COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4335-07
Bill No.: Perfected HS for HB 1409
Subject: Economic Development.
Type: Original
Date: April 16, 2004

---

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| General Revenue | $2,498,268 to (Unknown) | ($2,639,690 to Unknown) | ($997,078 to Unknown) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **$2,498,268 to (Unknown)** | **($2,639,690 to Unknown)** | **($997,078 to Unknown)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Missouri Community College Job Training Retention Fund | $0 | $0 | $0 |
| Various Other State Funds | $1,250,000 to $2,500,000 | $1,500,000 to $3,000,000 | $1,500,000 to $3,000,000 |
| **Total Estimated Net Effect on Other State Funds** | **$1,250,000 to $2,500,000** | **$1,500,000 to $3,000,000** | **$1,500,000 to $3,000,000** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 23 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| **Local Government** | **Unknown** | **Unknown** | **Unknown** |

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to their agency. The proposal will have a negative impact on Total State Revenue and General Revenue. This proposal authorizes the creation of additional enterprise zones and expands existing tax credit programs. BAP defers to the Department of Economic Development for the specific fiscal impacts.

Sections 32.105 - 32.110, Neighborhood Assistance, Development Tax Program, and Affordable Housing;

Officials from the **Department of Economic Development (DED)** state the Development tax credit currently receives $4 million annually out of Neighborhood Assistance Program (NAP) cap. This would authorize the increase of that share to $6 million for FY05, FY06 and FY07.

The bill also deletes references to farmer's markets and new generation cooperatives. These were provisions that were enacted by SB 894 (2000) which was found unconstitutional in its entirety by the supreme court. Therefore, the provisions are in RSMo but are legally unenforceable.

These changes would remove them from RSMo consistent with the court case.

ASSUMPTION (continued)

DED assumes no impact for these changes.

HA 9 - appears to re-enact certain definitions in statute related to new generation coop subprogram of Neighborhood Assistance Program but not clear if would do so. Regardless, there is an overall annual cap on NAP so the overall fiscal impact would be $0.

DED assumes the increase would be absorbed within the overall cap by NAP not reallocating surrendered/unused NAP credit allocation. So there would be no fiscal impact on the state.

**Oversight** assumes the total annual limit on tax credits that can be issued by these three programs has not changed, just the distribution between the three, therefore, although the changes may increase or decrease utilization of the programs, the changes will not result in a fiscal impact to the state.

Section 71.620, Business License fee;

In response to a similar proposal from this year, officials from the **City of Maryland Heights** assumed no fiscal impact to their city or other statutory cities from this legislation.

**Oversight** assumes this part of the proposal would result in an unknown increase in revenue for those villages with less than 1,300 inhabitants that choose to increase their business license fee. Oversight will reflect the fiscal impact to villages as $0 to Unknown.

Section 100.710, Exception made for H&R Block in the BUILD program;

**Oversight** assumes this part of the proposal may increase utilization of the program, but the annual cap for the BUILD program is not adjusted with this section.

Section 100.850, Increase annual limit for tax credits in the BUILD program from $11 million to $15 million (Adjusted by House Amendment 6);

**DED** assumes that based upon current approvals and the timing of approvals and ensuing

ASSUMPTION (continued)

issuances of credits, it is anticipated that the additional cap would not actually be issued until FY06, and it would not all be authorized at once but the projects would be approved over a time period. DED assumes an increase in credits of $0 in FY 2005, $2.5 million in FY 2006 and $3 million in FY 2007.

Section 135.155, Sunset of the New and Expanded Business Facility Tax Credit;

**DED** states this section would sunset the New/Expanding Business Facility ("BFC") Tax Credit Program -- projects commencing operations before January 1, 2005 will continue to receive incentives; no new projects.

DED assumes this would phase out the entitlement program over a ten year period. Although the FY05 projected costs of the program ($6,525,000) are lower than some previous years due to the economy, the average annual cost of the program from FY99 through FY01 (prior to the recession) was $6,720,345. In FY03 the cost was $7.9 million. The average of these years is $7.01 million. For the purposes of this note, DED is assuming an average of $7,000,000 per year cost that would be phased out over a ten year period in increments of 10% added each year. Given the processing time frame on this program, conservative estimates would suggest the tax credit savings would begin to be realized in FY06. Therefore, DED assumes a savings to General Revenue of $700,000 in FY 2006 and $1,400,000 ($700,000 x 2) for FY 2007.

Sections 135.208 - 135.288, Establishes a satellite zone and various enterprise zones, but states that no state benefits will be approved, awarded or issued to any person or entity for tax years beginning on or after January 1, 2005;

Officials from the **Department of Revenue (DOR)** state the creation of additional enterprise zones will create additional credit claims. Personal Tax will need 1 Tax Processing Tech for every 3,000 additional claims created by this legislation. Minor programming will need to be needed for the sunset of 135.200, 135.258, 135.535 and 135.545 to place reason codes for denial of the credit claims.

**Oversight** assumes the new enterprise zones will not be able to receive state benefits, therefore, DOR will not need an additional FTE for this part of the proposal.

Regarding the many new enterprise zones, **DED** assumes because the state incentives for enterprise zones and satellite zones are discontinued for tax years CY05 and thereafter

ASSUMPTION (continued)

(135.288), that a facility would have to commence operations by December 31, 2004 to get any credits at all, and it is not anticipated that an application for and approval of an enterprise zone or satellite zone would take place between August 28, 2004 and December 31, 2004 such that a business in an EZ authorized by this section could receive any state incentives. The costs of this would be local only. No state impact.

DED stated they would still be required to administer the new enterprise zones created, and therefore assume the need for one Economic Development Incentive Specialist II (at $38,088 annually) plus E&E to administer several new enterprise zones. DED assumed the total cost of the FTE would be roughly $70,000 per year.

**Oversight** assumes DED will not pay for additional office space for this single FTE.

Regarding the phase out of the enterprise zone program, **DED** states this part of the proposal would phase out the current entitlement program over a ten year period. The FY 2005 projected costs of the program ($18,440,000) are lower than previous years due to the nation still being in recovery from the recession. The average annual cost of the program for FY 1999 through FY 2001 (prior to the recession) was $23,744,860. For the purposes of this note, DED is assuming an average of $22,000,000 per year cost that would be phased out over a ten year period in increments of 10% added each year. Given the processing time frame on this program, conservative estimates would suggest the tax credit savings would begin to be realized in FY 2006. Therefore, in FY 2006, DED assumes a savings of $2,200,000 (10% of $22,000,000) and then a savings of $4,400,000 ($2,200,000 + $2,200,000) in FY 2007.

Section 135.530, Change in definition of "Distressed Communities";

In response to a related proposal from this year, officials from the **Department of Insurance** assumed this would have no fiscal impact on their agency

In response to a related proposal from this year, officials from the **Department of Revenue (DOR)** stated they did not anticipate a significant amount of additional credit claims will be received. However, if this assumption is incorrect, DOR will need one Tax Processing Tech I for every 4,000 additional credits claimed by this legislation. DOR will monitor the credit and if

FTE are needed, the request will be made through the normal budgetary system.

DOR deferred to the Department of Economic Development or the Office of Administration -



Budget and Planning for an estimate on the revenue impact.

**DED** states that in describing distressed communities, the bill lowers the population level for census block groups from 2,500 to 500 for metropolitan statistical areas. It also adds federal empowerment zones, federal enhanced enterprise community, and certain state enterprise zones.

DED states this bill repeals or stops the issuance of tax credits in three programs that are for distressed communities only (Rebuilding Communities, Transportation Development and Skills Development Account). Other programs with set-asides for distressed communities have exhausted the cumulative cap (CAPCO, Capital tax credit, Seed Capital tax credit). The only program remaining which could be significantly affected by a change in the Distressed Community definition is Neighborhood Preservation.

**Oversight** assumes this proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes. Therefore, Oversight assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

Section 135.536, Rebuilding Communities repeal;

**DED** states that this part of the proposal makes changes so that no credits are approved, awarded or issued beginning January 1, 2005.

DED states the FY05 projected redemptions per Form 14s is $4,000,000. DED assumes that number for FY06 and FY07 as well. FY04 issuance has been down (after audit of the program and reimplementation) and because the credits are generally redeemed in the same FY or the next thereafter, DED assumes a savings of $3.5 million in FY05, $3.75 million in FY06 and the full $4 million in FY07.

Section 135.546, Transportation Development;

**DED** states that some projects already approved would complete contribution and apply for credits prior to January 1, 2005. Additionally, the credit has a 10 year carryforward attribute, so previously issued credits not yet redeemed can be redeemed despite the repeal of the program. Based on total credits issued and not redeemed as of close of FY 2003, assuming current

<u>ASSUMPTION</u> (continued)

projections of FY 2004 $6 million issued, $5.7 million redeemed, and modifying projections for FY 2005 issued from $2.5 million down to $1.5 million, total outstanding unredeemed credits would be less than $3 million. DED assumes, for purposes of this fiscal note, that $2 million of those credits would be redeemed in FY 2005 and $500,000 each year for FY 2006 and FY 2007. Current projected redeemed for FY 2005 is $4,000,000. DED assumes $3,500,000 per year redeemed without the bill in FY 2006 and thereafter. <u>Therefore, DED assumes a savings of $2 million in FY 2005 and $3 million in both FY 2006 and FY 2007.</u>

<u>Sections 135.1050 - 135.1075, Enhanced Enterprise Zones;</u>

In response to a related proposal from this year, officials from **DED** stated the fiscal impact differences are that this program is discretionary and is capped at issuance of $7,000,000 in tax credits annually. A business will receive, each year for up to ten years, the lesser of the amount of credits it is authorized to receive from DED up front based on the projected state economic benefit of the project or credits calculated according to a formula:

- $400 credit per new job
- $400 per new employee zone resident
- $400 per new employee receiving salary higher than county average
- $ = 2% of new investment

Credits must be applied to the tax liability of the year for which they are issued, but they are transferable (75¢ minimum) and refundable.

DED states that with Section 1 of House Amendment 6, eligible businesses in enterprise zones designated before January 1, 2006 are eligible to receive enhanced EZ state tax benefits (do not have to separately have EEZ designation for area).

Because of the 6 year window and the grandfathered eligibility of previously existing regular EZs, DED assumes that the earliest redemptions could occur in FY05 and that DED would aggressively authorize and issue the tax credits within the 6 year period that is more certain. Given the transferability and refundability of the credits, DED projects 100% redemption of issued credits.

DED assumes a cost to the General Revenue Fund for this part of the proposal (with HA6) to be $4 million in FY 2005, $6 million in FY 2006 and $7 million in FY 2007.

ASSUMPTION (continued)

Officials from the **Department of Revenue** state this part of the proposal provides a tax credit for corporations in an enhanced zone for business facilities. Taxation assumes that this will be processed the same as the current BFC program. However, if the legislation needs to be tracked separately, DOR will need programming costs for both MINITS AND COINS ($69,255).

Sections 178.980 - 178.985, Job Training for Retained Jobs;

In response to a similar proposal from this year, officials from the **Office of the State Treasurer**, **Department of Higher Education** and the **Office of Administration - Divisions of Accounting** and **Personnel** each assumed the proposal would not fiscally impact their respective agencies.

In response to a similar proposal from this year, officials from the **Office of the State Courts Administrator** assume the proposal would not fiscally impact the courts.

Officials from the **Department of Revenue (DOR)** stated this legislation is worded similar to current statute on the New Jobs Training Program. Business Tax would need to develop a form identical to what is currently used in the MO-JTC for employers to use if application has been approved.

DOR stated that the Department of Economic Development would be the approving agency, along with Office of Administration, and the businesses would be advised if they have been approved. Legislation indicates DOR's responsibility would be to collect and process. DOR's Taxation division does not anticipate a large number of these withholding employers to be affected by this legislation and the withholding tax system will utilize the current JTC programming for processing. Therefore, it is anticipated that there will not be any additional administrative impact.

DOR also stated that withholding taxes could be deferred to the Missouri Community College

Job Retention Training Program Fund, reducing Total State Income.

In response to a similar proposal from this year, officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 20 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 30 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $1,230, however, the



actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

**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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to a similar proposal from this year, officials from the **Department of Economic Development - Division of Workforce Development (DWD)** stated they would coordinate and conduct many aspects of the Retained Jobs Training Program. DWD assumes they would need 1.5 FTE Workforce Development Specialist IVs (each at $45,156 annually) to implement this bill. The requested positions would be responsible for evaluating the proposed projects within the overall job training efforts of the state, ensuring that the project will not duplicate other job training programs, and determining the relocation risk of businesses that apply for the program. It is also estimated that an $8 million appropriation from the Missouri Community College Job Retention Program Fund would be needed to retire certificates issued.

DWD assumed the cost of the required FTE and corresponding fringe benefits and expense and equipment would cost roughly $101,000 per year to the General Revenue Fund.

The DWD stated this proposal mirrors an existing program currently in place that is utilized for new jobs (Community College New Jobs Training Program). Currently, this program has $55 million in certificates outstanding, and requires at least $16 million annually in appropriations to retire these certificates. Since the program in this proposal is allowed to issue roughly half of the certificates outstanding as compared to the existing program ($25 million versus $55 million), DWD assumed the payments needed to retire the certificates under the proposal would also be roughly half, or $8 million annually. This takes into account principle plus interest, and the fact that most of the projects are retired before the eight to ten year window allowed (as specified in subdivision (2) of section 178.981).

In response to this proposal, **DED** now states that because the program requires an appropriation, and there is none in the FY05 budget that passed out of the House, it is assumed the 1st year funds would be via supplemental appropriation for FY05 towards the end of FY05. Because of



the time limitation on the program and the fact that bonds are involved, DED assumes a maximum number of projects would be approved at the beginning of the program and because payments to retire bonds in less than the general number of years would need to be higher than usual. Based upon the outstanding bond amount and term of bonds, and based upon experience in Community College New Jobs Training Bonds Program (178.892 to 178.896, RSMo), and assuming that the full $15 million would be authorized in the 1st active year, DED now estimates a cost of $0 in FY 2005 and $6 million in each FY 2006 and FY 2007.

DED still assumes the need for 1.5 FTE and costs associated with that.

**Oversight** has adjusted the salary of the 1.5 FTE Workforce Development Specialist IVs to better represent actual salaries of state workers with the same title within the Division of Workforce Development.

**Oversight** will assume that the junior college districts will sell all of the $15 million in certificates available per Section 178.983 in Fiscal Year 2005.

**Oversight** will also assume that all proceeds deposited into the Missouri Community College Jobs Training Retention Program Fund will be disbursed each year.

Section 196.1104, Life Science Research;

In response to a similar proposal from this year, officials from the **Department of Higher Education**, **Central Missouri State University**, **Lincoln University**, **Missouri Western State College**, and **Southwest Missouri State University** each assumed this part of the proposal would have no impact on their organizations.

Sections 620.1400 - 620.1460; Deletion of the Skills Development Account;

**DED** states they have very conservatively estimated costs of program at $1,000 - a nominal amount to reflect that it is an entitlement program and anyone eligible who applied would be given tax credits. DED assumes a savings of $1,000 per year from the repeal of this program.

**Oversight** assumes that since this program has not had any credits issued or redeemed in the last two years, the repeal of this program will not have a fiscal impact.

ASSUMPTION (continued)

Section 620.1560, Deletion of the Mature Worker Tax Credit;

**DED** states they have very conservatively estimated costs of program at $1,000 - a nominal amount to reflect that it is an entitlement program and anyone eligible who applied would be given tax credits.

**Oversight** assumes that since this program has not had any credits issued or redeemed in the last two years, the repeal of this program will not have a fiscal impact.

House Amendment 3, Rural Empowerment Zones;

In response to a similar proposal from this year, officials from the **Office of Administration - Budget and Planning** stated this should not result in any costs or savings to their agency. The proposal could, however, decrease general revenue and total state revenue.

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** stated the proposal would have the following administrative impact:

Business Tax - This legislation sets up "rural empowerment zones" and would allow income earned in the zone to be exempt from corporate income tax. This should work similar to the enterprise zone credit modification on the corporate side. A line would be added to the corporate income tax return. COINS would need to be modified. It is estimated that 692 hours of programming would be needed for a cost of $23,085.

Personal Tax - The credit will be added to the MO-TC for processing on the individual income tax return. Personal Tax will need 1 Tax Processing Tech for every 3,000 claims to handle the verification, key entry and tracking of the credit. MINITS will need to be modified to process this information. It is estimated that 1,384 hours of programming and testing will be needed to update all systems at a cost of $47,170.

DOR assumed a cost of $103,943 in FY 2005, $34,516 in FY 2006 and $35,390 in FY 2007.

**Oversight** assumes the programming changes will need to be made by DOR in FY 2005, however, the additional FTE would not be necessary until January, 2005, or 6 months of FY 2005. Oversight also assumes DOR would not incur additional office space expense for the FTE.

ASSUMPTION (continued)

Officials from **DED** state this program is similar to enterprise zones. Whereas enterprise zones provide tax credits based on jobs and investment, this program appears to provide for a complete exemption from taxes if the business creates 10 jobs. To provide an estimate of cost, an assumption could be made that a rural empowerment zone would be similar in cost to a satellite enterprise zone of $60,000 to unknown. Using this as a cost and estimating at least 75 zones, the cost would be $4.5 million to unknown.

To administer the program, DED assumed the need for two Economic Development Incentive Specialist II's (each at $38,088 per year) plus equipment and additional expenses. DED assumed the cost of the additional FTEs would be roughly $145,000 per year.

**Oversight** has reduced the salary of the two FTE to reflect actual starting salary for the position described. Oversight also assumes DED would not incur additional office space expense for the two FTE. Oversight will utilize DED's estimate for the loss to General Revenue from the exemption of income taxes, although the actual reduction could be substantially different.

In response to a similar proposal from this year, officials from **Hickory County** anticipated no savings or revenues from the proposal. Hickory County officials expect costs between $500 and $1,500 for the implementation and continued administration of the zones. Officials also expect a loss of tax revenue based on forgiveness of taxes to be paid by businesses of between $1,000 and $5,000 annually, starting in FY 2006.

**Oversight** assumes the proposal is permissive for local political subdivisions regarding establishing the Rural Empowerment Zones, and therefore, have not reflected a cost to them.

House Amendment 5, Discontinue sales tax exemption for certain newspapers;

**Oversight** assumes, based on information obtained from House Research, the proposal would impact the publishers of the Kansas City Star and St. Louis Post Dispatch. Assuming Missouri newspaper purchases to be $329,000,000, newspaper production equipment and supplies to be 40% to 60% of newspaper purchases, and a sales tax rate of 4.225%, the range of the sales tax exemption would be $5,000,000 to $10,000,000 per year. The elimination of the exemption for certain newspaper publishers would result in an increase in revenues of $5,000,000 to $10,000,000 per year.

ASSUMPTION (continued)

**Oversight** assumes the breakout of the increased sales tax income would be as follows:

| | | | | |
|---|---|---|---|---|
| General Revenue Fund | 3% | $3,500,000 | to | $7,000,000 |
| Various Other State Funds | 1.225% | $1,500,000 | to | $3,000,000 |
| TOTAL | | $5,000,000 | to | $10,000,000 |

Oversight will assume ten months of impact for FY 2005

House Amendment 8, Sales tax referendum for Economic Development;

In response to a similar proposal from this year, officials with the **Department of Revenue, Department of Economic Development, Department of Labor and Industrial Relations, Department of Elementary and Secondary Education, Jasper County** each assumed this proposal would have no fiscal impact on their agencies.

**Oversight** assumes that the fiscal impact of this proposal on local governments is unknown, and is dependent upon a vote of the people.

| FISCAL IMPACT - State Government | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---|---|---|

**GENERAL REVENUE**

| | | | |
|---|---|---|---|
| Income - elimination of sales tax exemption for newsprint supplies (HA 5) | $2,920,000 to $5,830,000 | $3,500,000 to $7,000,000 | $3,500,000 to $7,000,000 |
| Savings - potential savings from discontinuance of current New or Expanded Business Facility tax credit program (135.155) | $0 | $700,000 | $1,400,000 |
| Savings - potential savings from discontinuance of current Enterprise Zone tax credit program (135.286) | $0 | $2,200,000 | $4,400,000 |

| FISCAL IMPACT - State Government (continued) | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---|---|---|
| Savings - sunset of tax credits for the Rebuilding Communities Program (Section 135.536) | $3,500,000 | $3,750,000 | $4,000,000 |
| Savings - potential savings from deletion of Transportation Development Credit (135.546) | $2,000,000 | $3,000,000 | $3,000,000 |
| Costs - Department of Economic Development (DED) for Sections 178.980 - 178.985 (Job Training) | | | |
| Personal Service (1.5 FTE) | ($45,146) | ($55,542) | ($56,931) |
| Fringe Benefits | ($18,695) | ($22,994) | ($23,569) |
| Expense and Equipment | ($931) | ($1,152) | ($1,185) |
| Total Costs (DED) | ($64,772) | ($79,688) | ($81,685) |
| Costs - DED (for Sections 135.208 - 135.263) - new Enterprise Zones | | | |
| Personal Service (1 FTE) | ($39,040) | ($40,016) | ($41,017) |
| Fringe Benefits | ($16,163) | ($16,567) | ($16,981) |
| Expense and Equipment | ($17,041) | ($12,051) | ($12,412) |
| Total Costs - DED | ($72,244) | ($68,634) | ($70,410) |

| | | | |
|---|---|---|---|
| Costs - Department of Economic Development (DED) - Rural Empowerment Zones | | | |
| Personal Service (2 FTE) | ($53,608) | ($65,937) | ($67,586) |
| Fringe Benefits | ($22,194) | ($27,298) | ($27,981) |
| Expense and Equipment | ($27,082) | ($15,450) | ($15,914) |
| Total Costs - DED (HA 3) | ($102,884) | ($108,685) | ($111,481) |
| | | | |
| Costs - Department of Revenue (DOR) | | | |
| Personal Service (1 FTE) | ($11,168) | ($22,895) | ($23,468) |
| Fringe Benefits | ($4,624) | ($9,479) | ($9,716) |
| Expense and Equipment | ($6,785) | ($309) | ($318) |
| Programming | ($69,255) | $0 | $0 |
| Total Costs - DOR (HA 3) | ($91,832) | ($32,683) | ($33,502) |
| FISCAL IMPACT - State Government (continued) | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
| | | | |
| Loss - increase in the annual limit for tax credits for the BUILD program (Section 100.850) | $0 | ($2,500,000) | ($3,000,000) |
| | | | |
| Loss - Expansion of definition of "distressed community" (Section 135.530) | (Minimal) | (Minimal) | (Minimal) |
| | | | |
| Loss - new Enhanced Enterprise Zone program (Section 135.1070.5) with HA6 | ($4,000,000) | ($6,000,000) | ($7,000,000) |
| | | | |
| Loss - exempted income tax from new business facilities and revenue-producing enterprises from HA 3 | ($4,500,000 to (Unknown) | ($4,500,000 to (Unknown) | ($4,500,000 to (Unknown) |
| | | | |
| Transfer Out - Percentage of gross wages paid to project employees transferred to Missouri Community College job training retention program fund (Sections 178.980 - 178.985) | $0 | ($6,000,000) | ($6,000,000) |
| | | | |
| **ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND** | **$2,498,268 to (Unknown)** | **($2,639,690 to Unknown)** | **($997,078 to Unknown)** |

| | | | |
|---|---|---|---|
| **MISSOURI COMMUNITY COLLEGE JOB TRAINING RETENTION PROGRAM FUND** | | | |
| Transfer In - Percentage of gross wages paid to project employees transferred from the General Revenue Fund | $0 | $6,000,000 | $6,000,000 |
| Expense - appropriations to community college districts of withholding taxes collected per the agreements * | $0 | ($6,000,000) | ($6,000,000) |
| FISCAL IMPACT - State Government (continued) | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
| **ESTIMATED NET EFFECT TO THE MISSOURI COMMUNITY COLLEGE JOB TRAINING RETENTION PROGRAM FUND** | **$0** | **$0** | **$0** |

*** Subject to Appropriation**

| | | | |
|---|---|---|---|
| **VARIOUS OTHER STATE FUNDS** | | | |
| Income - elimination of sales tax exemption for newsprint supplies (HA 5) | $1,250,000 to $2,500,000 | $1,500,000 to $3,000,000 | $1,500,000 to $3,000,000 |
| **ESTIMATED NET EFFECT FOR THE VARIOUS OTHER STATE FUNDS** | **$1,250,000 to $2,500,000** | **$1,500,000 to $3,000,000** | **$1,500,000 to $3,000,000** |

| FISCAL IMPACT - Local Government | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---|---|---|
| **COMMUNITY COLLEGE DISTRICTS SPECIAL PROJECTS FUNDS** (from Sections 178.980 - 178.985) | | | |
| Income - appropriations from the Missouri junior college retained job training fund | $0 | $6,000,000 | $6,000,000 |
| Income - other income received by the district required by the agreement | Unknown | Unknown | Unknown |
| Expenses - program costs for the projects | (Unknown) | (Unknown) | (Unknown) |
| **ESTIMATED NET EFFECT TO THE COMMUNITY COLLEGE DISTRICTS SPECIAL PROJECTS FUNDS** | **$0** | **$0** | **$0** |
| **LOCAL GOVERNMENTS** | | | |
| Income - Increase in business license fee (from Section 71.620) | $0 or Unknown | $0 or Unknown | $0 or Unknown |
| Income - Sales tax on newsprint supplies (HA 5) | Unknown | Unknown | Unknown |
| Income - Sales tax proceeds for economic development purposes (HA 8) | $0 or Unknown | $0 or Unknown | $0 or Unknown |
| **ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS** | **UNKNOWN** | **UNKNOWN** | **UNKNOWN** |

FISCAL IMPACT - Small Business

Small businesses could be impacted by the changes to various programs within the proposal.

DESCRIPTION

This substitute makes changes to various economic development programs.

Sections 32.105 & 32.110 makes changes to the allocation of tax credits in the Neighborhood Assistance Program.

Under current law, a business license tax up to $10,000 may be imposed by villages with less than 1,300 inhabitants. Section 71.620 increases that limit to $15,000.

DESCRIPTION (continued)

This substitute also adds to the definition of “eligible industry” in regards to the BUILD program, to incorporate “a project for a world headquarters of a business whose primary function is tax return preparation” and has created a minimum of 100 new jobs for eligible employees (Section 100.710).

The substitute also increases the annual amount of tax credits available for the BUILD program from $11 million to $15 million (Section 100.850 & House Amendment 6).

The substitute also sunsets the tax credits for the New or Expanded Business Facility program as of January 1, 2005 (Section 135.155).

The substitute also creates a satellite zone and an enterprise zone in Sugar Creek (Sections 135.208 & 135.209).

The substitute also creates enterprise zones in Nixa/Ozark, Shelby County, Webster County, Douglas County, St. Ann, Laclede County, and any other area that meets all the requirements of section 135.205 as an enterprise zone (Sections 135.214, 135.216, 135.217, 135.221, 135.261 and 135.262). The proposal goes on to declare that the state benefits for enterprise zones will cease as of January 1, 2005 (Sections 135.286 and 135.288).

Current law defines "distressed community" to include various areas including metropolitan statistical areas and certain census block groups. Regarding census block groups, this substitute modifies the definition to say that a distressed community includes census block groups which have a population of at least 500, down from the current law population requirement of 2,500. The proposal also adds to the definition by including within the definition federal empowerment zones, federal enhanced enterprise communities, or a state enterprise zone designated before January 1, 1986, if such zones or communities lie in metropolitan statistical areas. (Section 135.530).

Section 135.535 sunsets the tax credits for the Rebuilding Communities program for all tax years beginning on or after January 1, 2005.

Section 135.546 sunsets the tax credits for the Transportation Development program for all tax years beginning on or after January 1, 2005.

Sections 135.1050 - 135.1075 enacts Enhanced Enterprise Zones. The proposal also prevents new revenue producing enterprises from utilizing the existing enterprise zone law after January 1, 2005. These new enhanced enterprise zones will have criteria for qualification.

DESCRIPTION (continued)

To be in a zone, an area must meet all the following criteria:

(1) The area is blighted, has pervasive poverty, unemployment, and general distress;

(2) At least sixty percent of the residents living in the area have incomes below ninety percent of the median income of all residents within the state of Missouri;

(3) The resident population of the area must be at least five hundred but not more than on hundred thousand at the time of designation as an enterprise zone if the area lies within a metropolitan statistical area, as established by the United States Census Bureau, or if the area does not lie within a metropolitan statistical area, the resident population of the area at the time of designation must be at least five hundred but not more than forty thousand inhabitants. If not, the population of the area must be at least fifty percent of the population of the jurisdiction. However, no enhanced enterprise zone shall consist of the total area within the political boundaries of a county; and

(4) The level of unemployment within the area exceeds one and one-half times the average rate of unemployment for the state of Missouri over the previous twelve months, or the percentage of area residents employed on a full-time basis is less than fifty percent of the statewide percentage of residents employed on a full-time basis.

In addition, an area, to qualify as an enhanced enterprise zone, must be demonstrated by the governing authority to have either:

(1) The potential to create sustainable jobs in a targeted industry; or

(2) A demonstrated impact on industry cluster development.

The enhanced enterprise zone designation, if approved by the joint committee, would be in effect for 25 years.

The benefits of an enhanced enterprise zone are similar to those of current enterprise zones, including tax credits.

Up to $7 million (House Amendment 6) in benefits can be authorized annually for this program.

The substitute also creates the authority for community college districts to enter project agreements, with the approval of the Department of Economic Development after consultation



with the Office of Administration, with employers who have retained jobs that represent a substantial investment in technology or that were at risk of relocation out of state. The proposal specifies the requirements for qualifying employers. Community colleges will provide job training, skills assessments, and training facilities, among other services, and may subcontract with other public and private colleges and with governmental agencies. The agreements may provide that program costs would be met by receipt of retained jobs credits from withholding, based on 2.5% of the gross wages paid to employees in the first 100 retained jobs and 1.5% for any additional retained jobs. The employer is responsible for meeting any shortfall in withholdings. Community college districts may issue industrial retained job training certificates to provide funds for the payment of costs of the programs, with a statewide cap of $15 million. The substitute also sets timetables for approval of projects; establishes special funds; and regulates the disbursal of moneys to those funds, certification of withholdings, and borrowing for and issuance of certificates by community college districts. The provisions of this section will expire six years from the effective date and no certificates can be sold after July 1, 2014. (Sections 178.980 - 178.985).

The substitute would also authorize the president of any public university to present financial commitments on behalf of the university to fund an endowed life sciences research chair academic position (Section 196.1104).

The substitute also deletes the Skills Development Account Tax Credit (Sections 620.1400 - 620.1460).

The substitute also deletes the Mature Worker Tax Credit (Section 620.1560).

House Amendment 3; allows the governing body of any county to submit an application to the Department of Economic Development to designate areas within the county as rural empowerment zones. The department will review the application to ensure that the area meets all of the following criteria:

(1) The area is one of pervasive poverty, unemployment, and general distress;

(2) At least 65% of the population has earned income below 80% of the median income of all residents within the state;

(3) The population of the area is between 400 and 3,500 at the time of the designation;

(4) The level of unemployment within the area exceeds 150% of the average rate of

DESCRIPTION (continued)

unemployment for the state over the previous twelve months or the percentage of area residents employed on a full-time basis is less than 50% of the statewide percentage;

(5) The area is more than 10 miles from any existing rural empowerment zone;

(6) The area is in a third or fourth classification county; and

(7) The area is not in an existing enterprise zone.

New businesses and revenue-producing enterprises located in the zone will be exempt from paying all Missouri income taxes attributable to the business until August 28, 2014, provided the business creates a certain number of new full-time jobs within one year from the date on which the tax exemption begins. New businesses must create at least 10 new jobs; revenue-producing enterprises that employ fewer than 20 people must create at least five new jobs; and revenue-producing enterprises that employ 20 or more people must create a number of new jobs equal to 25% of the number of full-time employees employed by the revenue-producing enterprise.

House Amendment 4; requires DED to designate an enterprise zone in Sugar Creek /

Independence as well as one in Raytown.

House Amendment 5; would exclude publicly traded newspaper publishers with annual operating revenues in excess of $250,000,000 and a Missouri based average daily newspaper circulation in excess of 200,000 from the sales tax exemption for newspaper production equipment and supplies.

House Amendment 6 state that all enterprise zones designated before January 1, 2006 shall be eligible to receive the tax benefits under sections 135.1050 through 135.1075.

House Amendment 7 requires DED to designate enterprise zones in Pacific and St. Clair.

House Amendment 8 authorizes a local sales tax for economic development purposes. Under this act, Joplin, cities in Jasper County and Butler County could impose a sales tax of up to 1/2% by order or ordinance, pending voter approval in a state general or primary election.

House Amendment 10 requires businesses existing in an enterprise zone on the effective date of the proposal to recertify for the local property tax abatement and exemption. The abatement or exemption shall cease after a period of thirty days of business closure, work stoppage, or other

DESCRIPTION (continued)

variable.

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 Insurance
Department of Revenue
Office of the State Treasurer
Department of Higher Education
Office of Administration
 Division of Accounting
 Division of Personnel
 Budget and Planning
Office of the State Courts Administrator
Office of the Secretary of State

RAS:LR:OD (12/02)

Department of Labor and Industrial Relations
Department of Elementary and Secondary Education
Central Missouri State University
Lincoln University
Missouri Western State College
Southwest Missouri State University
City of Maryland Heights
Hickory County
Jasper County

Mickey Wilson

Mickey Wilson, CPA
Director
April 16, 2004