

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2481-01
Bill No.: HB 1111
Subject: Economic Development; Environmental Protection; Taxation and Revenue
Type: Original
Date: April 20, 2009

Bill Summary: This proposal modifies provisions relating to the Missouri Quality Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue*	(\$127,270) to (\$60,127,270)	(\$139,121) to (\$60,139,121)	(\$143,295) to (\$60,143,295)
Total Estimated Net Effect on General Revenue Fund	(\$127,270) to (\$60,127,270)	(\$139,121) to (\$60,139,121)	(\$143,295) to (\$60,143,295)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> 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 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2	2	2

☒ 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 2010	FY 2011	FY 2012
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 this proposal:

- Expands MQJ eligibility to include "Green Jobs Projects", and provides a schedule of withholding incentives.
- Also provides that if a direct supplier to a Green Jobs Project commences operations in Missouri, the original qualifying company may be entitled to further incentives.
- Provides that companies that have declared bankruptcy may still be a "qualified company" under certain circumstances.
- Removes calendar year maximum award for technology business projects; removes the option of a \$1M award for high impact projects, capping the maximum at \$750,000.
- Raises the cap on the MQJ program from \$60M to \$120M.

DED reports that currently there are no projects that have been unable to receive funding due to the annual limit on the program. Also, DED reports that the economic benefit of the jobs created under the program will offset any additional costs proposed by this bill.

Officials from the **Department of Economic Development (DED)** state the proposed legislation increases the cap on Missouri Quality Jobs from \$60 million to \$120 million. The increase in the cap for the Missouri Quality Jobs Program would result in the need for two additional FTE in Business and Community Services (BCS). These FTE would be Economic Development Incentive Specialist IIIs and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel. In addition, the increase in the cap of \$60 million for the Missouri Quality Jobs Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

DED also states the proposal modifies the language for Quality Jobs regarding "Green Jobs Projects" to include a retention of some withholding taxes on the new jobs.

DED assumes the costs of the two additional FTE to be roughly \$140,000 per year.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this proposal will not fiscally impact their agency.

Also, due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The estimated cost is \$26,646.

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. 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. 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 tax credits each year.

Oversight assumes some of the changes in the proposal may increase the utilization of the Quality Jobs Act, and therefore increase the tax credits and/or withholding taxes retained. However, Oversight has already reflected the potential cost of the MQJ program of up to \$60 million in annual lost income. Oversight assumes the new Green Jobs Project benefits would still fall under the \$120 million (new) cap.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 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; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if an additional \$60,000,000 of credits are issued under a new program, Oversight would assume \$49,800,000 (83%) of credits to be redeemed, reducing Total State Revenues.

ASSUMPTION (continued)

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

This proposal may decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Costs - DED</u>			
Personal Service (2 FTE)	(\$71,606)	(\$88,505)	(\$91,160)
Fringe Benefits	(\$34,822)	(\$43,040)	(\$44,331)
Expense and Equipment	(\$20,842)	(\$7,576)	(\$7,804)
<u>Total Costs - DED</u>	(\$127,270)	(\$139,121)	(\$143,295)
FTE Change - DED	2 FTE	2 FTE	2 FTE
 <u>Loss - Increase in Quality Jobs program</u>	 \$0 to	 \$0 to	 \$0 to
annual limit from \$60 million to \$120 million	(\$60,000,000)	(\$60,000,000)	(\$60,000,000)
 ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	 (\$127,270) to <u>(\$60,127,270)</u>	 (\$139,121) to <u>(\$60,139,121)</u>	 (\$143,295) to <u>(\$60,143,295)</u>
 Estimated Net FTE Change for General Revenue	 2 FTE	 2 FTE	 2 FTE

Note : This 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 2010
(10 Mo.)

FY 2011

FY 2012

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding the Missouri Quality Jobs Act.

GREEN JOBS PROJECTS

The bill establishes a green jobs project as a new project type under the Quality Jobs Program. A green jobs project is defined as a qualified company that creates at least 10 new jobs within a specified two-year time period that is engaged in the development of green technology or green manufacturing, such as clean or sustainable energy development, energy efficiency or conservation, green building techniques or components, green transportation technology or manufacturing, or environmental sustainability.

A qualified company with a green jobs project may retain 4% of the withholding tax from its new payroll for five years if the average wage of the new payroll equals or exceeds the county average wage. Five percent can be retained if local incentives equal between 10% and 24% of the new direct local revenue; 6% if local incentives equal between 25% and 49%; or 7% if local incentives equal 50% or more of the new direct local revenue.

If the qualified company creates at least 100 new jobs, it may retain this amount for six years or for seven years if it creates at least 500 new jobs.

If the withholding tax is not sufficient to provide the entire benefit due the qualified company, the Department of Economic Development will issue a refundable tax credit for the difference.

If the qualified company demonstrates to the department that another company expands or commences operations in Missouri or moves to Missouri from another state as a result of its relationship to the qualified company, the qualified company may be eligible for a jobs benefit. The other company must be a direct supplier or a direct purchaser of the qualifying company and must create at least 10 new jobs within a two-year period. The jobs benefit is a tax credit issued

FISCAL DESCRIPTION (continued)

to the qualified company for three years and will be equal to 50% of the withholding for the supplier/purchaser company's new jobs if the average wage for these new jobs equals or exceeds the county average wage for the county in which the supplier/purchaser company is located.

QUALIFYING COMPANY CRITERIA

Currently, any company which has filed for bankruptcy or has publicly announced its intention to file for bankruptcy protection is prohibited from being deemed a qualifying company for the purposes of the Quality Jobs Program. The bill allows a company which has filed or announced its intention to file for bankruptcy on or after January 1, 2009, to be a qualifying company for the program if it:

- (1) Certifies to the Department of Economic Development that it plans to reorganize and not to liquidate; and
- (2) Produces proof after its bankruptcy petition has been filed that it is not delinquent in filing any tax returns or making any payments due to the state including, but not limited to, all tax payments due after the filing of the bankruptcy petition and under the terms of the plan of reorganization.

MISCELLANEOUS PROVISIONS

The bill:

- (1) Specifies that if the department fails to respond within 30 days to a Quality Jobs Program applicant's notice of intent, the notice is deemed a disapproval. Currently, the notice is deemed an approval if the department fails to respond within 30 days;
- (2) Specifies how the department must apply certain definitions when a business that has already received an approved notice of intent later files another notice of intent;
- (3) Eliminates the annual cap for each qualified company on technology business projects. Currently, the cap is \$500,000 per qualified company, per year;
- (4) Prohibits the per-company annual cap on high-impact projects from being increased to \$1 million. Currently, the \$750,000 per-company cap can be increased under certain circumstances if approved by the Quality Jobs Advisory Task Force; and

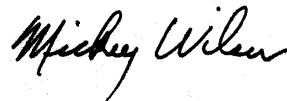
FISCAL DESCRIPTION (continued)

(5) Increases the annual cap on the Missouri Quality Jobs Program from \$60 million to \$120 million.

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 20, 2009