COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2104-05
Bill No.: HCS for HB 854
Subject: Taxation and Revenue; Economic Development.
Type: Original
Date: April 12, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund*	**(UNKNOWN)**	**(UNKNOWN)**	**(UNKNOWN)**

*** Could exceed $100,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Option Economic Development Sales Tax Trust Fund*	$0	$0	$0
Economic Development Advancement Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

**** Offsetting income and expenses.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government*	**$0 to Unknown**	**$0 to Unknown**	**$0 to Unknown**

*** Requires voter approval**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development** did not respond to the request for fiscal impact for this version of the proposal.

Section 67.1305 - Allows local economic development sales tax;

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** assumed this would not have an impact on their agency. DOR assumed there would be a minor increase in General Revenue from this due to the one percent DOR retains for the cost of collection.

Oversight assumes this part of the proposal is permissive. Voter approval is required before any county or municipal governing body would be authorized to adopt a sales tax for economic development. However, there would be fiscal impact if the governing body would attain such voter approval and additional sales taxes are administered. The fiscal impact would be a

ASSUMPTION (continued)

positive unknown revenue impact to the state's General Revenue fund from the 1 percent collection fee, as well as the economic development sales taxes collected on behalf of the city or county. Oversight will range this fiscal impact as $0 to Unknown, however, Oversight assumes the amount to be less than the sum of costs and losses to the General Revenue Fund from other sections of the proposal.

Section 99.845 & 99.960 - Combines the annual caps of the State Tax Increment Financing program with the State Downtown Economic Stimulus program - now $140 million combined;

Oversight has learned that there are several projects under the Tax Increment Financing (TIF) program that will soon exceed the current cap of $15 million. Therefore, combining the TIF cap ($15 million) with the unutilized Downtown Economic Stimulus Act (MoDESA) cap of $150 million, will probably result in an increased utilization of the TIF program. Therefore, even though the sum of the two program caps currently is $165 million ($15 million + $150 million), the combination of the two program caps to $140 million may actually result in a increased utilization of the TIF program, and correspondingly, a reduction in the General Revenue collections. Oversight assumes reducing the cap for the two programs from $165 million (separately) to $140 million (combined) will not result in a savings to the state, and may even result in an increased utilization (with corresponding reduction in General Revenue) of the TIF program in the immediate future. However, in the fiscal notes for the enabling legislation for the two programs, Oversight reflected the potential loss of General Revenue of up to the limitations, therefore, since this proposal does not increase the annual limitations, Oversight will assume fiscal notes reflecting the loss of state revenue from the programs have already been provided.

Oversight also assumes DED was already allowed to recoup administrative costs from project developers on an annual basis per subsection 99.845.13, and the new language in the proposal again allows DED to recoup administrative costs, although this time from new state revenues deposited into the Missouri supplemental tax increment financing fund. Therefore, Oversight will assume the replacement language in subsection 99.845.13 will not result in additional revenues to the state's General Revenue Fund.

Sections 100.710 - 100.850 - BUILD program changes;

In response to a similar proposal from this year (SB 70), officials from the **Department of**

ASSUMPTION (continued)

Revenue and the **Department of Insurance** each assume this proposal would not fiscally impact their respective agencies.

In response to a similar proposal from this year (SB 70), officials from the **Department of Economic Development (DED)** assumed the proposal clarifies the BUILD tax credit cap issue created by passage of multiple bulls last session addressing the same statute. It also allows local development partners to be the beneficiary of the credits to offset public infrastructure costs necessary to cause the development to occur as long as the industry meets and maintains program compliance. DED assumed neither change would have a fiscal impact on their agency and no new impact to General Revenue.

Oversight assumes the BUILD program has an annual cap, as expressed in 100.850.5 RSMo. of either $11,000,000, $15,000,000 or $11,950,000. Oversight assumes the changes made in the program by this proposal will not change the annual cap. Therefore, Oversight assumes again that the proposal <u>may result in an increased utilization</u> of the program, however the fiscal impact of the program has already been expressed in the fiscal note that accompanied the enabling legislation as well as in subsequent legislation that changed the annual limit of tax credits. Therefore, Oversight will assume no additional fiscal impact from the proposal.

Section 376.160 - Health Insurance Information;

Officials from the **Missouri Consolidated Health Care Plan**, **Department of Transportation**, **Department of Conservation** and the **Department of Public Safety - Missouri Highway Patrol** each assume the proposal would not fiscally impact their respective agencies.

Sections 620.1875 - 620.1890 - Missouri Quality Jobs Act;

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 12 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 18 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $738, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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 request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to similar version of this proposal, officials from the **Office of the State Treasurer (STO)** stated their office only ensures disbursements are made from a lawful appropriation and don't exceed the amount of the appropriation. The wording in the proposal states the STO "shall approve disbursements from the fund in accordance with sections 30.170 and 30.180, RSMo." The STO assumes with this language in the proposal, they will require an FTE Analyst I (at $36,444 annually plus associated expenses) to monitor these disbursements.

Officials from the **Department of Revenue (DOR) – Division of Taxation** assume they will have internal costs associated with the implementation of this legislation; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

Oversight also assumes the reduction to the annual limitation of the Rebuilding Communities tax credit program from $10 million per year to $8 million per year would not have a fiscal impact to the state, since the issuances for the last four fiscal years have been $2,172,260 (FY 2002), $3,322,480 (FY 2003), $1,220,667 (FY 2004) and $2,465,594 (projected for FY 2005). Therefore, the new cap of $8 million is still higher than the historical issuances by DED

Section 620.1900 - Department of Economic Development may charge a fee for tax credit issuances;

According to the Report on Missouri Tax Credits Administered by the Department of Economic Development, February 2005, DED issued roughly $313 million of tax credits in FY 2004 and is estimated to issue roughly $344 million in FY 2005. Reducing this amount by the exempted programs, DED issued a net $285.5 million in FY 2004 and is estimating $311.4 million of issuances for FY 2005. Multiplying these amounts by the maximum 2 ½ percent allowed per

ASSUMPTION (continued)

Section 620.1900, DED could have charged fees of roughly $7.8 million ($311.4 million x 2.5%) in FY 2005. The proposal states that DED may charge a fee to recipients, and that this fee can be up to 2 ½ percent of the amount of tax credits issued. Therefore, **Oversight** will range the fiscal impact from Section 620.1900 from $0 (DED decides not to charge a fee) to $7.8 million. Oversight will assume ten months of impact in FY 2006 and also assume a growth rate of 12 percent for tax credit issuances (and potential corresponding fees) based on historical averages.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
Income - Department of Revenue 1% collection fee from local economic development sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
Costs - Department of Economic Development - to administer the Missouri Quality Jobs Act	(Unknown)	(Unknown)	(Unknown)
Costs - State Treasurer's Office (STO)			
Personal Service (1 FTE)	($31,129)	($38,289)	($39,246)
Fringe Benefits	($13,280)	($16,334)	($16,742)
Equipment and Expense	($250)	($309)	($318)
Total Costs – STO	($44,659)	($54,932)	($56,306)
Loss - Tax credits in the Missouri Quality Jobs Act	$0 to ($12,000,000)	$0 to ($12,000,000)	$0 to ($12,000,000)
Loss - Withholding payments retained by employers for new jobs created under the Missouri Quality Jobs Act	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(UNKNOWN)**	**(UNKNOWN)**	**(UNKNOWN)**

*** Requires voter approval**

FISCAL IMPACT - State Government (continued)	FY 2006 (10 Mo.)	FY 2007	FY 2008
LOCAL OPTION ECONOMIC DEVELOPMENT SALES TAX TRUST FUND			
Income - Collections from new sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
Costs - Distribution back to local political subdivisions (Section 67.1305)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
LOCAL OPTION ECONOMIC DEVELOPMENT SALES TAX TRUST FUND	**$0**	**$0**	**$0**

*** Requires voter approval**

ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
Income - fees from up to 2 ½ percentage of certain tax credits issued by DED	$0 to $6,500,000	$0 to $8,736,000	$0 to $9.784,320
Costs - disbursement from fund as specified in Section 620.1900	$0 to ($6,500,000)	$0 to ($8,736,000)	$0 to ($9.784,320)
ESTIMATED NET EFFECT TO THE ECONOMIC DEVELOPMENT ADVANCEMENT FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
LOCAL POLITICAL SUBDIVISIONS			
Income - from economic development sales tax (Section 67.1305)*	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0 TO UNKNOWN**	**$0 TO UNKNOWN**	**$0 TO UNKNONW**

*** Requires voter approval**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various tax credit programs created or changed by this proposal could be impacted by this proposal.

DESCRIPTION

Section 67.1305 allows municipalities and counties to enact a sales tax (upon voter approval) of up to one half of one percent for purposes of economic development.

Sections 99.845 and 99.960 combine the annual cap on the tax increment financing program and the downtown economic stimulus act. Currently the annual limitation of the TIF program is $15 million and the cap on the Downtown Economic Stimulus act is $150 million. This proposal combines the two programs, and states that the new combined annual cap for the two programs is $140 million.

Sections 100.710 - 100.850 modifies the BUILD tax credit by enabling a development agency or an entity working on behalf of the development agency to act in the same capacity as an "eligible industry" within the scope of the BUILD credit. Development agencies are a defined in existing statute and consist of governmental or quasi-governmental entities. Provides that nine hundred fifty thousand dollars shall be reserved for an approved project for a world headquarters of a business whose primary function is tax return preparation that is located in Kansas City. Currently, eligible industries receive benefits under the BUILD program.

DESCRIPTION (continued)

Section 376.160 allows employers with group health insurance to request from their health carrier a statement of annual claims history for the prior three years for the sole purpose of evaluating and marketing the group's insurance program. No information relating to individual claims can be disclosed.

Sections 620.1875 - 620.1890 establishes the Missouri quality jobs program. The program allows qualified companies to retain a portion of the withholding tax or wages paid to employees in newly created jobs. To qualify for the program, employers must offer basic health insurance and pay at least 50% of the premiums. The three types of qualifying programs are as follows:

• SMALL AND EXPANDING BUSINESS PROGRAM: These programs must create more than 20 new jobs if in a rural area and 40 new jobs if in a non-rural area in two years. The program is unavailable if creating 100 jobs or more. The employers must pay at least the county average wage.

• TECHNOLOGY BUSINESS PROGRAM: These programs must create ten new jobs directly involved in the operations of a technology company as defined by the Department of Economic Development and appropriate NAICS (North American Industry Classification System) in two years.

• HIGH IMPACT PROJECTS PROGRAM: These programs must provide a minimum of 100 new jobs within two years.

For each of these programs, the employers may retain withholding tax for a set number of years based on what they are paying relative to the county average wage. The technology business program and high impact projects program may be eligible for tax credits. High impact projects may receive additional benefits if the local government provides benefits equal to their new local tax revenue.

Section 620.1887 establishes the "Quality Jobs Advisory Task Force" which consists of the chairpersons of the economic development of the Missouri senate and the Missouri house or his or her designee, the director of the department of economic development or his or her designee, and two members appointed by the governor. If the department of economic development wants to increase the maximum amount of tax credit given to a qualified high impact project company, they may increase the amount up to one million dollars if the increase is proposed by the department and approved by the task force.

DESCRIPTION (continued)

Section 620.1900 empowers the Department of Economic Development to charge a fee to the recipient of certain tax credits of two and one-half percent of the tax credits issued. DED may not charge a fee for credits issued for community service, crime prevention, education, job training, or physical revitalization. The fees are to be deposited in the economic development advancement fund which is established by this act.

The act caps the tax credits issued for the program at twelve million dollars and the maximum amount authorized for business relocation in a distressed community is reduced from ten million dollars to eight million dollars. The remaining balance of two million dollars in tax credits is transferred to the quality jobs program. There shall be no limit on the amount of withholding taxes that may be retained by approved companies under the new 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 Revenue
Department of Insurance
Office of the Secretary of State
Office of the State Treasurer
Department of Transportation
Department of Public Safety
Department of Conservation
Missouri Consolidated Health Care Plan

Mickey Wilson

Mickey Wilson, CPA
Director
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