

HS HB 1409 -- ECONOMIC DEVELOPMENT PROJECTS (Dempsey)

This substitute makes changes to the laws regarding economic development.

ENHANCED ENTERPRISE ZONES

The substitute establishes the following criteria to qualify as an enhanced enterprise zone:

- (1) The area must be blighted and have pervasive poverty, unemployment, and general distress;
- (2) At least 60% of the residents living in the area have incomes below 90% of the median income of all residents within the state or within the county in which the area is located;
- (3) In metropolitan statistical areas, the population of the area must be between 500 and 100,000 at the time of designation. If the area is not within a metropolitan statistical area, the population must be between 500 and 40,000. If the population of the jurisdiction of the governing authority does not meet the minimum population requirements, it must be at least 50% of the population of the jurisdiction. However, an entire county cannot be designated as an enhanced enterprise zone; and
- (4) The level of unemployment within the area meets or exceeds the average rate of unemployment for either the state or the county in which the area is located over the previous 12 months.

An enhanced enterprise zone may also be established in an area for which public and individual assistance has been requested by the Governor for an emergency due to a natural disaster.

An enhanced enterprise zone may be designated in a county of declining population, which is a county that has lost 1% or more of its population during the 10-year period between the United States census. The area must also prove that it has the potential to create sustainable jobs in a targeted industry or a demonstrated impact on industry cluster development.

The substitute requires each enhanced enterprise zone to have a seven-member board. The substitute specifies the membership of the board. The board is required to submit an annual report on the status of the zone to the Director of the Department of Economic Development.

Any governing authority that wants to have an enhanced enterprise zone within its jurisdiction must hold public hearings. The substitute specifies the requirements of the hearing and

notification process. The governing body must submit a petition to the department for the designation of the enhanced enterprise zone. The life of an enhanced enterprise zone is 25 years.

Improvements made to real property located within an enhanced enterprise zone are to be exempt from ad valorem taxes for up to 25 years from the date on which improvements are first assessed. At least 50% of the ad valorem taxes which are imposed on subsequent improvements will be exempt for at least 10 years.

The owner of a new business in an enhanced enterprise zone can receive a tax credit which can be claimed for up to 10 years. Tax credits may not be carried forward but can be sold or transferred. In order to receive a credit, the owner must employ at least two people and invest at least \$100,000 in the new business facility. The credit will be equal to the lesser of:

(1) The projected economic benefit the state will receive from the project as determined by the department; or

(2) A credit equal to \$400 for each employee working at the facility located within the zone; plus \$400 for each employee who lives in the zone; plus \$400 for each employee who is paid a wage that exceeds the average wage paid within the county in which the business is located; plus a credit equal to 2% of the business facility's investment within the zone.

Regardless, the department cannot authorize more than \$7 million annually for all enhanced business enterprises.

If a facility which is not a new business is expanded, it will be eligible for the tax credits as long as the same criteria for a new business are met.

The department may adopt rules, policies, and procedures that are necessary to carry out the enhanced enterprise zone provisions.

The enhanced enterprise zone provisions will sunset six years after the effective date.

JOB TRAINING FOR RETAINED JOBS

The substitute allows community college districts to enter into project agreements, with the approval of the department after consultation with the Office of Administration, with employers who have retained jobs in a stable industry. The requirements for qualifying employers are specified. The term "stable industry" is defined as one which has maintained at least 100 employees per year, has agreed to make a \$1 million capital investment, and is at risk of leaving the state.

Community colleges will provide job training, skills assessments, and training facilities among other services and may subcontract with other public or private colleges and governmental agencies. The agreements may provide that program costs be met by receipt of retained jobs credits from withholding, based on 2.5% of the gross wages paid to employees in the first 100 retained jobs and 1.5% for any additional retained jobs. The employer is responsible for meeting any shortfall in withholdings. Community college districts may issue industrial retained job training certificates to provide funds for the payment of costs of the programs, with a statewide cap of \$15 million.

The substitute specifies timetables for the approval of projects; establishes special funds; and regulates the disbursement of moneys, certification of withholdings, and borrowing for and issuance of certificates by community college districts. The department can collect 2% of the total training costs for administrative expenses associated with this program. A project is prohibited from participating in this program if it is using the New Jobs Training Program.

These provisions will expire six years from the effective date and no certificates can be sold after July 1, 2014.

ENDOWED LIFE SCIENCES RESEARCH CHAIRS

Beginning in Fiscal Year 2007, the substitute authorizes the president of any public university in Missouri to present to the Life Sciences Research Board on behalf of any campus within its system:

(1) A commitment from any budgetary source other than the state to pay to the university a minimum of \$2 million as an endowment or \$100,000 a year for a minimum of 20 years toward the funding of an academic position within the health and life sciences fields to be designated as an Endowed Life Sciences Research Chair; and

(2) A commitment from the university, including any of its separate campuses, to pay a minimum of \$100,000 a year for the endowed chair position for a minimum of 20 years.

After the funding commitments for the endowed chair position have been made, the Life Science Research Board is required to review the commitments and upon approval pay the university from the Life Sciences Research Trust Fund \$100,000 a year for 20 years. The board is also required to commit from the fund a one-time disbursement of research and programmatic start-up moneys of \$500,000 over a two-year period, beginning with the hiring for the endowed chair position. The one-time disbursement is

required to include a \$100,000 payment from the fund.

Funding commitments for the endowed chair position must be confirmed by a notarized letter of intent and the establishment of an escrow account containing at least 10% of the total commitment of moneys by the non-state entity or the university.

The board is not required to provide more than \$10 million in matching funds in any single fiscal year. If at any time the commitment of moneys is not fulfilled by either the non-state entity or the university, the commitment of moneys by the board will terminate.

When a Missouri public university receives the funding commitments from budgetary sources other than the state or if the funding commitments are made prior to the appointment of any member to the board, the president of the university is required to document the date and time of the receipt of the funding commitments. The board is also required to provide its matching moneys for the endowed chair position in the order in which funding commitments are received.

Any Missouri public university or other qualified entity that has a formal contract with a public university must hold the matching moneys provided by the board for the funding of an endowed chair position and any life sciences research conducted. A university or entity is prohibited from spending, loaning, or encumbering the matching moneys for any other purpose.

Within 90 days of receipt of the funding commitments for the endowed chair and annually thereafter, any public or private entity may submit a proposal for life sciences research to be conducted. The funding commitments may be made in conjunction with the entities desiring to submit proposals. The board is required to establish criteria for selecting proposals competitively.

Any money withdrawn from the fund but not expended in compliance with this section must be used for life sciences research.

All money committed, contributed, or paid for the endowed chairs will be subject to the provisions of Subsections 2 to 5 of Section 196.1127, RSMo, which state, in part, that public funds cannot be expended on behalf of an existing or proposed research project that involves abortion services, human cloning, or prohibited human research.

RURAL EMPOWERMENT ZONES

The substitute allows the governing body of any county to submit

an application to the department to designate areas within the county as rural empowerment zones. The department will review the application to ensure that the area meets all of the following criteria:

- (1) The area is one of pervasive poverty, unemployment, and general distress;
- (2) At least 65% of the population has earned income below 80% of the median income of all residents within the state;
- (3) The population of the area is between 400 and 3,500 at the time of the designation;
- (4) The level of unemployment within the area exceeds 150% of the average rate of unemployment for the state over the previous 12 months or the percentage of area residents employed on a full-time basis is less than 50% of the statewide percentage;
- (5) The area is more than 10 miles from any existing rural empowerment zone; and
- (6) The area is in a third or fourth classification county and not in an existing enterprise zone.

New businesses and revenue-producing enterprises located in the zone will be exempt from paying all Missouri income taxes attributable to the business until August 28, 2014, provided the business creates a certain number of new full-time jobs within one year from the date on which the tax exemption begins.

New businesses must create at least 10 new jobs; revenue-producing enterprises that employ fewer than 20 people must create at least five new jobs; and revenue-producing enterprises that employ 20 or more people must create a number of new jobs equal to 25% of the number of full-time employees.

ENTERPRISE ZONES

The substitute:

- (1) Allows property within an enterprise zone to be exempt from taxation for up to 25 years from the date on which the exemption is granted, not the date on which the zone is designated as current law requires;
- (2) Allows all enterprise zones designated before January 1, 2006, to be eligible for the enhanced enterprise zone tax benefits;

(3) Requires any area of the state that qualifies to be an enterprise zone to be designated as one;

(4) Requires the department to designate enterprise zones in the cities of Sugar Creek, St. Ann, Pacific, and St. Clair; an enterprise zone that is partially located in the City of Nixa and partially in the City of Ozark; and an enterprise zone that is partially located in the cities of Sugar Creek, Independence, and Kansas City;

(5) Requires the department to designate enterprise zones in Shelby, Webster, Douglas, and Laclede counties; and authorizes through 2015 the enterprise zones that exist in Linn and Macon counties; and

(6) Requires any business in an existing enterprise zone to re-certify for the tax abatement or tax exemption. Any abatement or exemption will stop 30 days after the business closes or there is a significant change in the type of business conducted. A new owner can reapply to receive the abatement or exemption, but cannot receive the benefit for any period of time beyond the life of the zone.

TAX CREDITS

The substitute:

(1) Increases the cap on Neighborhood Assistance Program tax credits that are approved in 2005, 2006, and 2007 from \$4 million to \$6 million. In 2008 and beyond, this cap will revert to \$4 million;

(2) Expands the definition of "eligible industry," as it relates to the Business Use Incentives for Large-Scale Development (BUILD) Program, to include H&R Block's headquarters in Kansas City as long as H&R Block creates 100 new jobs for eligible employees and invests at least \$15 million in an economic development project;

(3) Increases the aggregate amount of BUILD tax credits that can be authorized annually from \$11 million to \$15 million;

(4) Prohibits tax credits for new or expanded business facilities that begin operating after January 1, 2005, from being approved, awarded, or issued;

(5) Prohibits revenue-producing enterprises that begin operations after January 1, 2005, from receiving state enterprise zone tax exemptions, state tax credits, or state refunds;

(6) Prohibits tax credits for investment in, or relocating a business to, a distressed community from being approved, awarded, or issued after January 1, 2005;

(7) Prohibits tax credits for transportation development in distressed communities from being approved, awarded, or issued after January 1, 2005; and

(8) Repeals the Missouri Individual Training Account Tax Credit Program.

DISTRESSED COMMUNITIES

For a United States census block group, or a contiguous group of block groups, within a metropolitan statistical area to be considered a "distressed community," current law states that the population must be 2,500 and the median household income must be below 70% of the median household income for the metropolitan area. The substitute decreases the population requirement to 500.

The substitute also expands the definition of a "distressed community" to include areas within metropolitan statistical areas that are designated as either a federal empowerment zone, a federal enhanced enterprise community, or a state enterprise zone designated prior to January 1, 1986, but will not include the expansion of those zones done after March 16, 1988.

ECONOMIC DEVELOPMENT SALES TAX

The substitute allows, upon voter approval, the City of Joplin, any city within Jasper County, and Butler County to impose a sales tax for economic development. The tax cannot be more than 0.5%. No revenue from the tax can be used for any retail development project. No more than 25% of the revenue generated can be used for administrative purposes and at least 20% of the revenue generated must be used for long-term economic development preparation.

If this tax is imposed, the governing body must establish an economic development tax board which must develop economic development plans, economic development projects, or designations of development areas. The board must report annually to the appropriate governing body on the status of any plan, project, or designation. At any election, the appropriate governing body can repeal the tax. If a petition calling for the repeal is signed by 10% of the registered voters, the governing body must hold an election regarding the repeal of the tax.

LOCAL SALES TAX EXEMPTION

Current law exempts a variety of equipment and supplies that are related to newspaper production from local sales taxes. The substitute denies this exemption to a publicly traded company if it, or its parent company, has annual operating revenues of more than \$250 million and an average circulation in Missouri of more than 200,000 papers per day.

BUSINESS LICENSE TAX

Under current law, a business license tax up to \$10,000 may be imposed by villages with less than 1,300 inhabitants. The substitute increases that limit to \$15,000.

The substitute also repeals the Mature Worker Child Care Program.

FISCAL NOTE: Estimated Effect on General Revenue Fund of an Income of \$2,498,268 to a Cost of Unknown in FY 2005, a Cost of \$2,639,690 to Unknown in FY 2006, and a Cost of \$997,078 to Unknown in FY 2007. Estimated Income on Other State Funds of \$1,250,000 to \$2,500,000 in FY 2005, \$1,500,000 to \$3,000,000 in FY 2006, and \$1,500,000 to \$3,000,000 in FY 2007.