

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5204-01
Bill No.: HB 1571
Subject: Tax Credits; Corporations; Economic Development
Type: Original
Date: April 24, 2012

Bill Summary: This proposal establishes the Good Jobs First Act which provides development subsidies to certain corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	Unknown to (\$783,675)	Unknown to (\$671,536)	Unknown to (\$678,572)
Total Estimated Net Effect on General Revenue Fund	Unknown to (\$783,675)	Unknown to (\$671,536)	Unknown to (\$678,572)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	16 FTE	16 FTE	16 FTE
Total Estimated Net Effect on FTE	16 FTE	16 FTE	16 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 2013	FY 2014	FY 2015
Local Government	(Unknown greater than \$100,000)	(Unknown greater than \$100,000)	(Unknown greater than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal would enact new laws governing economic development subsidies which are paid for using public funds. If the language is interpreted to mean that the caps imposed under this proposal would apply to all state and local incentives, it would have a significant positive, unknown impact to General and Total State Revenues from tax credits not being issued. However, the loss of tax credits could discourage economic development activities, and therefore cause an unknown loss to General and Total State Revenue.

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

Officials at the **Department of Revenue** assume this proposal would require programming changes to various tax systems. It is estimated to cost \$66,780 for 2,520 FTE hours.

DOR's Motor Fuel Division assume the need of eleven Revenue Processing Technician I (\$25,380) to track and determine discounts on a monthly basis.

DOR assumes an additional schedule is required to capture detailed information regarding sales/use tax exemptions. This schedule would be a separate schedule that could be filed on an annual basis. Business Tax Processing would have to process an additional 150,000 returns on an annual basis. Therefore, the Sales Tax Processing Division would need one Revenue Processing Technician I (\$25,380) per 37,500 additional returns for a total of 4 FTE.

If a monthly reporting was required to capture the detailed exemption information, this would eliminate one of the current sales tax processing methods, which allows filers to submit a voucher reporting their applicable sales. Taxpayers would now have to file complex returns which separately stated the exemption amounts. One (1) Revenue Processing Technicians I (Range 10, Step L) per 7,200 additional returns for pre-edit, processing, and error correction. (This would require an additional 21 FTE). The fiscal note will reflect a yearly reporting requirement.

DOR does not currently collect data to distinguish between most sales tax exemptions because they are reported in the aggregate for a taxpayer's business. To report on each exemption, we will have to develop a form and require at least an annual reporting of the detail of a taxpayer's exemptions claimed. That would require an additional mailing for 150,000 businesses and/or

ASSUMPTION (continued)

development of an electronic reporting mechanism. If we went electronic we would require programming to develop the online system and tax system modifications to accept the data.

Letters	$\$0.025 \times 150000 = \$ 3,750$
Envelops	$\$0.040 \times 150000 = \$ 6,000$
Postage	$\$0.045 \times 150000 = \$67,500$

This will create an additional burden on businesses to track and report all sales tax exemptions they accept.

Officials at the **Department of Economic Development (DED)** assume the proposal creates the Good Jobs Act, which requires certain corporations receiving development subsidies to complete an application for these subsidies to the granting body. The development subsidy is the expenditure of public funds (local or state funds) valued at least \$25,000, with the purpose of stimulating economic development in Missouri. The granting body is required to file an annual report with the DED. DED is responsible for preparing the application for the subsidy, receiving annual and progress reports from the granting body, and compiling/publishing both a written and electronic progress report. DED anticipates that the implementation of this program would result in the need for one additional FTE to administer the program. The FTE would be an Economic Development Incentive Specialist III (\$40,212). The related costs for this FTE include recurring costs for expenses relating to the publishing of the written/electronic annual report.

Officials at the **Missouri Housing Development Commission (MHDC)** assume the proposal as written presents some challenges and some issues to note:

Section 620.2118- "A granting body shall not award a grant to a development subsidy if the cost per job is greater than \$35,000". Such cost shall be determined by dividing the amount of the subsidy by the number of full time jobs required under the application approved by the granting body. For a greater number of MOLIHTC properties the amount of subsidy will exceed the \$35,000 because the purpose of the credit is to build affordable housing rather than job creation. The legislation imposes a requirement that in most cases could not be met by the MOLIHTC process.

Section 620.2124 - MHDC assumes this section appears to open MHDC and the State to civil actions when compliance with the statute is in question. The potential liability to MHDC and the state is unknown and difficult to estimate.

Section 620.2130 -this section prohibits the stacking of any other benefit provided by law.

JH:LR:OD

ASSUMPTION (continued)

MHDC's assumption is that this language includes city, state and federal law, and correspondingly, city, state and federal benefits. If this assumption is correct, the MOLIHTC could not be used with the federal monies administered by MHDC such as, but not limited to, the Federal Low Income Housing Tax Credit or HOME Funds.

Officials at the **Division of Workforce Development** assume this proposal would require at least 20% of a Specialist IV's time (\$11,721), to gather, prepare and submit this information. If additional funding is not dedicated for staff then it will take away from existing staff's time doing other required duties.

Oversight assumes the Division of Workforce Development will be able to absorb the cost associated with this proposal within existing resources.

Officials at the **Department of Social Services (DOS)** assume the proposal is unclear as to whether the tax credits and grants DOS administers would be covered under the definition of "development subsidy" or "granting body." Nevertheless DOS believes it can use existing resources to work with the Department of Revenue to provide the required information.

Officials at the **Department of Agriculture, Department of Health and Senior Services, Department of Insurance, Financial Institutions and Professional Registration, Department of Natural Resources, Metropolitan Community College, Missouri Development Finance Board, Missouri Department of Transportation** and the **State Tax Commission** assume there is no fiscal impact from this proposal.

Officials at the **City of Kansas City** assume additional costs of \$100,000 to pay the salary and benefits of 1.25 FTE that will need to be hired to comply with the new reporting requirements.

Officials at the **St. Louis County** assume costs in the first year of \$3,500 to \$4,000 to establish the reporting for the abatements. Then less than \$500 per year for review and updates.

Officials at the **City of Columbia** assume an unknown impact for the staff time and expense to do the reporting required of this proposal.

Officials at the **City of Raytown** assume that based on the complexity of the items being requested and the ongoing requirement to update and report this information the City believes the fiscal impact of this legislation would be significant. Preparing the initial requested information would take at a minimum of 100 staff hours per project at an average cost of \$35 per hour

ASSUMPTION (continued)

(including benefits) for a first year impact per project of \$3,500. The ongoing reporting requirement will likely take even more time as it requires tracking employment not just in the development but potentially across the state. It also requires that the City gather information from private corporations that could be difficult. The City would estimate anywhere from 150 to 200 staff hours per project to track down all the required information and submit it to the State again at an average cost of \$35 per hour so \$5,250 to \$7,000 per project. The City currently has 4 active developments that would require this type of tracking so the total ongoing annual fiscal impact to the City could be as high as \$28,000.

Officials at the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Kennett, Kirksville, Knob Noster, Ladue, Lake Ozark, Lebanon, Lee Summit, Liberty, Linn, Louisiana, Maryland Heights, Maryville, Mexico, Neosho, O'Fallon, Pacific, Peculiar, Popular Bluff, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to **Oversight's** request for fiscal impact.

Officials at the following schools: Blue Springs Public Schools, Branson Public Schools, Columbia Public Schools, Fair Grove Schools, Francis Howell Public Schools, Independence Public Schools, Jefferson City Public Schools, Kansas City Public School Board, Kirksville Public Schools, Lee Summit Public Schools, Mehlville Public Schools, Mexico Public Schools, Nixa Public Schools, Parkway Public Schools, Raytown School District, Sedalia School District, Sikeston Public Schools, Silex Public Schools, Special School District of St. Louis County, St Joseph School District, St Louis Public Schools, St. Charles Public Schools, and Sullivan Public Schools did not respond to **Oversight's** request for fiscal impact.

Officials at the following counties: Andrew, Barry, Bates, Boone, Buchanan, Butler, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Franklin, Greene, Hickory, Holt, Jackson, Jasper, Jefferson, Johnson, Knox, Laclede, Lafayette, Lawrence, Lincoln, Marion, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Pemiscot, Perry, Phelps, Platte, Pulaski, Scott, St. Charles, St. Francois, Taney, Texas, Warren, Wayne and Webster did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
<u>Revenue Increase</u> - tax credits not issued	Unknown	Unknown	Unknown
<u>Cost</u> - Dept of Revenue computer programming and form changes	(\$66,780)	\$0	\$0
<u>Cost</u> - Dept of Revenue mailing to all businesses about the new reporting requirements for sales tax exemptions	(\$77,250)	\$0	\$0
<u>Cost</u> - Dept of Revenue			
Personal Service	(\$317,250)	(\$384,507)	(\$388,352)
Fringe Benefits	(\$167,952)	(\$203,558)	(\$205,594)
Equipment and Expenses	(\$93,163)	(\$16,529)	(\$16,941)
<u>Total</u> - Dept of Revenue	(\$578,365)	(\$604,594)	(\$610,887)
FTE Change	15 FTE	15 FTE	15 FTE
<u>Cost</u> - Dept of Economic Development			
Personal Service	(\$33,510)	(\$40,614)	(\$41,020)
Fringe Benefits	(\$17,740)	(\$21,501)	(\$21,716)
Equipment and Expenses	(\$10,030)	(\$4,827)	(\$4,949)
<u>Total</u> - DED	(\$61,280)	(\$66,942)	(\$67,685)
FTE Change	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Unknown to</u> <u>(\$783,675)</u>	<u>Unknown to</u> <u>(\$671,536)</u>	<u>Unknown to</u> <u>(\$678,572)</u>
Estimated Net FTE Effect on General Revenue	16 FTE	16 FTE	16 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> - gathering and tracking the information required by this proposal	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>

FISCAL IMPACT - Small Business

Small business that qualify for one of the subsidies would have new reporting requirements which could cause them to have a fiscal impact.

FISCAL DESCRIPTION

This bill establishes the Good Jobs First Act which provides development subsidies to certain corporations. In its main provisions, the bill:

- (1) Requires the Department of Revenue to submit an annual unified economic development budget to the General Assembly within three months of the end of the state's fiscal year.
- (2) Requires each property-taxing entity to submit an annual report within three months of the end of the fiscal year to the department regarding any real property in the entity's jurisdiction that has received a property tax abatement or reduction during the fiscal year and an annual report due by the same time specifying the amount of property tax revenue which was not paid to the entity because of the abatements and reductions and other specified information.
- (3) Requires an entity which grants development subsidies and the applicant who wishes to receive one to complete an application on a form prepared by the Department of Economic Development.
- (4) Requires a granting body to file an annual progress report with the Department of Economic Development by February 1 for each project that has received a development subsidy.
- (5) Requires the Department of Economic Development to compile and publish all data from the progress reports in a written and electronic form, including on its website;

FISCAL DESCRIPTION (continued)

(6) Requires the Department of Economic Development and the granting body to have access at all reasonable times to the project site and the records of the recipient corporation in order to monitor the project and prepare progress reports.

(7) Prohibits a granting body from awarding a grant to a development subsidy if the cost per job is greater than \$35,000 or if the wages paid to employees at the project site do not meet specified thresholds;

(8) Requires the recipient corporation to fulfill its job creation, wage, health care, and other benefit requirements for the project site within two years of the date of the subsidy and to maintain its wage and benefit goals as long as the subsidy is in effect or for five years, whichever is longer;

(9) Requires the corporate parent of a recipient corporation to maintain at least 90% of its employment in Missouri for as long as the development subsidy is in effect or for not less than five years, whichever is longer;

(10) Specifies the procedure the granting body must follow to recapture the development subsidy if the recipient corporation does not fulfill its obligations;

(11) Authorizes any individual, or an organization representing the individual, who paid personal income taxes in the calendar year prior to any year in which the granting body fails to enforce these provisions to bring a civil action in state court to compel enforcement;

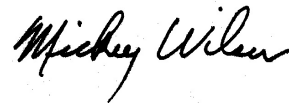
(12) Prohibits any recipient corporation that is awarded benefits under this act from simultaneously receiving any other benefit provided by law including, but not limited to, any bonds, grants, loans, loan guarantees, tax increment financing, fee waivers, land price subsidies, matching funds, tax abatements, tax exemptions, and tax credits; and

(13) Prohibits the provisions of the act from being read to require or authorize any recipient corporation to reduce wages or benefits under any collective bargaining agreement or any state or federal prevailing wage law.

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
City of Columbia
City of Kansas City
City of Raytown
Department of Agriculture
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services
Division of Workforce Development
Metropolitan Community College
Missouri Development Finance Board
Missouri Department of Transportation
Missouri Housing Development Commission
State Tax Commission



Mickey Wilson, CPA
Director
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