COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5507-04
Bill No.: HCS for HB 1709
Subject: Employees- Employers; Economic Development Department; Education, Higher; General Assembly
Type: Original
Date: April 6, 2012

Bill Summary: This proposal establishes the Missouri Works Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$0 to (Unknown)	$0 to (Unknown greater than $3,000,000)	$0 to (Unknown greater than $18,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to (Unknown)**	**$0 to (Unknown greater than $3,000,000)**	**$0 to (Unknown greater than $18,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal , officials at the **Budget and Planning (BAP)** assume this proposal creates the Missouri Works business incentive program, which sunsets four current business incentive programs and creates one new incentive program. The cap for the new Missouri Works program is $111 million in FY13, $126 million in FY14, and $141 million in FY15 and beyond. This proposal could therefore lower General and Total State Revenues by the amount listed for each fiscal year.

The legislation sunsets the following tax credit programs: Development, Rebuilding Communities, Enhanced Enterprise Zone, and Missouri Quality Jobs. The aggregate cap on tax credits for the programs being phased out under this proposal totals at least $112 million annually. The negative impact noted above could be offset by the amount the sunset programs have been utilized historically.

As with the existing Missouri Quality Jobs program, retained withholding benefits would not be subject to the annual tax credit cap under this proposal. This will have an unknown negative impact on General and Total State Revenues.

The new Missouri Works program may encourage other economic activity, but BAP does not have data to estimate induced revenues. The Department of Economic Development may have such an estimate.

Oversight assumes this program may have an impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in this fiscal note.

Officials at the **Department of Revenue** (**DOR**) assume OA-ITSD will need to make programming changes to various tax systems and form changes. The estimated cost of the changes is $22,260 for 840 FTE hours.

Additionally, DOR's Personal Tax Division will need one Revenue Processing Technician I ($25,380) per 4,000 additional tax credit redemptions. The Corporate Tax Division will need one Revenue Processing Technician I ($25,380) per 6,000 additional tax credit redemptions and one Revenue Processing Technician I ($25,380) per 7,800 pieces of additional withholding correspondence processed.

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 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 appropriation process.

ASSUMPTION (continued)

Oversight assumes DOR's Personal & Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justice another FTE they could seek that FTE through the appropriation process.

Officials at the **Missouri Housing Development Commission** (**MHDC**) assume this proposal prohibits the authorization of tax credits that have not been approved prior to August 28, 2012. The Affordable Housing Assistance Program (AHAP) is included in that prohibition in section 620.2020.

The AHAP credit is a charitable donation credit. The proposal effectively proposes the elimination of the AHAP credit two months into FY 2013. Working from the assumption that MHDC allocates $4.4 million before the prohibition takes effect (1/4 of the $11 million available for the AHAP) August 28, 2012, the immediate savings to the state would be $6.6 million. For FY 14 and beyond, the savings to the state will be $11 million.

Officials at the **Department of Economic Development** (**DED**) assume this proposal creates the Missouri Works Program under Section 620.3000 to be administered by DED's Division of Business and Community Services (BCS).

The Missouri Works program would operate in a similar fashion to the current Missouri Quality Jobs program by providing performance-based benefits in the form of retained withholding taxes and tax credits to qualified companies that create new jobs. The proposal also authorizes the award of additional discretionary tax credits to qualified companies that create jobs and investment that provide a net fiscal benefit to the state, similar to the existing BUILD program. The Missouri Works proposal mandates a positive net fiscal benefit to the state for any award of discretionary tax credits and requires DED to report quarterly to the General Assembly the positive net fiscal benefit of each project awarded, which will ensure that discretion is exercised in accordance with this directive.

ASSUMPTION (continued)

Eligibility requirements and available benefits under the proposal are summarized below:

New Jobs 5-6 Year Benefit	**Minimum Eligibility**	**Entitlement Benefits**	**Max. w/ Additional Discretionary**	**Maximum Possible**
Enhanced Enterprise Zones	2 new jobs 80% county average wage-$100K	withholding 5 year benefit (6yrs for 10-yr Mo business)	$0	$0
Targeted Industry	10 new jobs 90% county average wage	Withholding + 3% Tax Credits (Max 6%) 5 year benefit (6yr for 10-yr MO business)	Up to 6% Tax Credit Up to 5 yrs	Up to 12% 5 year benefit (6yr for 10-yr MO business)
Non-Targeted Industry	20 new jobs 90% county average wage	Withholding + 2% Tax Credits (Max 5%) 5 year benefit (6yr for 10-yr MO business)	Up to 4% Tax Credit Up to 5 years	Up to 9% 5 year benefit (6yr for 10-yr MO business)
New Jobs 3 yr Benefits	**Minimum Eligibility**	**Entitlement Benefits**	**Max. w/ Additional Discretionary**	**Maximum Possible**
Rural Job Creation	5 New Jobs 90% county avg. wage	Withholding 3 year benefit		
Retained Jobs	**Minimum Eligibility**	**Entitlement Benefits**	**Max. w/ Additional Discretionary**	**Maximum Possible**
Ten year Period Benefit	125 Retained Jobs 90% county avg wage		Up to 100% of WH projected 10 years	

The Missouri Works Program proposal phases-out the four current business incentive tax credit programs, which include: Missouri Quality Jobs (620.1875), Enhanced Enterprise Zone (135.950), Development Tax Credit (32.100), and Rebuilding Communities Tax Credit (135.535). Projects previously offered benefits under these programs may continue to receive such benefits, but no new awards may be made under these programs.

The aggregate cap on tax credits for the programs being phased out under this proposal totals at least $112 million annually. The proposed Missouri Works program imposes a hard cap on tax credits that reaches $141 million when fully phased-in. However, recognizing the outstanding obligations under the current programs being phased out, the proposal reduces the annual statutory caps by the amount of the existing tax credit obligations under the current programs.

ASSUMPTION (continued)

The chart below reflects the statutory maximum annual statutory tax credit cap under the proposal and the annual caps of the six programs being phased out.

SUNSETS

Quality Jobs (E)*	$80 M
Enhanced Enterprise Zone (D)*	$24 M
Development Tax Credit (D)	$ 6 M
Affordable Housing	$11 M
Rebuilding Communities (E)	$ 8 M
TOTAL CURRENT CAPS	$123 M+

E-Entitlement, D- Discretionary

CREATES MISSOURI WORKS
(Annual Tax Credit Cap)

FY 13	$111M
FY 14	$126M
FY 15	$141 M

It is unknown how many qualified companies would seek and be eligible for benefits under this program. With respect to the entitlement benefits under this proposal, DED estimates an unknown positive fiscal impact of greater than $100,000, because projects awarded such benefits are anticipated to provide an overall net fiscal benefit to the state, even if not every individual project would have a net fiscal benefit to the state. Similarly, DED estimates a positive fiscal impact of greater than $100,000 for any discretionary tax credits awarded under this proposal because the award of any such tax credits is restricted to projects having a net fiscal benefit to the state.

Oversight assumes it is unclear how many companies will qualify for the withholding tax so Oversight will show in the fiscal note the cost to General Revenue as $0 to Unknown.

Oversight assumes that due to the timing of the issuance of the credits this proposal may not have an impact in FY 2013.

Oversight assumes that since the current number of unobligated credits is not known, Oversight will show the loss of the tax credit revenue to General Revenue as $0 to the difference between the current cap and the new cap in FY 2014 and FY 2015.

Officials at the **Department of Higher Education**, **Joint Committee on Administrative Rules**, **Missouri Development Finance Board** and the **Office of State Treasurer** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials at the **Metropolitan Community College** assume a significant, although unknown impact.

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 department has no means to arrive at a reasonable estimate of loss 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. 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 tax credits each year.

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 **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

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.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Revenue Reduction - withholding taxes	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - tax credits	$0	$0 to ($3,000,000)	$0 to ($18,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to (Unknown)**	**$0 to (Unknown greater than $3,000,000)**	**$0 to (Unknown greater than $18,000,000)**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$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 program establishes the Missouri Works Program which combines four existing business incentive programs and provides tax incentives for job creation, retention, and capital investment.

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

Budget and Planning
Department of Economic Development
Department of Higher Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Metropolitan Community College
Missouri Development Finance Board
Office of the Secretary of State
Office of State Treasurer

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