

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2472-01
Bill No.: HB 1125
Subject: Business and Commerce
Type: Original
Date: March 17, 2015

Bill Summary: This proposal establishes the Missouri Business Recruiters Act to create employment positions for business recruiters to attract out-of-state business owners and companies to Missouri

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$55,490)	(\$59,729)	(\$60,382)
Total Estimated Net Effect on General Revenue	(\$55,490)	(\$59,729)	(\$60,382)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Missouri Business Recruiters Fund	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

In response to similar legislation filed last year (HB 1056), officials at the **Office of Administration's Division of Budget and Planning (BAP)** assumed there is no fiscal impact from this proposal to BAP. This proposal established the Missouri Business Recruiters Act, which requires the Department of Economic Development (DED) to administer a program to create private contractor positions for business recruiters. Recruiters are compensated for each qualifying new job relocated to Missouri in the amount of two percent of the salary or wages for each new job. The employer is to withhold two percent of such salary or wages, and forward the funds to DED, who is to then deposit the funds into the Missouri Business Recruiters Fund. The total amount paid to private contractors out of the Missouri Business Recruiters Fund is capped at \$3 million annually; therefore this proposal could decrease total state revenues by up to \$3 million for this provision. However, the proposal does not cap the amount of salary or wages that the DED is required to deposit into the Missouri Business Recruiters Fund, so the increase to total state revenues could be significantly more than \$3 million. For example, if 5,000 new jobs were relocated to Missouri with an average wage of \$50,000, the employer would withhold 2% of the employee's salary, and would forward to DED, who would then deposit 2% (\$5,000,000) in the Missouri Business Recruiters Fund. However, they would be limited to paying out only \$3,000,000 from the fund. This proposal may also increase economic activity, but BAP does not have data to estimate induced revenues.

In response to similar legislation filed last year (HB 1056), officials at the **Office of Administration's Division of Accounting** assumed there is no fiscal impact from this proposal.

In response to similar legislation filed last year (HB 1056), officials at the **Office of Administration's Information Technology Services Division** deferred to the Department of Economic Development for fiscal impact.

In response to similar legislation filed last year (HB 1056), officials at the **Office of Administration's Division of Personnel** assumed this proposal establishes employment positions for business recruiters within the Department of Economic Development (DED). This

ASSUMPTION (continued)

proposal is unclear as to whether the business recruiter would be considered a contractor or a state employee. If the position is a contract position the fiscal impact would be zero.

If the position is a state employee, then DED would need to request a position review to OA-Personnel so that the appropriate job classification and salary range could be determined for this position in accordance with 1 CSR 20-2.010, and approved by the Personnel Advisory Board. §620.1600(2) allows for business recruiters to receive compensation, with restrictions, for any jobs that are relocated into Missouri equal to two percent of the withholding tax collected from the relocated job. It appears that this additional pay event would be considered bonus pay.

1 CSR 20-2.020(4)(E) states that "The salary rate established in the pay plan is intended as remuneration for the performance of full-time work...". While this regulation also provides for additional employee pay for overtime, pay differentials, travel expense reimbursement, performance incentive payments as approved by the Personnel Advisory Board, and suggestion award payments allowed under 36.030 RSMo., "bonus pay" is not allowed in this regulation.

Since this would be a new pay event 1 CSR 20-2.020 would need to be modified and approved by the Personnel Advisory Board.

Oversight assumes these position are contract positions and not state employees and therefore, this proposal would have no fiscal impact on Office of Administration's Division of Personnel.

In response to similar legislation filed last year (HB 1056), officials at the **Department of Revenue** assumed there is no fiscal impact from this proposal.

In response to similar legislation filed last year (HB 1056), officials at the **Office of State Treasurer** assumed there is no fiscal impact from this proposal.

In response to similar legislation filed last year (HB 1056), officials at the **Department of Economic Development (DED)** assumed §620.1600 creates the Missouri Business Recruiters Act which allows a business recruiter who assists a company in re-locating to Missouri, 2% of the withholding tax that is collected from any job the recruiter is responsible for bringing to the state. The Business Recruiter is a full-time private position and serves to facilitate businesses relocating to Missouri. DED is responsible for taking applications for the program and establishing requirements for employment. While the position is not a state position it must be listed on the OA website. Additionally, the Department of Revenue is responsible for withholding the 2% tax and holding it in a fund for disbursement to eligible business recruiters.

ASSUMPTION (continued)

DED assumed an unknown impact as a result of the program. DED would require one additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist II and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the applications to make sure they meet the criteria of the program, and ensuring compliance with the program.

Oversight will reflect in the fiscal note increased revenue to the Missouri Business Recruiters Fund of the 2% of salary and wages from the new jobs created. As there is no limit on the number of new jobs that must pay into this Fund, Oversight will reflect the income as \$0 (no new jobs created) to Unknown. Oversight will reflect the cost to the Missouri Business Recruiters Fund of the 2% of the salary and wages required to be paid to the business recruiter who brought the jobs to Missouri. The payments to the business recruiters is limited to no more than \$3 million annually. Therefore, Oversight will show the impact to the business recruiters as \$0 (no new jobs created) to \$3,000,000 the annual cap allowed to be paid to business recruiters.

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

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Cost - Department of Economic Development</u>			
Personal Service	(\$30,560)	(\$37,039)	(\$37,409)
Fringe Benefits	(\$15,587)	(\$18,892)	(\$19,080)
Equipment and Expenses	(\$9,343)	(\$3,798)	(\$3,893)
<u>Total Costs - DED</u>	<u>(\$55,490)</u>	<u>(\$59,729)</u>	<u>(\$60,382)</u>
Total FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$55,490)</u>	<u>(\$59,729)</u>	<u>(\$60,382)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
MISSOURI BUSINESS RECRUITERS FUND			
<u>Additional Revenue - 2% of salary & wages for new jobs created under this proposal</u>	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Cost - payment to the business recruiter for new jobs created in Missouri</u>	\$0 to <u>(\$3,000,000)</u>	\$0 to <u>(\$3,000,000)</u>	\$0 to <u>(\$3,000,000)</u>
ESTIMATED NET EFFECT ON MISSOURI BUSINESS RECRUITERS FUND	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill establishes the Missouri Business Recruiters Act to create private contractor positions for business recruiters to attract out-of-state business owners and companies to Missouri. A business recruiter must receive compensation for any jobs within the business or company that are relocated into Missouri equal to 2% of the salary or wages for each new job. The compensation must be a one-time payment per new job and the new job must pay wages that meet or exceed the average wage in the county to which the job is relocated, be maintained for at least one year, and be a fulltime position.

The Department of Economic Development must administer the program and create a business recruiter application process. Any private contracted business recruiter must apply to become a Missouri business recruiter under guidelines developed by the department, which must include a provision requiring the business recruiter to notify the department that he or she is communicating with a particular out-of-state business for the purpose of attracting that business to relocate to Missouri.

Upon relocation, the employer must withhold 2% of the salary or wages for each new job relocated under the program for deposit into the newly created Missouri Business Recruiters Fund. A business recruiter must not receive any compensation under the program unless he or she has obtained a statement from the Department of Revenue that the recruiter does not owe any sales or withholding taxes. No more than \$3 million may be paid as compensation under this program per year. The Office of Administration must advertise the position of business recruiter in the same manner as any other job opening or business procurement.

The provisions of the bill will expire four years after 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

Department of Economic Development
Department of Revenue
Office of Administration
 Division of Budget and Planning
 Division of Personnel
 Division of Accounting
 Information Technology Services Division
Office of State Treasurer

Mickey Wilson, CPA

Director
March 17, 2015



Ross Strobe
Assistant Director
March 17, 2015