

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1041S.03C
 Bill No.: SCS for SB 5
 Subject: Taxation and Revenue - Income; Economic Development; Political Subdivisions
 Type: Original
 Date: March 7, 2021

Bill Summary: This proposal would modify provisions relating to certain infrastructure improvement districts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*/**	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 or could exceed (\$5,000,000)
Total Estimated Net Effect on General Revenue	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 or could exceed (\$5,000,000)

*Twenty-five percent (25%) of state tax withholdings from new jobs created within established TIME Zones may be deposited into the TIME Zone Fund to be disbursed back to the Time Zone (less up to 10% for state administrative costs). The program cap (across all TIME Zones) is \$5 million per year.

** The extension of the authorization to create AIM Zones may allow for an increase in the number of AIM Zones created, which may lead to additional state withholding tax being diverted to the AIM Zone instead of state General Revenue; however, due to current and past activity, Oversight assumes the amount of redirected state taxes from this part of the proposal would **not** exceed the \$250,000 Fiscal Revenue / Fiscal Oversight threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Port Authority AIM Zone Fund (0583)*	\$0	\$0	\$0
TIME Zone Fund*	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

*Distribution of revenues and expenses net to zero.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
TIME Zone Fund - DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Total Estimated Net Effect on FTE	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government*	\$0	\$0	\$0

*Distribution of revenues and expenses net to zero.

FISCAL ANALYSIS

ASSUMPTION

Section 68.075 – Advanced Industrial Manufacturing Zones Act

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would extend the sunset date for the AIM Zone Tax Credit from 2023 to 2027. Because the section would only extend the sunset date, B&P estimates that this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this section extends the sunset date on the AIM Zone Tax Credit program from August 28, 2023 to August 28, 2027. This section is just a continuation of the existing program and is not expected to have additional impact on DOR.

Oversight notes, under current law, no new Advanced Industrial Manufacturing Zone (AIM Zone) may be established after August 28, 2023. This proposed legislation extends that date to August 28, 2027.

An AIM Zone is an area identified through a resolution passed by a Port Authority Board of Commissioners that is being developed or redeveloped for any purposes so long as any infrastructure and/or building built or improved is in the development area.

Any port authority located in this state may establish an AIM Zone.

Oversight notes fifty percent (50%) of the state tax withholdings imposed under Section(s) 143.191 to 143.265 on qualifying new job(s) created within an AIM Zone after development or redevelopment has commenced shall be deposited into Port Authority AIM Zone Fund in lieu of General Revenue (GR). In addition, the Port Authority AIM Zone Fund may receive appropriation from the General Assembly to be used for the administration of this program which is limited to no more than ten percent (10%) of the total amount deposited from withholding taxes on new jobs with an AIM Zone.

The Missouri State Treasurer is to disburse the funds held in the Port Authority AIM Zone Fund to port authorities.

The funds disbursed to port authorities are to be used for expansion, develop and redevelop of AIM Zones, managerial expenses, engineering, legal expenses, research, promotion expenses, planning, satisfaction of bonds, and any other expenses.

In response to the previous version of this proposed legislation, officials from the **Missouri Department of Economic Development (DED)** stated this section would extend the authorization of the Advanced Industrial Manufacturing Zones Act (AIM Zones) from 2023 to 2030.

This section amends the sunset dates of the AIM Zones Act which will have an economic impact. This proposed legislation may encourage economic activity through an increase in projects in AIM Zones. However, DED is unable to estimate the increase or decrease to Total State Revenue (TSR) because there have been no issuances to date.

Oversight notes this version of this proposed legislation would extend the authorization for new AIM Zones to August 28, 2027.

Based on information provided by the Department of Revenue, the following AIM Zones have been established:

AIM Zone	Date of Adoption
Port KC AIM Zone 1 - Richards Gebaur	10/17/2016
Port KC AIM Zone 2 - Northland Park	10/17/2016
Port KC AIM Zone 3 - Berkley Riverfront	12/18/2017
Port KC AIM Zone 4	10/28/2019
Hazelwood AIM Zone	3/13/2018
St. Louis Port District AIM Zone	6/13/2017
Lemay AIM Zone	7/11/2017
Former Jamestown Mall AIM Zone	10/10/2017
Kimmswick AIM Zone	9/14/2016

Based on additional information provided by the Department of Revenue, the Port Authority AIM Zone Fund received its first deposit in the amount of \$1,125 in July 2020 (Fiscal Year 2021).

Officials from the **City of Kansas City (Kansas City)** assume this proposed legislation would have an indirect positive fiscal impact on Kansas City in an unknown amount. Kansas City assumes by extending the program, additional development could occur.

Oversight notes, other than the approximately \$1,125 deposited into the Port Authority AIM Zone Fund, which was the first deposit recognized, which occurred in the current fiscal year (Fiscal Year 2021), there is little historical data or evidence available to estimate the impact of extending the date in which AIM Zones can be established.

For purposes of this fiscal note, Oversight will report a fiscal impact equal to \$0 or a negative “Unknown” to GR beginning in Fiscal Year 2024 as a result of the unknown amount of state withholding tax that would be deposited into the Port Authority AIM Zone Fund in lieu of GR. Oversight assumes this reduction in withholding tax collections would not exceed \$250,000. **Oversight** will report the transfer into the Port Authority AIM Zone Fund (withholding tax deposited) equal to \$0 or a positive “Unknown” beginning in Fiscal Year 2024 and will report the transfer out of the Port Authority AIM Zone Fund (disbursements to port authorities) equal to \$0 or a negative “Unknown” resulting in a net zero (\$0) fiscal impact.

Oversight will report a \$0 or positive “Unknown” impact to Local Political Subdivisions (Port Authorities/AIM Zones) beginning in Fiscal Year 2024 as a result of the unknown amount of revenue such entities would receive from the Port Authority AIM Zone Fund.

Section 620.2250 – Target Industrial Manufacturing Enhancement Zones Act

Officials from the **Office of Administration - Budget and Planning** assume this section allows for 25% of the state tax withholdings on new jobs within a TIME zone to be deposited into the TIME Zone Fund, newly created, rather than the General Revenue Fund.

The total amount of withholding taxes retained by all TIME Zones shall not exceed \$5 million per fiscal year. B&P will show an impact of up to \$5 million deposited into the TIME Zone Fund and (up to \$5 million) from General Revenue.

This section may encourage other economic activity, but B&P does not have data to estimate induced revenues.

In response to similar legislation (SB 174 – 2021), officials from **DED** assumed for every new job created in the TIME zone, 25% of state tax withholdings imposed by 143.191-143.265 shall not be remitted to the General Revenue Fund but shall be put into the TIME Zone Fund to be used by the zone board for managerial, engineering, legal, research, promotion, planning and any other expenses.

DED is only mentioned as the agency to which the annual budget is submitted. DED has no mechanism to calculate the estimated impact of this section on the general revenue.

DED is responsible for approving any agreement renewals, along with reviewing annual budgets and annual reports. Therefore, DED assumes one (1) FTE would be needed to implement the program.

In summary, DED assumes a cost of \$81,044 in Fiscal Year 2022, \$86,114 in Fiscal Year 2023 and \$86,940 in Fiscal Year 2024 to provide for the implementation of the changes in this proposal.

Officials from **DOF** state this section allows for the diversion of 25% to 50% of the state tax withholding on new jobs to not be remitted to General Revenue and instead go to a designated TIME Zone Fund as outlined in this section. The percentage of the withholding tax is based on qualifications outlined in this section. DOF notes this 25%- 50% is on new jobs created in a TIME Zone and is not currently being collected by DOF from the TIME Zone area.

This section limits the cumulative amount of withholding tax to \$5 million annually for all TIME Zones created in the State.

DOF is unable to estimate the number of new jobs that may be created and the new withholding tax those new jobs would generate. The Missouri Department of Economic Development may be able to provide an estimate of the number of expected jobs. This could be expected to generate between \$0 (no TIME Zones created) and \$5,000,000 annually for the TIME Zones (based on limits put forth).

DOF is unsure if this would result in additional or lost revenue to the State. Should the created jobs be truly new jobs in the State and not just jobs in the Time Zone area then the State would gain some withholding tax it is not already collecting. Should the TIME Zone just be hiring employees that previously worked elsewhere then the State may actually lose withholding tax it previously collected. DOF will show an Unknown impact to the general revenue.

Officials from the **Kansas City** assume this legislation may have a positive fiscal impact on Kansas City in an indeterminate amount if the creation of a TIME Zone leads to additional development and to new jobs in the TIME zones within Kansas City limits. However, this may be offset by staffing resources needed to administer TIME Zones.

Oversight notes this section creates the Targeted Industrial Manufacturing Enhancement Zones Act. This section also creates the TIME Zone Fund. Once an ordinance or resolution is passed/adopted by at least two (2) political subdivisions, this section permits “twenty-five percent of the state tax withholdings” to go directly to the new fund created.

Oversight will assume a loss to GR of the withholding tax and a gain to the TIME Zone Fund of the withholding tax. The total amount of withholding taxes retained by all TIME Zones shall not exceed \$5,000,000 per fiscal year.

In addition, no TIME Zone may be established after August 28, 2024 and already established TIME zones created prior to that date shall continue to exist. Since there is no way to determine if additional jobs will come to these regions, Oversight will reflect the impact as \$0 (no new jobs created) to \$5,000,000.

Also, depending upon the number of TIME Zones established and new jobs created, Oversight assumes the Missouri Department of Economic Development may be able to absorb some additional responsibilities created by this bill. Therefore, Oversight will range the Missouri Department of Economic Development’s administrative needs from zero (0) to one (1) additional

FTE in the TIME Zone Fund. Oversight notes the state is allowed to retain 10% of the proceeds for administrative costs.

Legislation as a Whole -

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS's core budget. Therefore, 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 proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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

Officials from the **Missouri Department of Transportation**, the **City of Claycomo**, and the **City of Springfield** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

Officials from the **CHAPTER \h \r 1**

SEQ CHAPTER \h \r 1Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
<u>Revenue Reduction – Section 68.075 – State Tax Withholding Diverted From GR Into AIM Zone Fund</u>	\$0	\$0	\$0 or (Unknown)
<u>Revenue Reduction – TIME Zone - Loss of Withholding Tax</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 or could exceed (\$5,000,000)</u>
PORT AUTHORITY AIM ZONE FUND (0583)			
<u>Transfer In – Section 68.075 – State Tax Withholding Diverted From GR Into Port Authority AIM Zone Fund</u>	\$0	\$0	\$0 or Unknown
<u>Transfer Out – Section 68.075 – Disbursements Of Funds In Port Authority AIM Zone Fund To Port Authorities</u>	\$0	\$0	\$0 or (Unknown)
ESTIMATED NET EFFECT ON PORT AUTHORITY AIM ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

TIME ZONE FUND			
<u>Revenue –</u> Withholding Tax Collected From New Jobs	\$0 to \$5,000,000	\$0 to \$5,000,000	\$0 to \$5,000,000
<u>Cost – DED (must not exceed 10%)</u>	\$0 or ...	\$0 or...	\$0 or...
Personnel Services	(\$42,218)	(\$51,168)	(\$51,679)
Fringe Benefits	(\$24,199)	(\$29,209)	(\$29,382)
Equipment & Expense	(\$14,627)	(\$5,737)	(\$5,879)
Total Cost – DED	(\$81,044)	(\$86,114)	(\$86,940)
FTE Change – DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
<u>Transfer Out – To Local Political Subdivisions</u>	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
ESTIMATED NET EFFECT ON THE TIME ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change on Time Zone	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In – Section 68.075 – Local Port Authorities – Disbursements To Port Authorities From Port Authority Aim Zone Fund</u>	\$0	\$0	\$0 or Unknown
<u>Transfer Out – Section 68.075 – Local Port Authorities – Administration Of Advanced Industrial Manufacturing Zone Act</u>	\$0	\$0	\$0 or (Unknown)
<u>Transfer In – From TIME Zone Fund</u>	\$0 to \$5,000,000	\$0 to \$5,000,000	\$0 to \$5,000,000
<u>Cost – Administration Of TIME Zone Developments</u>	\$0 to (\$5,000,00)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that qualify for the programs in this proposal would be impacted.

FISCAL DESCRIPTION

ADVANCED INDUSTRIAL MANUFACTURING ZONES

Under current law, no advanced industrial manufacturing (AIM) zone may be established after August 28, 2023. This act extends such date to August 28, 2027.

TARGETED INDUSTRIAL MANUFACTURING ENHANCEMENT ZONES

This act establishes the "Targeted Industrial Manufacturing Enhancement Zones Act".

This act allows any two or more contiguous or overlapping political subdivisions, as defined in the act, to create targeted industrial manufacturing enhancement (TIME) zones for the purpose of completing infrastructure projects to promote economic development. Prior to the creation of a TIME zone, each political subdivision shall propose an ordinance or resolution that sets forth the names of the political subdivisions which will form the zone, the general nature of the proposed improvements, the estimated cost of such improvements, the boundaries of the proposed TIME zone, and the estimated number of new jobs to be created in the TIME zone. The political subdivisions shall hold a public hearing prior to approving the ordinance or resolution creating the TIME zone.

This act allows the zone board governing the TIME zone to retain twenty-five percent of withholding taxes on new jobs created within the TIME zone to fund improvements made in the TIME zone. Prior to retaining such withholding taxes, the zone board shall enter into an agreement with the Department of Economic Development. Such agreement shall specify the estimated number of new jobs to be created, the estimated average wage of new jobs to be created, the estimated net fiscal impact of the new jobs, the estimated costs of improvements, and the estimated amount of withholding tax to be retained over the period of the agreement. The Department shall not approve an agreement unless the zone board commits to the creation of a certain number of new jobs, as described in the act.

The term of such agreement shall not exceed ten years. A zone board may apply to the Department for approval to renew any agreement. In determining whether to approve the renewal of an agreement, the Department shall consider the number of new jobs created and the average wage and net fiscal impact of such new jobs, and the outstanding improvements to be made within the TIME zone, the funding necessary to complete such improvements, and any other factor the Department requires. The Department may approve the renewal of an agreement for a period not to exceed ten years. If a zone board has not met the new job creation requirements by the end of the agreement, the Department shall recapture the withholding taxes retained by the zone board.

The zone board shall submit an annual report to the Department and to the General Assembly, as described in the act.

No political subdivision shall establish a TIME zone with boundaries that overlap the boundaries of an advanced industrial manufacturing (AIM) zone.

The total amount of withholding taxes retained by TIME zones under this act shall not exceed \$5 million per year.

No new TIME zone shall be created after August 28, 2024.

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

Office of Administration – Budget & Planning Division

Missouri Department of Revenue

Missouri Department of Transportation

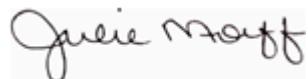
Missouri Secretary of State

City of Claycomo

City of Kansas City

City of Springfield

Joint Committee on Administrative Rules



Julie Morff

Director

March 7, 2021



Ross Strope

Assistant Director

March 7, 2021