot estimate the induced revenues. B&P notes the proposal requires a net positive benefit to the state.

B&P notes this proposal would increase the cap on tax credits, beginning January 1, 2023, by authorizing an additional ten million dollars in tax credits for qualified manufacturing companies

ASSUMPTION (continued)

above the current cap. This could decrease General and Total State Revenue by up to $10 million.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown decrease in premium tax revenues as a result of the expansion of the Missouri Works tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

Officials at the **DED** assume that based on the legislation, DED anticipates no fiscal impact from the cap on the withholding tax. It is our interpretation that the legislation will place a cap of $75 million on the withholding tax that may be authorized for the creation of new jobs by qualified companies with a project facility base employment of at least fifty, which currently has no cap.

Oversight notes that §620.2020.8 places a cap on the withholding tax that can be claimed by companies for new jobs. Currently there is no cap on the new jobs withholding tax. This proposal sets a cap at $75 million for companies with a project facility base employment of at least 50. There is still no cap on companies with base employment of less than 50.

DED provided the following information regarding the history of the Missouri Works Retained Withholdings for New Jobs.

ASSUMPTION (continued)

Missouri Works Retained Withholdings for New Jobs				
Year	Fewer than 50 Employees	50 or More Employees	Annual Total	Percent of Total to 50 or Fewer Employees
2013	$5,999,808	$25,366,597	$31,366,405	19%
2014	$16,637,464	$38,041,673	$54,679,137	30%
2015	$36,836,113	$19,120,612	$55,956,725	66%
2016	$38,511,168	$31,992,441	$70,503,609	55%
2017	$34,577,310	$36,674,555	$71,251,864	49%
2018	$47,812,911	$37,923,837	$85,736,748	56%
YTD 2019	$11,090,436	$523,873	$11,614,309	95%
TOTAL	$191,465,209	$189,643,588	$381,108,797	50%

Source: Department of Economic Development - they note this table shows retained withholdings benefits only and 2019 data is year to date only.

Oversight notes 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 (120 & 140).

ASSUMPTION (continued)

Program	Minimum New Jobs	Minimum New Private Capital Investment	Minimum Average Wage	Automatic Benefit
Zone Works	2	$100,000	80% of County Avg. Wage	WH, 5 or 6 years
Rural Works	2	$100,000	90% of County Avg. Wage	WH, 5 or 6 years
Statewide Works	10	N/A	90% of County Avg. Wage	WH, 5 or 6 years
Mega Works 120	100	N/A	120% of County Avg. Wage	6% of new payroll, 5 or 6 years
Mega Works 140	100	N/A	140% of County Avg. Wage	7% of new payroll, 5 or 6 years

Source: DED - WH means the retention of the state withholding tax on new jobs.

Oversight notes that §620.2010.6 would create a new category of program under the existing MO Works Program (shown in the chart above). This new category would require a qualified company to have 10 minimum new jobs, make a capital investment of an unspecified amount, and pay 100% of the county average wage. In exchange the qualified company would receive tax credits up to 9% of new payroll.

Oversight notes this proposal in §620.2020.7 reduces the $116 million cap to $106 million; however the program is not at it's issuance cap and therefore, this will not result in a savings to the state.

Oversight, notes this proposal creates a new $10 million cap for infrastructure projects starting in FY 2021 and an additional $10 million cap for qualified manufacturing companies starting in FY 2023. This will result in a cost to the state of up to $10 million annually for the infrastructure projects starting in FY 2021 and $20 million annually for the expansion of the tax credit limit for infrastructure and qualified manufacturing companies starting in FY 2023.

Oversight notes this proposal caps the amount that can be issued under §620.2010.7 (and §620.2020.9) to no more than 21.5% of the $106 million ($22,790,000). Currently only $45.8 million in credits were issued in FY 2018 under the MO Works Program. Oversight assumes this proposal would

ASSUMPTION (continued)

expand the companies that would be eligible for this tax credit and increase the utilization of the program and therefore; Oversight will show the impact as $0 (no additional companies authorized) to $22,790,000.

DED assumes this proposal also modifies Missouri Works related to "qualified manufacturing companies" which increases the cap of the Missouri Works program by $10 million per year starting in FY 2023. DED estimates a negative impact to Total State Revenue as much as $10 million per year starting in 2023.

Oversight notes this proposal adds a definition of a "qualified manufacturing company" to the MO Works Program. A qualified manufacturing company must have a NAICS of 3361 (motor vehicle manufacturing) and manufacture a new product line. Per the Bureau of Labor Statistics, Oversight notes there are 14 establishments in the state categorized as motor vehicle manufacturers (NAICS 3361).

This proposal also allows for a qualified manufacturing company to receive tax credits in the amount of $5 million annually starting January 1, 2023. The company may receive the credits annually for 5 years if they make a capital investment of at least $500 million. The credit can be extended another five years if an additional capital investment of $250 million is made. This proposal restricts a single qualified manufacturing company to no more than $5 million in tax credits annually and no more than $10 million annually for all qualified manufacturing companies.

Oversight notes the new definition of "qualified manufacturing company" added to the MO Works program is similar to the "qualified manufacturing company" definition in the Manufacturing Jobs Act. DED noted for informational purposes that the Manufacturing Jobs Act (§620.1910) for automotive manufacturers sunset October 12, 2016. The cap for the program was $15 million.

Under the Manufacturing Jobs Act, automotive manufactures were allowed to retain 100% of the withholding taxes normally remitted to the State. In order to receive these benefits a company was required to make a capital investment of at least $75,000 per retained job at a facility to create a new product and $50,000 per retained job at a facility for the modification or expansion of an existing product. Oversight noted in the 2015 Oversight Sunset Review of the Manufacturing Jobs program:

ASSUMPTION (continued)

Qualified Manufacturing Companies

Manufacturing Company	Total Authorized	Authorized Date	Benefits Allowed in Calender Years
Ford Motor	Up to $100,000,000 over 10 years	1/18/2011	2014-2023
General Motors	Up to $50,000,000 over 10 years	10/25/2011	2013-2022

Source: Department of Economic Development

A review of the Manufacturing Jobs Act records indicates that as of August 5, 2015 the following amounts have been withheld by Ford Motor and General Motors.

Benefits Received/Anticipated

Manufacturing Company	CY 2013 Benefits Received	CY 2014 Benefits Received	CY 2015 Benefits Received as of July	CY 2015 Anticipated Benefits	CY 2016 - CY 2022 Anticipated yearly	CY 2023 Anticipated
Ford Motor	Not eligible	$10,000,000	$0	$10,000,000	$10,000,000	$10,000,000
General Motors	$5,000,000	$5,000,000	$2,301,470	$5,000,000	$5,000,000	$0

Oversight requested more current information from DED on the Manufacturing Jobs Act and they stated that each company receive the full amount they were entitled to and DED believes that based on this history they will continue to receive the full amount until the program expires.

As shown in the charts, the Manufacturing Jobs Act's benefits will expire in FY 2022 for General Motors and in FY 2023 for Ford Motor. The MO Works program prohibits benefits under the MO Works program if a company is receiving benefits under the Manufacturing Jobs Act. Oversight notes that the change in the MO Works program as made by this proposal, would not allow the issuance of the $10 million in tax credits to a qualified manufacturing company until January 2023.

As noted previously, the MO Works Program began by combining four existing programs, including the Quality Jobs tax credit in §620.1875. Quality Jobs required companies to employ a certain number of new employees at the county average wage, for a certain amount of time to receive benefits. These benefits included tax credits and retained withholding taxes and could be received for 3 to 5 years depending on the project's size.

ASSUMPTION (continued)

According to the DED December 31, 2018 Annual Report on the MO Quality Jobs Program, General Motors has received tax credits under Quality Jobs equaling $33,164,481. They started receiving benefits in 2014 and Oversight is unsure when these credits will end.

Oversight notes the provisions of SB 68 would become effective August 28, 2019 (FY 2020).

Bill as a Whole
Officials at the **Joint Committee on Administrative Rules** (**JCAR**) assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (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 SOS 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 the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

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 require additional resources.

FISCAL IMPACT - State Government	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
GENERAL REVENUE				
Revenue Reduction - DOR §135.100 - expansion of the New Business Facility tax credit p 5	($12,000,000)	($21,600,000)	($21,600,000)	($21,600,000)
Cost - DHE - loan program external audit §173.2553 p 7	$0	$0 or ($50,000)	$0 or ($50,000)	$0 or ($50,000)
Cost - DHE - administration costs §173.2553 p. 7				
Personal Service	$0 or (Could exceed $52,530)	$0 or (Could exceed $63,666)	$0 or (Could exceed $64,303)	$0 or (Could exceed $64,946)
Fringe Benefits	$0 or (Could exceed $37,026)	$0 or (Could exceed $44,623)	$0 or (Could exceed $44,817)	$0 or (Could exceed $45,013)
Equipment & Expense	$0 or (Could exceed $19,742)	$0 or (Could exceed $4,734)	$0 or (Could exceed $4,853)	$0 or (Could exceed $4,974)
Total Cost	$0 or (Could exceed $109,298)	$0 or (Could exceed $113,023)	$0 or (Could exceed $113,973)	$0 or (Could exceed $114,933)
FTE Change - DHE - §173.2553	0 or Could exceed 2 FTE	0 or Could exceed 2 FTE	0 or Could exceed 2 FTE	0 or Could exceed 2 FTE
Cost - DHE - ITSD costs (ranged from contracting out programming ($455,544) to hiring additional FTE IT Specialists) §173.2553 p. 8	$0 or ($455,544) or ($199,895)	$0 or ($241,895)	$0 or ($243,936)	$0 or ($245,887)
FTE Change - ITSD	0 or 3 FTE	0 or 3 FTE	0 or 3 FTE	0 or 3 FTE

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
GENERAL REVENUE (continued)				
Transfer Out - to Fast-Track Workforce Incentive Grant Fund §173.2553 p. 9	$0	$0 to (Could exceed $24,445,014)	$0 to (Could exceed $24,933,915)	$0 or (Could exceed $25,432,593)
Loss - STO §620.806- Fund investment interest now retained by the MO One Start Job Development Fund p. 12	($52,500)	($63,000)	($63,000)	($63,000)
Transfer In - DED §620.803.8 - clawback money with interest from MO One Start CC New Jobs Training Fund p. 11	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625
Transfer In - DED §620.803.8 - clawback money with interest from MO One Start CC Retained Jobs Training Fund p. 11	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625
Cost - DED §620.800 MO One Start Division (1 FTE) p. 12	($65,912) 1 FTE	($65,912) 1 FTE	($65,912) 1 FTE	($65,912) 1 FTE

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
GENERAL REVENUE (continued)				
Revenue Reduction - DED §620.2010.6 & §620.2020.9 - expansion of qualified companies p. 16	$0 to ($22,790,000)	$0 to ($22,790,000)	$0 to ($22,790,000)	$0 to ($22,790,000)
Revenue Reduction DED §620.2020.7(2) creation of new MO Works tax credit for infrastructure projects & qualified manufacturing companies p. 17	$0	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($20,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Up to ($35,206,355)**	**Up to ($79,357,594)**	**Up to ($79,849,486)**	**Up to ($90,351,075)**
Estimated Net FTE Change on General Revenue	1 FTE or Could exceed 6 FTE	1 FTE or Could exceed 6 FTE	1 FTE or Could exceed 6 FTE	1 FTE or Could exceed 6 FTE

Note: 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 - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
LOTTERY PROCEEDS FUND				
Transfer Out - Fast-Track Workforce Incentive Grants p 9 - budget line item 3.070	($10,000,000)	$0	$0	$0
ESTIMATED NET EFFECT ON THE LOTTERY PROCEEDS FUND	**($10,000,000)**	**$0**	**$0**	**$0**

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
FAST-TRACK WORKFORCE INCENTIVE GRANT FUND				
Transfer In - from General Revenue p 7	$0	$0 to Could exceed $24,445,014	$0 to Could exceed $24,933,915	$0 or Could exceed $25,432,593
Transfer In - from Lottery Proceeds p 9	$10,000,000	$0	$0	$0
Revenue - loan repayments for failure to comply p. 8	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Cost - Fast-Track Workforce Incentive Grants p 9 - budget line item 3.075	$0 to (Unknown, could exceed $10,000,000)	$0 to (Unknown, could exceed $24,445,014)	$0 to (Unknown, could exceed $24,933,915)	$0 or (Could exceed $25,432,593)
ESTIMATED NET EFFECT ON FAST-TRACK WORKFORCE INCENTIVE GRANT FUND	**$0**	**$0**	**$0**	**$0**

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
MISSOURI ONE START JOB DEVELOPMENT FUND				
Revenue - STO §620.806- Fund investment interest retained by the Fund p 12	$52,500	$63,000	$63,000	$63,000
Administrative Increase - DED §620.803.5 - removal of cap on what marketing contracts can cost p 11	$50,001 to $250,000	$50,001 to $250,000	$50,001 to $250,000	$50,001 to $250,000
Program Distribution Decrease - DED 620.803.5 marketing contract increased administrative costs p 11	($50,001 to $250,000)	($50,001 to $250,000)	($50,001 to $250,000)	($50,001 to $250,000)
ESTIMATED NET EFFECT ON MISSOURI ONE START JOB DEVELOPMENT FUND	**$52,500**	**$63,000**	**$63,000**	**$63,000**

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
MISSOURI ONE START COMMUNITY COLLEGE NEW JOBS TRAINING FUND				
Revenue - DED §620.803.8 - clawback money with interest payments p 12	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625
Transfer Out - DED §620.803.8 - clawback money with interest is withholding taxes and forwarded to General Revenue p 12	$0 to (Could exceed $5,625)	$0 to (Could exceed $5,625)	$0 to (Could exceed $5,625)	$0 to (Could exceed $5,625)
ESTIMATED NET EFFECT ON MISSOURI ONE START COMMUNITY COLLEGE NEW JOBS TRAINING FUND	**$0**	**$0**	**$0**	**$0**

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
MISSOURI ONE START COMMUNITY COLLEGE JOB RETENTION TRAINING FUND				
<u>Revenue</u> - DED §620.803.8 - clawback money with interest payments p 12	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625	$0 to Could exceed $5,625
<u>Transfer Out</u> - DED §620.803.8 - clawback money with interest is withholding taxes and forwarded to General Revenue p . 12	<u>$0 to (Could exceed $5,625)</u>	<u>$0 to (Could exceed $5,625)</u>	<u>$0 to (Could exceed $5,625)</u>	<u>$0 or (Could exceed $5,625)</u>
ESTIMATED NET EFFECT ON MISSOURI ONE START COMMUNITY COLLEGE JOB RETENTION TRAINING FUND	**<u>$0</u>**	**<u>$0</u>**	**<u>$0</u>**	**<u>$0</u>**

FISCAL IMPACT - State Government (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
FEDERAL FUNDS				
Cost - DED §620.800 to MO One Start Division (3 FTE) p. 12	($342,489)	($342,489)	($342,489)	($342,489)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**($342,489)**	**($342,489)**	**($342,489)**	**($342,489)**
Estimated Net FTE Change on Federal Funds - DWD	3 FTE	3 FTE	3 FTE	3 FTE
COMMUNITY COLLEGES				
Administrative Change - §620.800(27) removal of the 15% cap on administrative expenses p 11	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)	$1,365,000 to ($1,365,000)
ESTIMATED NET EFFECT ON COMMUNITY COLLEGES	**$1,365,000 to ($1,365,000)**	**$1,365,000 to ($1,365,000)**	**$1,365,000 to ($1,365,000)**	**$1,365,000 to ($1,365,000)**

FISCAL IMPACT - Local Government	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for these programs could be impacted by this proposal.

FISCAL DESCRIPTION

§173.2553 Fast-Track Workforce Incentive Grant - This bill creates the "Fast-Track Workforce Incentive Grant" to provide grants for Missouri citizens to attend an approved Missouri post-secondary institution of their choice.

To be eligible, a student must meet certain criteria set forth in the bill, including having an adjusted gross income of $80,000 or less if married filling jointly or an adjusted gross income of $40,000 or less for all others and is 25 years old or has not been enrolled in an educational program for the prior two academic years. Grant funding may be renewed, but the student must continue to meet the eligibility requirements and must demonstrate a grade-point average of 2.5 on a 4.0 scale.

Eligibility for a grant expires upon the earliest of receipt of the grant for four semesters or the equivalent, receipt of a bachelor degree, or reaching 200% of the time typically required to complete the program of study.

The Coordinating Board for Higher Education must designate eligible programs of study by January 1, 2020. The eligible programs must be reviewed and updated by the board annually.

In addition, the board shall be the administrative agency for implementation of the program, shall determine the criteria for eligibility, shall evaluate each applicant's eligibility, and shall select qualified recipients. The board shall also determine eligibility for renewed assistance.

Grants shall be awarded in an amount equal to the actual tuition and general fees charged of an eligible student after all other federal and state aid is applied. If a grant amount is reduced to zero due to the receipt of other aid, the eligible student shall receive an award of up to $500 or the remaining cost of attendance, whichever is less.

If appropriated funds are insufficient to fund the program, students applying for renewed assistance shall be given priority until all funds are expended. Students may transfer the financial assistance from one approved public, private, or virtual institution to another without losing

FISCAL DESCRIPTION (continued)

eligibility for the program.

This bill creates in the State Treasury the "Fast-Track Workforce Incentive Grant Fund." The fund shall be used solely by the board for the purposes of this bill.

§620.511 to §620.2485 Missouri One Start Program - This bill modifies provisions relating to the Missouri Works Training Program and changes the name of the program to the Missouri One Start Program. The bill also renames the associated funds.

Currently, the program allows administrative expenses to 15% of total training costs. This bill limits such expenses to a reasonable amount determined by the Department of Economic Development. In creating rules and regulations governing the Missouri One Start Training

Program, this bill requires the department to consider such factors as the potential number of new jobs to be created, the amount of new capital investment in new facilities and equipment, the significance of state benefits to the qualified company's decision to locate or expand in Missouri, the economic need of the affected community, and the importance of the qualified company to the economic development of the state. This bill allows the department to require a qualified business to repay all benefits if such business fails to maintain the new or retained jobs within five years of approval of benefits or if such business leaves the state within five years of approval of benefits.

The bill allows the department to contract with other entities, including businesses, industries, other state agencies, and political subdivisions of the state for the purpose of implementing a training project under the program.

Upon appropriation of funds to the Missouri One Start Job Development Fund, this bill allows a local education agency to petition the department to utilize the Fund to create or improve training facilities, equipment, staff, expertise, programming, and administration. The department may award moneys from the Fund for reimbursement of training project costs and services as it deems necessary.

This bill gives the department the discretion to determine the appropriate amount of funds to allocate to a training project from the Missouri One Start Community College New Jobs and Retained Jobs Training funds.

Any agreement or obligation entered into by the department that was made under the provisions of the Missouri Works Training Program prior to the effective date of this bill shall remain in effect according to the provisions of such agreement or obligation.

FISCAL DESCRIPTION (continued)

§620.2005, §620.2010 & §620.2020 Missouri Works Tax Credit Program - This proposal makes changes to the Missouri Works Tax Credit Program.

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 Higher Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration Division of Budget and Planning
Office of the Secretary of State
Office of the State Treasurer

Kyle Rieman
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June 26, 2019

Ross Strope
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June 26, 2019