COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6003-05
Bill No.: SCS for HCS for HB 2
Subject: Economic Development; Taxation and Revenue
Type: Original
Date: July 1, 2010

Bill Summary: This proposal would provide tax incentives for qualified manufacturing companies or qualified suppliers that create or retain jobs in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	($99,259 to Unknown)	($108,949 to $15,108,949 to Unknown)	($112,217 to $15,112,217 to Unknown)
Total Estimated Net Effect on General Revenue Fund	**($99,259 to Unknown)**	**($108,949 to $15,108,949 to (Unknown)**	**($112,217 to $15,112,217 to Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, officials from the **Office of Administration, Division of Budget and Planning (BAP)** stated the following sections could have fiscal impact to the state:

Section 620.1910.4 - would allow a qualified manufacturing facility to retain 100% of the withholding tax from full-time jobs retained for a period of ten years for new products, or 50% of the withholding tax from full-time jobs retained for a period of seven years for modified products.

Section 620.1910.5 - would allow a qualified supplier to retain all withholding tax from new jobs for a period of three or five years, depending upon the wage amount compared to the industry average. Qualified suppliers could not receive benefits, for the same new jobs, under these programs: BUILD, New & Expanding Business Facility; Enterprise Zone; Rebuilding Communities; Rural Empowerment Zone; Enhanced Enterprise Zones; or Missouri Quality Jobs.

Section 620.1910.6 - total aggregate amount of retained withholding tax under this section would be capped at $15 million per year for "qualified manufacturing companies". There is no cap specified for qualified suppliers.

Section 620.1910.7 - would prohibit qualified manufacturing companies which receive benefits under this section from receiving Build, Business Facility Tax Credits, Enterprise Zone Tax Benefits, Rebuilding Communities Tax Credits, and Rural Empowerment Zone Tax Benefits for the same jobs.

BAP stated this proposal would reduce general and total state revenues, to the extent that withholding retention is granted for jobs already in existence. To the extent withholding retention is granted for new jobs, this proposal could slow the growth in future revenues. This proposal could induce other economic activity, but BAP did not have the data to estimate induced revenues. DED may have such an estimate.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** stated that a previous version of this proposal would provide incentives for qualified manufacturing companies or qualified suppliers. DED assumed the proposed legislation 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 administering the program, 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. DED assumed the cost for these FTE to total roughly $145,000 per year.

In addition, this program has an aggregate cap of $15 million, so there would be a negative impact in that same amount to Total State Revenue. There would also be an unknown amount of positive economic benefit that would offset this impact.

Oversight assumes DED's estimate of expense and equipment cost for the new FTEs could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly $11,800.

Officials from the **Department of Revenue (DOR)** stated in their response to a similar or identical proposal in a previous session that DOR planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, DOR officials estimated the IT portion of the fiscal impact at $21,306 based on 840 hours to make programming changes to the withholding tax processing system.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the ITSD costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the budget process.

DOR also assumes the need for two additional FTE to administer the changes to the withholding tax from both manufacturers as well as suppliers. DOR assumes a cost for these additional FTE of roughly $85,000 per year.

ASSUMPTION (continued)

Oversight assumes DOR's estimate of expense and equipment cost for the new FTEs could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly $11,200.

With the narrow definition of 'qualified manufacturing facility' as well as 'qualified supplier', **Oversight** will assume that only a few companies would qualify for benefits based on these provisions, and that one FTE would be required for the Department of Economic Development and one FTE for the Department of Revenue. If more companies would qualify for the benefits than Oversight anticipates, Oversight assumes DED and DOR could request additional FTE through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's additional employee 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, Oversight assumes that the relatively small number of additional staff could be located in existing office space.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assumed a previous version of the proposal would not fiscally impact their agency.

In response to a similar proposal (HB 1675 of the 2010 regular session), officials from the **Office of the Secretary of State (SOS)** assumed 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 Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

ASSUMPTION (continued)

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

This proposal has an annual limit of $15 million in withholding benefits that may be awarded to qualified manufacturing companies under this program, to begin no earlier than January 1, 2012; therefore, Oversight will assume a range of $0 (no companies qualify for the program) to a potential annual loss of $15 million in withholding tax revenue for manufacturing companies. Qualified suppliers are also allowed to retain withholding taxes; however, this proposal does not include an annual limit or a start date for this part of the program. Therefore, Oversight will assume an unknown loss of withholding taxes for qualified suppliers.

Oversight also assumes the proposal would have an effective date of August 28, 2010.

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Costs - Department of Economic Development			
Personal Service (1 FTE)	($35,803)	($44,253)	($45,580)
Fringe Benefits	($18,775)	($23,206)	($23,902)
Expense and Equipment	($8,983)	($4,293)	($4,422)
Total Costs - DED	($63,561)	($71,752)	($73,904)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Costs - Department of Revenue			
Personal Service (1 FTE)	($19,467)	($24,061)	($24,783)
Fringe Benefits	($10,208)	($12,618)	($12,996)
Expense and Equipment	($6,023)	($518)	($534)
Total Costs - DOR	($35,698)	($37,197)	($38,313)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
Loss - DED			
Retained withholding tax from qualified manufacturing companies	$0	$0 to ($15,000,000)	$0 to ($15,000,000)
Loss - DED			
Retained withholding tax from qualified suppliers	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	**($99,259) to (Unknown)**	**($108,949 to $15,108,949 to Unknown)**	**($112,217 to $15,112,217 to Unknown)**
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for this program would be positively impacted from this proposal.

FISCAL DESCRIPTION

This act would create the Manufacturing Jobs Act which would allow qualified manufacturing companies or qualified suppliers that create or retain Missouri jobs to retain employee withholding taxes for a period of years. The total amount of withholding taxes retained by all qualified manufacturing companies under the program would be limited to fifteen million dollars per year.

The proposal defines a "qualified manufacturing company " as a business with a NAICS code of 33611 which manufactures goods in Missouri and commits to make an additional capital investment of at least $75,000 per full-time employee retained at the facility. The proposal defines a "qualified supplier" as a company which derives more than 10% of its total annual revenues from sales to a qualified manufacturing company, adds five or more new jobs, pays wages for new jobs that are equal to or exceed the industry average wage for Missouri, and provides health insurance to employees and pays at least 50% of the insurance premiums.

The Department of Economic Development would be required to respond to a qualified manufacturing company or qualified supplier which provides a notice of intent to receive benefits under the program with an approval or a rejection within 30 days of receiving such notice. Failure of the department to respond would result in the notice of intent being deemed an approval.

Upon approval of a notice of intent by the department and the execution of an agreement with the department which memorializes the contents of the notice of intent including recapture and repayment provisions, a qualified manufacturing company that manufactures a new product may retain 100% of the withholding taxes from retained jobs for 10 years. A qualified manufacturing company that modifies or expands the manufacture of an existing product may retain 50% of the withholding taxes from retained full-time jobs for 7 years. Qualified manufacturing companies that participate in this program remain eligible to participate in the Missouri Quality Jobs Program.

FISCAL DESCRIPTION (continued)

Upon approval of a notice of intent by the department, a qualified supplier may retain 100% of the withholding taxes from new jobs for three years, if the supplier pays wages for such new jobs that are equal to the lesser of the county average wage or the industry average wage for Missouri provided such wage is not lower than sixty percent of the statewide average wage.

The department must submit an annual report on the manufacturing jobs program to the General Assembly by March first. The report must provide participating companies and suppliers, the amount of benefits provided, the net state fiscal impact, and the number of new and retained jobs.

The provisions of the act would expire six years from the effective date.

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

Office of the Secretary of State
Office of Administration
    Division of Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue

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