

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0934S.03C
Bill No.: SCS for HCS for HB 668
Subject: Tax Credits; Economic Development; Education, Higher
Type: Original
Date: April 25, 2023

Bill Summary: This proposal modifies provisions relating to financial incentives for employers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund**/**/***	Up to (\$63,893,838)	Up to (\$86,490,965)	Up to (\$86,515,768)
Total Estimated Net Effect on General Revenue	Up to (\$63,893,838)	Up to (\$86,490,965)	Up to (\$86,515,768)

*Oversight notes the above cost includes the maximum cap in tax credits of \$20 million per year as well as the potential add-on 15% adjustment (\$3M) for childcare desert for all three Sections. Section(s) 135.1310 & 135.1325 "Child Care Contribution Tax Credit Act" and the "Employer-Provided Child Care Assistance Tax Credit Act" respectively, begins in FY 2024. Section 135.1350 "Child Care Providers Tax Credit" begins in FY 2025. Additionally, FTE for DOR, DED and DESE. Lastly, cost includes DESE & DOR cost for ITSD creation of database and software changes.

**Oversight notes the Upskill Credential Training program is subject to appropriation; therefore the range of the fiscal impact is noted as "\$0 or"& estimated DED 2 FTE ((Senior Economic Development Specialist at \$74,664 annually) to administer the program.

*** Oversight notes the Cybersecurity Grant program (Section 620.2550) is subject to appropriation and has a \$10 million cap annually. DED has estimated the need for one (1) additional FTE (Senior Economic Development Specialist at \$74,664 annually) to administer the program.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Upskill Credential Fund*	\$0	\$0	\$0
Colleges & Universities	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

*Oversight assumes, for purpose of this fiscal note that appropriations to the Upskill Credential Fund (Section 620.2500) will be used in the year appropriated and the Fund will net to zero each fiscal year.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund – DED	8 FTE	8 FTE	8 FTE
General Revenue Fund – DESE	4 FTE	4 FTE	4 FTE
General Revenue – DOR	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	13 FTE	13 FTE	13 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 2024	FY 2025	FY 2026
Local Government	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

FISCAL ANALYSIS

ASSUMPTION

In response to the similar proposal, HCS for HB 870 -2023, officials from the **Office of Administration – Budget & Planning (B&P)** note:

Section 135.1310 – Child Care Contribution Tax Credit Act

This section would create a tax credit for donations made to eligible childcare providers. The tax credits would begin for tax year 2023 and be equal to 75% of a qualifying donation. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of \$100 (\$175 donation) to \$200,000 (\$350,000 donation). The tax credits are non-refundable, unless a qualifying contributor is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1310.8(1), no more than \$20 million in tax credits may be authorized per year. However, per subdivision 135.1310.8(2) if the full \$20 million is authorized, then an addition 15% (\$3 million) may be authorized. The additional \$3 million may only be used for contributions made to childcare facilities located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to \$23 million annually beginning in FY24.

Section 135.1325 – Employer Provided Child Care Assistance Tax Credit Act

This section would create a tax credit for qualified childcare expenditures. The tax credits would begin for tax year 2023 and be equal to 30% of qualifying expenditures. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of up to \$200,000 (\$260,000 expenditures). The tax credits are non-refundable, unless a qualifying taxpayer is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1325.7(1), no more than \$20 million in tax credits may be authorized per year. However, per subdivision 135.1325.7(2) if the full \$20 million is authorized, then an addition 15% (\$3 million) may be authorized. The additional \$3 million may only be used for childcare facility expenditures located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to \$23 million annually beginning in FY24.

Section 135.1350 – Child Care Providers Tax Credit Act

This section would create two tax credits starting in tax year 2024. For childcare providers with at least three employees, the provider may claim a tax credit equal to qualified withholdings and/or a tax credit equal to 30% of capital expenditures. A childcare provider must make at least \$1,000 in capital expenditures to claim the capital expenditures credit. B&P notes that this provision may impact revenues beginning in FY25, when tax year 2024 annual income tax returns are filed.

A taxpayer may receive a maximum tax credit of up to \$200,000 per year. B&P notes that the \$200,000 per taxpayer limit is for both tax credits. Therefore, a taxpayer may either use \$200,000 in withholding taxes or \$1,000 in capital expenditures and any combination in between to claim the maximum credit.

The tax credits are non-refundable, unless a qualifying taxpayer is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1350.7(1), no more than \$20 million in tax credits may be authorized per year. However, per subdivision 135.1350.7(2) if the full \$20 million is authorized, then an addition 15% (\$3 million) may be authorized. The additional \$3 million may only be used for childcare facility expenditures located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to \$23 million annually beginning in FY25.

Officials from the **Department of Revenue (DOR)** note:

Section 135.1310 Child Care Contribution Tax Credit Act

Starting January 1, 2023, a qualified taxpayer would be able to claim a tax credit against their state tax liability, in the amount of 75% of a qualified contribution to a qualified child care provider. The qualifying contribution could be cash, stocks, bonds or securities. To be a qualified child care provider the provider must be licensed under Section 210.221. The minimum amount

of the credit that may be issued in credit is \$100 (\$175 donation) while the maximum qualifying amount of the credit is limited to \$200,000 (\$350,000 donation) annually.

The child care provider receiving the contribution must issue a written verification of the contribution to the taxpayer and file a copy with the Department of Economic Development (DED). This proposal allows the credit to be recaptured if the contribution is not used for providing child care.

This credit is not refundable, and cannot be transferred or sold but they can be carried forward up to five years or carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative \$20 million annual cap. This proposal will sunset on December 31, 2029. This proposal allows that if the cumulative \$20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to \$20 million each year.

This proposal does establish a provision in Section 135.1310.7, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	Loss to General Revenue
2024	(Could exceed \$20,000,000)
2025	(Could exceed \$20,000,000)
2026	(Could exceed \$20,000,000)

This would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR's website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$7,193. DOR assumes DOR will need at least 1 Associate Customer Service Representative (\$31,200) to handle the new credits being redeemed. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts the Department would ask for additional FTE through the budget process if justified.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Section 135.1325 Employer Provided Child Care Assistance Tax Credit

Starting January 1, 2023, a qualified taxpayer would be able to claim a tax credit in the amount of 30% of a qualified child care expenditures paid or incurred with respect to a child care facility. This proposal identifies what is a qualifying expenditure and facility. The maximum amount of credits that can be issued to any taxpayer is \$200,000 annually.

This credit is not refundable, and cannot be transferred or sold but they can be carried forward up to five years and carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative \$20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative \$20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to \$20 million each year.

This proposal does establish a provision in Section 135.1325.6, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	Loss to General Revenue
2024	(Could exceed \$20,000,000)
2025	(Could exceed \$20,000,000)
2026	(Could exceed \$20,000,000)

This would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to their website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$7,193. DOR assumes the Associate Customer Service Representative needed for the previous credit would also handle this one. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts the Department would ask for additional FTE through the budget process if justified.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Section 135.1350 Child Care Providers Tax Credit

Starting January 1, 2024, a qualified child care provider with three or more employees would be able to claim a tax credit in the amount equal to the child care provider's eligible employer withholding tax and may claim another credit in an amount up to 30% of the child care provider's capital expenditures. To be a qualified child care provider the provider must be licensed under Section 210.221. Capital expenditures must be greater than \$1,000 to qualify for the credit. No child care provider shall receive more than \$200,000 in tax credits annually.

To claim the credit the child care provide must submit an application to the Department of Economic Development (DED). If DED approves the application, they will issue the tax credits.

These two credits are not refundable, and cannot be transferred or sold but they can be carried forward up to five years or carried back one year. The credits are to be distributed on a first-come, first-serve basis with a shared cumulative \$20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative \$20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to \$20 million each year.

This proposal does establish a provision in Section 135.1310.6, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2024. This could impact the Department starting when the tax returns are filed in January 2025.

Fiscal Year	Loss to General Revenue
2024	\$0
2025	(Could exceed \$20,000,000)
2026	(Could exceed \$20,000,000)

This would be two new income tax credits and they would be added to the MO-TC and information about the credits would be added to their website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$14,386. DOR assumes the Associate Customer Service Representative needed for the previous credits would also handle these. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts the Department would ask for additional FTE through the budget process if justified.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Oversight notes the currently DOR requesting only 1 FTE (Associate Customer Representative) for each 6,000 redeemed and 7,600 error correspondence generated. Oversight will show the 1 FTE given that the proposal contains three different tax credits which could affect 2,200 child care facilities and may be taken by corporations, non-profit organizations, individuals and partnerships and that contributions may be in the form of cash, stocks, bonds, other marketable securities, or real property.

Oversight notes the Section 135.1310 allows for tax credit at minimum amount of any tax credit issued shall not be less than one hundred dollars, and shall not exceed two hundred thousand dollars per tax year.

Oversight notes that there could be a minimum of 115 (23 million / \$200,000) and maximum of 230,000 (23 million / \$100) individual claims.

Oversight notes that per Section 135.1325 allows for tax credit associated with the expenditures paid or incurred with respect to a child care facility.

Oversight notes if all current childcare facilities file a claim under this proposal, there could be as many as 2,500 claims, but potentially many more new developed child care facilities, that would need to be processed by the DOR. (See DESE response for current totals of licensed childcares in MO below)

Oversight notes that DOR request is reasonable, given the uncertainty of the actual utilization of the tax credits at this time, and will note the cost of 1 FTE (Associate Customer Service Representative at \$31,200 annually) to the general revenue in the fiscal note beginning FY 2024.

However, **Oversight** notes the DOR might, in the future, be requesting two additional FTE to appropriately handle the potentially greater amount of tax credit returns, customer service questions, and process of the tax credits as specified in Section(s) 135.1310, 135.1325 & 135.1350.

Lastly, **Oversight** will note the one-time cost at \$28,772, associated with the updates of DOR's income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

In response to the similar proposal, HCS for HB 870 -2023, officials from the **Department of Economic Development (DED)** note:

Section 135.1310, RSMo, creates the "Child Care Contribution Tax Credit Act"

This tax credit will be administered by the Department of Economic Development.

Child Care Desert - A census tract with poverty rate at least 20% or a median family income of less than 80% statewide average and at least 500 people or 33% of the population are located at least 1/2 mile away from a child care provider in urbanized areas or at least 10 miles away in

rural areas.

Tax years beginning on or after 1/1/2023. Tax credit for contribution program. 75% tax credits. Minimum amount of any tax credit issued cannot be less than \$100 and cannot exceed \$200K per tax year. Credits are not transferable, sellable or refundable. 5-year carry forward period. Tax credits approved first-come-first-served.

Program cap: \$20M per CY. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. Contribution verifications must be turned into DED with 60 days of the contribution date. Donations must be used for child care for youth age 12 and younger, including by acquiring or improving child care facilities, equipment, or services, or improving staff salaries, staff training, or the quality of child care.

The department may promulgate rules. This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

Section 135.1325, RSMo, creates the "Employer Provided Child Care Assistance Tax Credit Act"

This tax credit will be administered by the Department of Economic Development.

Applies to tax years beginning on or after 1/1/2023.

Program cap: \$20M per calendar year. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. A tax credit for employers' eligible child care assistance expenditures. The tax credit is for up to 30% of child care expenditures, with a total taxable year limit of \$200,000 per taxing entity. Credits are not transferable, sellable or refundable. 5-year carry forward period and 1-year carry back period. Tax credits approved first-come-first-served.

The department may promulgate rules.

This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

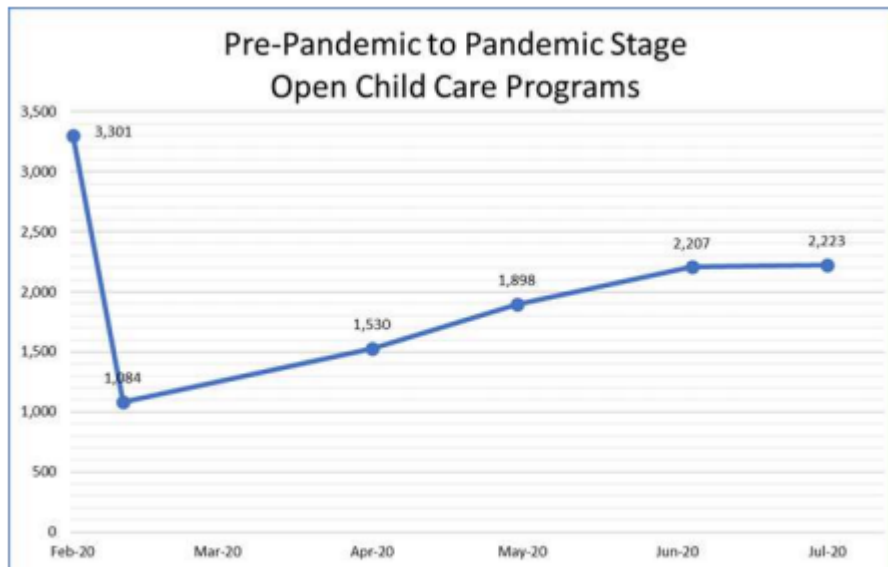
135.1350. creates the "Child Care Providers Tax Credit Act". Administered by the Department of Elementary and Secondary Education.

DED will need to hire 5.0 FTE to administer the two DED programs included in the act. The two DED administered tax credit programs will likely reduce annual TSR by \$20M each (\$40M total)

Oversight notes that per article from [Childcare Aware of Missouri](#), as shown in the chart below, since the pandemic, of the 115 counties in Missouri, the number of child care desert counties have increased by 49%.

	February 2020	June 2020	Increase (%)
Total Counties	115	115	
Total Population	5,988,927	5,988,927	
Desert Counties	63	94	49%

Oversight notes that recent research from Child Care Landscape in Missouri noted there were 3,301 open child care programs in CCAMO’s database prior to the pandemic. (These include fully licensed programs and home care providers who do not require licensing.) As of late July 2020, the number of open programs decreased to 2,223 and most are operating at partial capacity. Many programs closed temporarily at the beginning of the pandemic.



Resulting Effect on Counties that are Child Care Deserts

<https://mochildcareaware.org/wp-content/uploads/2020/08/Child-Care-Landscape-Data-Report-Full-Report.pdf>

Oversight notes that for informational purposes the Office of Childhood (DESE) provided Oversight with last six years statistic on licensed childcare facilities in Missouri as follows:

Year	Licensed Childcare Provider – Sum
2017	1,676

2018	1,594
2019	1,488
2020	1,191
2021	1,324
Reported as of 11/2022	1,176

Oversight notes the Missouri Childcare aware research shows that throughout FY 2020, 1078 facilities closed or temporarily closed their door to service the Missouri communities. Additionally, the Missouri Office of Childhood data shows continued decline of licensed childcare facilities in Missouri throughout the last five years.

Oversight notes that Section 135.1310 "Child Care Contribution Tax Credit Act" allows taxpayers (corporations, charitable organizations which are exempt from federal income tax and whose Missouri unrelated business taxable income, if any, would be subject to the state income tax, and individuals or partnerships subject to the state income tax) to claim tax credit against state tax liability for the tax year in which a verified contribution was made.

Oversight notes the taxpayer is allowed to claim credit against the taxpayer's state tax liability for the tax year in which a verified contribution was made in an amount equal to up to seventy-five percent of the verified contribution to a childcare provider

Oversight notes that under this section the minimum amount of any tax credit issued shall not be less than one hundred dollars, and shall not exceed two hundred thousand dollars per tax year.

Oversight notes that any childcare facility receiving funds from taxpayer must provide the taxpayer with contribution verification. In case where such a facility fails to do so it must provide the taxpayer with refund of his or her contribution.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for additional 15% (\$ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under the Section 135.1310 could potentially reach Up to \$23 million annually beginning in FY 2024.

Oversight notes that Section 135.1325 "Employer Provided Child Care Assistance Tax Credit Act" allows, after January 1, 2023, for a taxpayer to claim a tax credit in an amount equal to thirty percent of the qualified child care expenditures paid or incurred with respect to a child care facility. Additionally, the maximum amount of any tax credit issued under this section shall not exceed two hundred thousand dollars per taxpayer per tax year.

Oversight notes the qualified expenditure includes to acquire, construct, rehabilitate, or expand property that will be, or is, used as part of a child care facility that is either operated by the

taxpayer or contracted with by the taxpayer and which does not constitute part of the principal residence of the taxpayer or any employee of the taxpayer.

Oversight notes the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Furthermore, this section allows for additional 15% (\$ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under the Section 135.1310 could potentially reach Up to \$23 million annually beginning in FY 2024.

Oversight notes the Section(s) 135.1310 & 135.1325 require DED to assure implementation and compliance with both provisions. The DED assumes it will need 5 FTE in order to fully comply with the provisions. **Oversight** does not have any information to the contrary. Therefore, Oversight will note the DED projected FTE costs of 5 Senior Economic Development Specialists at \$74,664 annually including fringe benefits and equipment with expense beginning in FY 2024.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume Section 135.1350 proposes to develop the "Child Care Providers Tax Credit Act." This tax credit is designed to support childcare providers with a tax credit towards eligible employer withholding tax and capital expenditure investments. DESE assumes a new tax credit section would be required to administer this program. The team (4 FTE): one coordinator, one administrative support assistant and two program specialists, would be responsible for approval issuance, and monitoring of the credits for approximately 2,500 licensed childcare providers in the state.

Oversight notes Section 135.1350 "Child Care Providers Tax Credit Act" beginning on or after January 1, 2024, allows a childcare provider with three or more employees to claim a tax credit in an amount equal:

- to the child care provider's eligible employer withholding tax, and
- up to thirty percent of the child care provider's capital expenditures

Oversight notes that no tax credit for capital expenditures shall be allowed if the capital expenditures are less than one thousand dollars and the amount of any tax credit issued under this section shall not exceed two hundred thousand dollars per childcare provider per tax year.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for additional 15% (\$ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under the Section 135.1310 could potentially reach Up to \$23 million annually beginning in FY 2025.

Oversight notes all childcare providers claiming the tax credit must submit an application for the tax credit for preliminary approval to DESE.

Oversight notes this Section states that DESE may promulgate rules and adopt statements of policy, procedures, forms and guidelines to implement and administer the provisions of this section.

Oversight notes the DESE states it will need 1 Program Coordinator (\$68,808 annually), 1 Administrative Support Assistant, and 2 Program Specialist in order to full implement and comply with the required provisions under this Section. **Oversight** does not have any information to the contrary. Therefore, Oversight will note the DESE projected FTE costs in the fiscal note beginning FY 2025

DESE – ITSD Cost

Official from the DESE notes:

DESE is a consolidated agency under OA-ITSD. It is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity. This section will require DESE to administer the new Child Care Providers Tax Credit. DESE assumes the administration of this new credit would require the development and programming of a new system to track the tax credit applications, approvals and monitoring data. DESE estimates a cost of \$500,000 for the development and initial programming with ongoing annual costs of \$50,000.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a DESE ITSD impact in FY 2024 at \$500,000 and \$50,000 annually thereafter in the fiscal note.

Oversight notes this Section allows for taxpayers, on or after January 1 2024, to request DESE to issue preliminary findings for the potential tax credit redemption authorization prior tax credit being given. Therefore, **Oversight** will note the onset of FTE and ITSD cost impact beginning in FY 2024.

Section 620.2500 Upskill Credential Tax Credit

In response to the similar proposal, HB 417 – 2023, officials from the **Department of Economic Development (DED)** assume section 620.2500 creates a new provision that provides grants to employers to encourage employees to obtain upskill credentials. DED may distribute reimbursement to any qualifying employer not to exceed two thousand dollars for each employee who obtains upskill credentials, provided that no qualifying employer shall receive more than thirty thousand dollars under this section in any calendar year. The department shall evaluate employers on a competitive basis and distribute an equal number of awards within 3 groups based on the number of employees of qualifying employers (Groups: 1-50 employees; 51-200 employees; 201 or more employees).

DED has determined that costs and the impact on TSR could be significant as a result of this program, and that more information is needed in regards to the parameters of the program before

an estimated cost can be derived.

DED will need to hire 2 -3 FTE to administer the program. DED does not have existing budget authority that can absorb the cost.

Oversight notes that according to the article posted in [Missouri One Star Program 2020](#), there were 47,000 employees across 234 companies trained throughout this program in 2020.

Oversight notes that [The American Upskilling Study](#) states: "...most workers (57%) are very or extremely interested in participating in training to upgrade their skills or to learn new skills that could help them advance their career. When that training is free and workers are paid while doing it (as they would be during work), interest goes up to 71%. By contrast, 47% of workers are interested in training at a college or university." In summary employer's interest for upskilling their workforce is only growing.

Oversight assumes that the DED's request for additional FTE is plausible. Therefore, Oversight will reflect the lower estimated projection of 2 FTE (Economic Development Specialists at \$63,192 with fringe benefits and equipment and expense annually) in the fiscal note.

Oversight notes the Colorado Workforce Development Council announced a similar program – \$2.25 million in funding to support up to 1,200 individuals to earn an industry-recognized credential during the grant period. However, Ohio also has a similar program through their Department of Development called TechCred. According to an article from [Ohiohighered.org](#), "TechCred is one of Ohio's most successful business-education partnerships. This innovative program is designed to qualify workers for new jobs in the technology-infused economy. The program has already supported more than 23,723 new credentials and certificates to date." It appears that Ohio has a \$30 million appropriation over the next two year period (\$15 million per year). Since Ohio's program and the program described in the bill appear to be very similar, Oversight will utilize \$15 million per year as an estimate, reduced to Missouri population - \$8,000,000. The actual appropriation amount may not exceed \$6,000,000 in any fiscal year (subsection 620.2500.4).

In response to the previous version of the bill, officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposed legislation creates the "Upskill Training Fund" in the state treasury for training reimbursement to employers who meet upskill credentials. Moneys for the fund shall be appropriated by the general assembly, which shall not exceed \$6M per fiscal year. The Department of Economic Development may distribute the funds to qualified employers not to exceed two-thousand dollars for each employee, and thirty-thousand dollars for each employer per fiscal year. DED shall also design the application form for qualifying employers to apply for training reimbursement. DED shall reserve 33 1/3% of funds to be awarded to qualifying employers with at least one, but not more than fifty employees, and 33 1/3% for qualifying employers with at least fifty-one, but not more than two hundred employees. All reserved amounts under this subdivision that are not issued or awarded by March first of the fiscal year shall no longer be reserved and may be issued to any employer otherwise eligible in

this section. To the extent appropriations are made for this program, resources may be reduced for other budget priorities.

In response to the previous version of the bill, officials from the **University of Central Missouri** assumed this proposal would have an indeterminate fiscal impact depending on if UCM's programs constitute the requisite "credentials" and if so, if there is an increase of students in those programs.

Oversight notes that officials from above organization assume the proposal will have a positive fiscal impact on their organization.

Oversight notes that Section 620.2500.4 creates an Upskill Credential Fund, which shall consist of money appropriated to the fund by the general assembly, not to exceed six million dollars in any fiscal year, and any funds accepted from other sources, which shall not be limited in any fiscal year. Therefore, **Oversight** will note the fiscal impact up to \$6 million to the general revenue fund in the fiscal note.

Lastly, **Oversight**, for purposes of this fiscal note, will note the Upskill Credential Fund will net to zero with the money being disbursed to various qualifying companies and using the fund for designated purpose of Upskilling employees throughout Missouri.

Oversight notes the HCS adds clarification language in regards to certain industry exclusions and qualifications for the upskill tax credit under the proposal.

Section 620.2550 Grant Program for employers to enhance cybersecurity

In response to the previous version of the bill, officials from the **Department of Economic Development (DED)** assume Section 620.2550 creates a one-time grant to any employer for the purpose of enhancing cybersecurity. No employer shall receive more than one cybersecurity grant.

Grants shall not exceed 90% of the total cost of the cybersecurity enhancement. DED must reserve 50% of funding for qualifying employers with 1-50 employees, until January 1st of each year, when remaining reserved funding not issued or awarded becomes available to employers with greater than 50 employees.

Subject to appropriation, no more than \$10M shall be distributed in any fiscal year. Applications must start being accepted by 3/1/2024. Bill does not include a sunset date.

DED will need to hire 1.0 FTE to administer the act and carryout compliance with the act.

Oversight notes the Deloitte Company published an article, [Reshaping the cybersecurity landscape](#), and provided data showing that companies in U.S. spent about 10.9% of their IT budget on cybersecurity on average, up from 10.1% a year earlier. The survey was conducted in

2020. This equaled about 0.48% of company revenue on average, again up from 0.34%. In terms of spending per employee, respondents spent about \$2,700 on average per full-time employee (FTE) on cybersecurity, increasing from about \$2,300 a year earlier.

Oversight will note the DED's FTE (Senior Economic Development Specialist at \$74,664 annually) in the fiscal note beginning FY 2024.

In response to the previous version of the bill, officials from the **Office of Administration – Budget & Planning (B&P)** note:

To the extent appropriations are made for this new program, resources may be reduced for other priorities. Subject to appropriation, no more than ten million dollars shall be distributed under this section in any fiscal year with priority given to any company contracting with the state for the purpose of protecting critical infrastructure.

Officials from the B&P assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for B&P for this section.

Officials from the **Department of Revenue (DOR)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR for this section.

Officials from the **City of Springfield** and the **City of Kansas City** both assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the respective entities.

Oversight will note a range of impact from \$0 (various local political subdivisions do not qualify) to positive Unknown (local political subdivisions were approved for grant) for local political subdivisions in the fiscal note.

Officials from the **Missouri State University (MSU)** assume the proposal will have an indeterminate fiscal impact due to employee hours needed to comply and potential of receiving the grant.

Officials from the **University of Central Missouri (UCM)** assume the proposal would have a fiscal impact which will take place if the grant is leveraged simply because the grant will only cover up to 90% of the cost for whatever cybersecurity initiative is pursued. Indirect costs will be incurred to implement the selected and approved initiative. The expectations would be that the benefits of the initiative more than justify the direct and indirect costs incurred. Dollar amount contingent on the initiative selected and approved. If the grant is not pursued, then expenditure of funds is not a concern; however, the cybersecurity initiative will not be pursued, or if pursued at a later time then the total cost will come from UCM.

Oversight notes UCM & MSU both assumes the proposal could have an impact on their organization. The proposal, specifically 620.2550. 2, states that the prospective grantee would have to match the overall cost with 10% of their own money. However, the final approval, and with submission of an application for the grant, still lies with the DED. Therefore, **Oversight** will note a range of impact from \$0 (various colleges and universities do not qualify) to positive Unknown (colleges and universities were approved for grant) to Other State Funds in the fiscal note.

Rule Promulgation

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

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. 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 its 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.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Cost</u> – Section 135.1310 "Child Care Contribution Tax Credit Act" (p.10)	Up to (\$23,000,000)	Up to (\$23,000,000)	Up to (\$23,000,000)
<u>Cost</u> – Section 135.1325 "Employer Provided Child Care Assistance Tax Credit Act" (p.11)	Up to (\$23,000,000)	Up to (\$23,000,000)	Up to (\$23,000,000)
<u>Costs</u> – DOR FTE Section(s) 135.1310 & 135.1325 (p.8)			
Personnel Service	(\$26,000)	(\$31,824)	(\$32,460)
Fringe Benefits	(\$24,473)	(\$27,195)	(\$27,427)
Expense & Equipment	(\$10,081)	(\$570)	(\$582)
Other Cost – ITSD Updates (p.8)	(\$28,772)	\$0	\$0
<u>Total Costs</u> – DOR	(\$89,326)	(\$59,589)	(\$60,469)

FTE Change	1 FTE	1 FTE	1 FTE
<u>Costs – DED Section(s) 135.1310 & 135.1325 (p.9-12)</u>	Up to...	Up to...	Up to...
Personnel Service	(\$311,100)	(\$380,786)	(\$388,402)
Fringe Benefits	(\$181,324)	(\$220,382)	(\$223,221)
Expense & Equipment	(\$71,496)	(\$22,272)	(\$22,717)
<u>Total Costs – DED</u>	(\$563,920)	(\$623,440)	(\$634,340)
FTE Change	5 FTE	5 FTE	5 FTE
<u>Cost – Section 135.1350 "Child Care Providers Tax Credit Act." (p.12)</u>	\$0	Up to (\$23,000,000)	Up to (\$23,000,000)
<u>Costs – DESE Section(s) 135.1310 & 135.1325 (p.12)</u>	Up to...	Up to...	Up to...
Personnel Service	(\$226,032)	(\$230,553)	(\$235,164)
Fringe Benefits	(\$146,903)	(\$148,594)	(\$150,319)
Expense & Equipment	(\$61,568)	(\$44,167)	(\$45,050)
<u>Total Costs – DESE</u>	(\$434,503)	(\$473,313)	(\$430,533)
FTE Change	4 FTE	4 FTE	4 FTE
<u>Cost – DESE – ITSD New Database and ongoing maintenance (p.13)</u>	(\$500,000)	(\$50,000)	(\$50,000)
<u>Revenue Transfer Out– Section 620.2500.4 – into Upskill Credential Fund (p.13)</u>	\$0 or Up to (\$6,000,000)	\$0 or Up to (\$6,000,000)	\$0 or Up to (\$6,000,000)
<u>Cost – DED – 2 FTE - Section 620.2500 – Administration Of Tax Credit Program p. 13-14</u>	\$0 or.....	\$0 or.....	\$0 or....
Personnel Services	(\$105,320)	(\$128,912)	(\$131,490)
Fringe Benefits	(\$59,965)	(\$72,805)	(\$73,669)
Equipment & Expense	(\$31,098)	(\$11,969)	(\$12,208)
<u>Total Cost - DED</u>	(\$196,383)	(\$213,686)	(\$217,367)
Total FTE – DED (p.13-14)	2 FTE	2 FTE	2 FTE
<u>Cost – DED Section 620.2550 (p.15)</u>			
Salary	(\$62,220)	(\$76,157)	(\$77,680)
Fringe Benefits	(\$33,187)	(\$40,326)	(\$40,835)
Equipment & Expense	(\$14,299)	(\$4,454)	(\$4,544)
<u>Total Cost - DED</u>	(\$109,706)	(\$120,937)	(\$123,059)
FTE Change	1 FTE	1 FTE	1 FTE

<u>Cost</u> – Cybersecurity Grant not exceeding shown amount -Section 620.2550 (p.15)	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>(\$63,893,838)</u>	<u>Up to</u> <u>(\$86,490,965)</u>	<u>Up to</u> <u>(\$86,515,768)</u>
Estimated Net FTE Change on General Revenue	13 FTE	13 FTE	13 FTE
UPSKILL CREDENTIAL FUND			
<u>Revenue Gain</u> – Transfer In from GR – Section 620.2500 7.(1) (p.13)	\$0 or Up to \$6,000,000	\$0 or Up to \$6,000,000	\$0 or Up to \$6,000,000
<u>Cost</u> – Section 620.5000 5. (1) –(4) – Disbursement of award to qualified companies (p.14)	\$0 or Up to (\$6,000,000)	\$0 or Up to (\$6,000,000)	\$0 or Up to (\$6,000,000)
ESTIMATED NET EFFECT ON UPSKILL CREDENTIAL FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
COLLEGES AND UNIVERSITIES			
<u>Gain in Revenue</u> – potential award recipient of Cybersecurity Grant (p. 17)	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
NET EFFECT ON COLLEGES AND UNIVERSITIES	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Gain in Revenue</u> – potential award recipient of Cybersecurity Grant (p.17)	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0 to</u> <u>Unknown</u>	<u>\$0 to</u> <u>Unknown</u>	<u>\$0 to</u> <u>Unknown</u>
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FISCAL IMPACT – Small Business

The proposal could have a direct fiscal impact to small business child care facilities and certain companies will be able to obtain Cybersecurity Grant money to enhance their cybersecurity measures and must match at least ten percent (10%) of the grant.

FISCAL DESCRIPTION

CHILD CARE CONTRIBUTION TAX CREDIT ACT

This bill establishes the "Child Care Contribution Tax Credit Act". Beginning January 1, 2023, a taxpayer may claim a tax credit for verified contributions to a child care provider in an amount equal to 75% of the contribution. The minimum amount of any tax credit issued shall not be less than \$100, and shall not exceed \$200,000 per tax year. To be eligible for the tax credit, a donation must be:

- (1) Used directly by a child care provider to promote child care for children 12 years of age or younger;
- (2) Made to a child care provider in which the taxpayer or a person related to the taxpayer does not have a direct financial interest; and
- (3) Not made in exchange for care of a child or children in the case of an individual taxpayer that is not an employer making a contribution on behalf of its employees.

The tax credits authorized by this section shall not be refundable and shall not transferred, sold, or otherwise conveyed. The cumulative amount of tax credits authorized shall not exceed \$20 million for each calendar year. If the maximum amount of tax credits allowed in any calendar year is authorized, the maximum amount of tax credits shall be increased by 15%, provided that all such increases of tax credits shall be reserved for contributions made to child care providers located in a child care desert.

The program authorized under this section will expire December 31, 2029.

EMPLOYER PROVIDED CHILD CARE ASSISTANCE TAX CREDIT ACT

This bill also establishes the "Employer Provided Child Care Assistance Tax Credit Act". Beginning January 1, 2023, a taxpayer may claim a tax credit in an amount equal to 30% of the qualified child care expenditures paid or incurred with respect to a child care facility. The maximum amount of any tax credit issued shall not exceed \$200,000 per taxpayer per tax year.

A facility shall not be treated as a child care facility with respect to a taxpayer unless the following conditions have been met:

- (1) Enrollment in the facility is open to employees of the taxpayer during the tax year; and
- (2) If the facility is the principal business of the taxpayer, at least 30% of the enrollees of such facility are dependents of employees of the taxpayer.

The tax credits shall not be refundable, transferable, sold, assigned, or otherwise conveyed. The cumulative amount of tax credits shall not exceed \$20 million for each calendar year. If the maximum amount of tax credits allowed in any calendar year is authorized, the maximum amount of tax credits shall be increased by 15%, provided that all such increases of tax credits shall be reserved for contributions made to child care providers located in a child care desert.

The program authorized under this section will expire December 31, 2029.

CHILD CARE PROVIDERS TAX CREDIT ACT

This bill also establishes the "Child Care Providers Tax Credit Act". Beginning January 1, 2024, a child care provider with three or more employees may claim a tax credit in an amount equal to the child care provider's eligible employer withholding tax, and may also claim a tax credit in an amount up to 30% of the child care provider's capital expenditures.

No tax credit for capital expenditures shall be allowed if the capital expenditures are less than \$1,000. The amount of any tax credit issued shall not exceed \$200,000 per child care provider per tax year.

To claim a tax credit for capital expenditures, a child care provider shall present proof acceptable to the Department of Elementary and Secondary Education that the expenditures fall within the definition of capital expenditure, as defined in the bill.

The tax credits shall not be refundable and shall not be transferred, sold, assigned, or otherwise conveyed. Any amount of credit that exceeds the child care provider's state tax liability for the tax year for which the tax credit is issued may be carried back to the child care provider's immediately prior tax year or carried forward to the child care provider's subsequent tax year for up to five succeeding tax years. The cumulative amount of tax credits authorized pursuant to this section shall not exceed \$20 million for each calendar year.

If the maximum amount of tax credits allowed in any calendar year is authorized, the maximum amount of tax credits shall be increased by 15%, provided that all such increases of tax credits shall be reserved for contributions made to child care providers located in a child care desert.

This bill allows the Department of Economic Development (DED) to disburse grants to qualifying employers for each employee or prospective employee who obtains upskill credentials, as defined in the bill.

UPSKILL CREDENTIAL TAX CREDIT

This bill establishes the "Upskill Credential Training Fund" which consists of moneys appropriated by the General Assembly not to exceed \$6 million per fiscal year.

No qualifying employer shall receive more than \$30,000 in any fiscal year. In order to receive such grants a qualifying employer is required to submit an application to DED as provided in the bill.

At the close of each application period, to be determined by DED, applications will be evaluated and preliminary awards for reimbursement may be made. In making preliminary awards of reimbursement, the DED shall reserve 33.3% to award exclusively to qualifying employers with at least one but not more than 50 employees; and 33.3% to award exclusively to qualifying employers with at least 51 but no more than 200 employees. Any amount that is reserved and not awarded by March 1st of the fiscal year may be issued to any employer eligible for an award.

The program authorized under this section will expire December 31, 2029.

EMPLOYER'S CYBERSECURITY GRANTS

This bill allows the Department of Economic Development to distribute one-time grants to employers for the purpose of enhancing cybersecurity, as defined in the bill. Grants made require a 10% match from the employer.

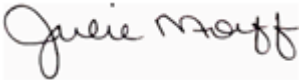
The bill limits the amount that may be distributed in any fiscal year to \$10 million and the limit to any individual employer to \$15,000. The Department shall create an online application form as part of its website which is to be the sole means of applying for grants. Employers seeking a grant must fill out the application along with documents outlining how it will enhance cybersecurity, including plans for how it will cover the remaining 10% cost for its cybersecurity enhancement.

The bill limits the factors that the Department may consider in assessing an employer's funding plans. An employer who receives a grant shall submit documentation within one year from distribution showing how the grant funds were spent. In the case of employers with employees and locations outside of Missouri, grant funds shall be used only for locations and employees residing in Missouri.

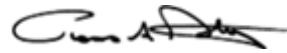
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Economic Development
Department of Revenue
Office of Administration – Budget & Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
City of Springfield
City of Kansas City
University of Central Missouri
Missouri State University



Julie Morff
Director
April 25, 2023



Ross Strobe
Assistant Director
April 25, 2023