COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1217-03
Bill No.: HCS for HB 327
Subject: Economic Development
Type: Original
Date: February 9, 2007

Bill Summary: This proposal modifies provisions of the Missouri Quality Jobs Act, Enhanced Enterprise Zone program and the Community College New Jobs program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($64,005 to Unknown)	($65,280 to Unknown)	($66,919 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	**($64,005 to Unknown)**	**($65,280 to Unknown)**	**($66,919 to Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2 FTE**	**2 FTE**	**2 FTE**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposed legislation removes all annual tax credit caps for the Enhanced Enterprise Zone program as well as the Missouri Quality Jobs Program. This proposal could lower general and total state revenues by a significant, unknown amount. BAP defers to the Department of Economic Development for an estimate of reduced revenues.

Officials from the **Department of Economic Development (DED)** state that with this proposal, an unlimited amount of Missouri Quality Jobs (MQJ) credits and Enhanced Enterprise Zone (EEZ) credits could be issued. Credits issued in year one would not be earned or claimed until the start of the third fiscal year. Projections prepared by the DED Missouri Economic Research and Information Center indicate a return on investment (ROI) of by year three of 1.44 to 1 for MQJ and 1.86 to 1 for EEZ. The amount of positive economic benefit to Missouri would some positive but unknown figure. The ROI on the New Jobs Training Credit was 2.24 to 1 in FY 2006. This positive economic benefit exists now and would still be in effect through FY 2008. The benefit would continue to be realized if the extension of this tax credit was implemented. The ROI factors times the dollars of credit issued would be the positive benefit realized.

DED assumes the change to the MQJ, EEZ, and NJTC programs will create positive direct net economic benefit to Missouri. DED assumes the EEZ will create new jobs directly and for every 10 new jobs created, an additional 7 jobs will be created indirectly from the impact of the credit. The MQJ will create 8 new indirect jobs for each 10 jobs create by the direct impact of the credit. As an example: 4,200 direct and indirect jobs would in place at the end of 10 years if $12 million in new MQJ credits were issued over 5 years. If $18 million in EEZ credits were issued for five years, this would result in 3,800 new jobs at the end of 10 years. DED assumes the NJTC would create an estimated 1,600 new jobs per year and an estimated $8 million in direct economic benefits plus $4 million in indirect benefits per year. Future NJTC benefits would begin to decline in FY 2009 if the program is not extended.

DED assumes the proposal would have no fiscal or administrative impact on their agency.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The DIFP can not estimate how much would be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state.

ASSUMPTION (continued)

County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by this tax credit each year.

The DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Department of Revenue (DOR)** state their Customer Assistance Section anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 2 Tax Collection Technician I for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

No additional FTE would be needed for the Personal Tax Section, Withholding/Financial Institution Tax Sections, or Corporate/Franchise Tax Section.

DOR assumes the cost of the two additional FTE would total roughly $80,000 per year.

With the removal of the annual limits to the Quality Jobs and the Enhanced Enterprise Zone programs, **Oversight** will assume DOR may require additional assistance to implement the potential increase in tax credits. Oversight assumes DOR will not require additional office space, and have taken this expense out of their estimate.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Collection Tech I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

The proposal deletes a reference to the Rebuilding Communities program in Section 620.1881.5. The section had reduced the annual cap for the program from $10 million to $8 million. With this deletion, **Oversight** assumes the annual limit of the program will once again be $10 million. The annual issuances for this program for the past three years have been $1.2 million (FY 2004), $1.7 million (FY 2005) and $1.7 million (FY 2006). Oversight will range the fiscal impact of this change from $0 (no credits over the previous $8 million cap will be issued and redeemed) to

ASSUMPTION (continued)

$2 million loss in tax collections.

The Quality Jobs program has two levels of benefits for qualified Missouri businesses. First, businesses are allowed to retain a certain percentage of withholding taxes of its employees (there is no limit on the retention of withholding taxes). If the business qualifies for benefits exceeding the amount retained in withholding taxes, business can be issued a tax credit, which has a $12 million annual limit. **Oversight** has ranged the fiscal impact of raising the annual cap of the tax credits for this program from $0 (no additional tax credits will be redeemed) to an additional Unknown loss to the general revenue fund since with the annual limit removed, an unknown number of credits could now be issued. The program was created with SB 343 in the 2005 legislative session and according to the DED, there were no benefits issued for fiscal year 2006. DED's projection for fiscal years 2007 and 2008 are for benefits issued of $6.4 million and $15 million respectively.

In the fiscal note for the enabling legislation in 2005, since there is no limit for the withholding tax retention, **Oversight** ranged the impact for that portion of the program from $0 to (Unknown) loss of revenue. Oversight is unsure how the various changes in the proposal will impact the program's withholding tax retention provision and assume Oversight's broad estimate of $0 to (Unknown) is still applicable.

Oversight will also assume a $0 to Unknown loss of revenue from the changes made to the Enhanced Enterprise Zone program. Currently the program has an annual cap of $7 million, which is removed in this proposal. The program was created during the 2004 session in Senate Bill 1155. According to the Tax Credit Analysis report from DED, this program did not issued any credits (through FY 2006), but are estimating $7 million in issuances in fiscal years 2007 and 2008.

Oversight will also assume the changes in the proposal to the Community College New Jobs Training Program could have a negative direct fiscal impact to the state in future fiscal years. Currently, the community college districts are authorized to sell certificates through 7/1/2008 and use the proceeds of these certificates to fund the program. This debt is then retired by deferring a portion of the state employer withholding tax (approximately 2%) on newly created jobs. The total amount of outstanding certificates (debt) that can be outstanding at one time is $55 million. This proposal extends this date out to 2018. Oversight assumes extending this date out will allow community colleges to continue to fund this program by issuing certificates. Oversight will assume that without the change in this proposal, the state would begin seeing a gradual reduction in the usage of this program, but Oversight will assume the additional cost (or unrealized savings) from this part of the proposal would be outside the scope of this fiscal note.

ASSUMPTION (continued)

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Costs - Department of Revenue			
Personal Service (2 FTE)	($35,957)	($44,227)	($45,333)
Fringe Benefits	($16,274)	($20,017)	($20,518)
Expense and Equipment	($11,774)	($1,036)	($1,068)
Total Costs - DOR	($64,005)	($65,280)	($66,919)
FTE Change - DOR	2 FTE	2 FTE	2 FTE
Loss - DED			
Tax credits for Rebuilding Communities Program (change to 620.1881.5)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Loss - DED			
Tax credits for the Enhanced Enterprise Zone program (removal of $7 million annual cap in 135.967.5	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)

FISCAL IMPACT - State Government (continued)	FY 2008 (10 Mo.)	FY 2009	FY 2010
Loss - DED			
Tax credits for the Missouri Quality Jobs Act (removal of $12 million annual cap in 620.1881.5)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($64,005 to Unknown)**	**($65,280 to Unknown)**	**($66,919 to Unknown)**
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

Note: This proposal expands the Quality Jobs program by allowing tax credits to be utilized against Chapter 148 taxes. The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the Enhanced Enterprise Zone program, Quality Jobs program, or the Rebuilding Communities program would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal changes the laws regarding the several Department of Economic Development programs. In its main provisions, the bill:

(1) Removes the maximum amount of tax credits that can be issued in a calendar year for the program of $12 million;

FISCAL DESCRIPTION (continued)

(2) Allows tax credits to offset taxes due from financial institutions under Chapter 148, RSMo. Currently, the credits can only be used to offset state income taxes imposed by Chapter 143;

(3) Allows the calendar year's maximum amount of quality jobs tax credits issued to a qualifying company that participates in both the Quality Jobs Program and the New Job Training Program to be increased by an amount equivalent to the withholding tax retained by that company under the New Job Training Program if the combined benefits do not exceed the projected state benefits of the project. Currently, a qualified company is prohibited from receiving tax credits from both programs at the same time for the same new jobs at the project facility;

(4) Requires that if the calendar year's annual maximum amount of quality jobs tax credits issued to any qualified company is increased by $1 million, the number of new jobs must exceed 500. Currently, this increase in tax credits can occur by receiving the approval of the department and the Quality Jobs Advisory Task Force;

(5) Specifies the way in which the county average wage will be calculated when a qualified company relocates employees from one county to another;

(6) Revises the definition of "full-time employee" from an employee who works an average of 35 hours per week to an employee of the qualified company that is scheduled to work an average of 35 hours per week, but leaves the remaining requirements of the definition unchanged;

(7) Specifies that no jobs created before the notice of intent will be deemed new jobs;

(8) Requires the department to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

(9) Removes the annual limit of tax credits that can be issued under the Enhanced Enterprise Zone program. The current annual limit is $7 million.

(10) Extends the sunset date to which certificates may be sold for the Community College New Jobs Training Program from 2008 to 2018.

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, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning

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February 9, 2007