COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 1562-02
Bill No.: Perfected SCS for SB 620
Subject: Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - General; Economic Development Department; Business and Commerce.
Type: Original
Date: April 16, 2003

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## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| General Revenue * | $0 | $0 or (Unknown - Greater than $1,000,000) | $0 or (Unknown - Greater than $1,000,000) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund *** | **$0** | **$0 or (UNKNOWN - GREATER THAN $1,000,000)** | **$0 or (UNKNOWN - GREATER THAN $1,000,000)** |

*** The (Unknown - Greater than $1,000,000) fiscal impact assumes the taxpayer in Hazelwood accepts and meets all of the criteria outlined in the proposal.**

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| None | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| None | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2004 | FY 2005 | FY 2006 |
| **Local Government** | **$0** | **$0** | **$0** |

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume that the provisions in this legislation will be administered by the Department of Economic Development. DOR does not anticipate there will be a significant number of new credits claimed and will therefore not request additional FTE.

Officials from the **Office of Administration - Budget and Planning (BAP)** state that various provisions in this bill could have a negative impact on Total State Revenues.

Officials from the **Department of Economic Development (DED)** state this proposal amends the "BUILD" (Business Use Incentives for Large Scale Development) Program to authorize its use for retention projects so long as the project is to retain an "essential industry." Essential industry is one that is critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for the life of the BUILD certificates (10-15 years). The nearly exhausted cumulative bond cap will be replaced with an annual tax credit cap of $11 million.

ASSUMPTION (continued)

DED states the proposal also adds new sections to Enterprise Zone law to allow tax credits, tax exemption and refunds to "essential industries" upon an agreement with the DED. Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in an enterprise zone that includes a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for 10 years. Jobs must pay better than average wage of county.

DED states that local incentives must be provided and the company must be considering another state for the project. Tax credit otherwise for new jobs under EZ is for retained jobs. Credits for investment are only for new investment. Refund mechanism allows a $2 million per year refund for 5 consecutive years.

DED states the proposal also amends the Community College New Jobs Training Program to authorize its use for retention projects so long as the project is to retain an "essential industry". Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for the life of the CCNJT certificates (8 years). Jobs must pay better than average wage of county.

The provisions of the bill will expire unless a project has been approved by DED by December 31, 2005. If a project is so approved, provisions will expire January 1, 2020 - gives a full 15 years for a BUILD bond issuance.

It is estimated by DED that agreements entered into with the taxpayer under the provisions of this bill would result in $3 to $3.5 million per year in incentives each year over a period of ten years, beginning no sooner than FY2005.

DED states that it is notable that the taxpayer has already announced its intention to close the Hazelwood facility in 2005 and the loss of the jobs at the plant would result in a very large negative impact on the state. Without an incentive agreement to keep the Hazelwood plant open, Total State Revenues (TSR) would decline due to the loss of jobs, supported jobs, etc. DED has not factored this into their estimated costs.

DED assumes no new staff will be needed as a result of the bill. DED assumes tax incentives will first affect TSR during FY2005, although it could begin in a later fiscal year. DED assumes the amount will be $3 million in FY05 and $3.5 million per year thereafter for the remainder of approximately 10 years. ASSUMPTION (continued)

DED assumes this will be offset by some positive but indeterminable economic benefits to the state, which are not projected in this fiscal note.

Officials from the **City of Hazelwood** and **St. Louis County** did not respond to our request for fiscal impact.

According to Subsection 135.279.4, the taxpayer in Hazelwood must choose between the tax benefits they are already receiving under Sections 135.220, 135.225, 135.235, 135.245 or 135.110 and the benefits described in the new sections of the proposal (135.276 through 135.283). **Oversight** does not know what benefits the taxpayer is already receiving under current law, so determining how much more of an impact the enterprise zone benefits in this proposal will have is not possible.

**Oversight** was unable to determine, from the information provided, how DED arrived at their estimated cost of $3.5 million per year. Therefore, based upon the lack of information available and the upon the significance of the three programs that were adjusted to include the taxpayer in Hazelwood, Oversight assumes the fiscal impact to the state would be unknown loss of state revenue in excess of $1 million per year for fifteen years. This loss is dependent upon the taxpayer accepting the terms of the legislation, which include retaining employment for 2,000 employees for at least five years, the average wage of the employees exceeding the average wage paid within St. Louis County, and the taxpayer investing a minimum of $500 million in the economic development project by the end of the third year.

**Oversight** will range the fiscal impact of the proposal from $0 (if the taxpayer does not accept the terms of the proposal and since the taxpayer has until January 1, 2006 to act upon the proposal) to (Unknown - Greater than $1 million). Oversight has not shown the potential positive fiscal impact that may result from these economic development incentives. Oversight assumes the fiscal impact would not be realized before FY 2005. Oversight also assumes the City of Hazelwood and St. Louis County may also include incentives for this taxpayer but has not reflected them on the fiscal note.

Senate Amendment 1:

Officials from the **Department of Economic Development** state this version adds Section 14 to 99.845 RSMo. The amendment will make no change to the cost for the bill. The amendment relates to State TIF, a currently existing program. This change will create no costs as far as PS/EE. The amendment has no impact on GR as it would only be incremental new revenues that could be appropriated for the project. The amendment language seems to be a clarification of the application of

ASSUMPTION (continued)

a "baseline year" when determining incremental income taxes than anything.

Officials from the Department of Revenue did not respond to our request for fiscal impact regarding Senate Amendment 1. However, **Oversight** assumes the amendment would not fiscally impact their agency.

**This proposal may impact Total State Revenues**.

| FISCAL IMPACT - State Government | FY 2004 | FY 2005 | FY 2006 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Loss - various tax credit programs restructured for a taxpayer in Hazelwood | $0 | $0 or (Unknown Greater than $1,000,000) | $0 or (Unknown Greater than $1,000,000) |
| **ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND** | **$0** | **$0 or (Unknown Greater than $1,000,000)** | **$0 or (Unknown Greater than $1,000,000)** |

| FISCAL IMPACT - Local Government | FY 2004 | FY 2005 | FY 2006 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal implements various economic development incentives concerning targeted industries, enterprise zones and job training programs at community colleges. The major provisions of the proposal are as follows:

Missouri Business Use Incentives for Large-Scale Development Act (BUILD) (Sections 100.710, 100.840, 100.850, RSMo)

Essential and targeted industries definitions are modified to allow for retention projects in "essential industries". The proposal adds to the purview of "eligible industries" those that meet the following requirements: - Must be a "targeted industry", i.e. one that is critical to state's economic security and growth as determined by the Department of Economic Development (DED) and affirmed by the Joint
Committee on Economic Development Policy & Planning; - Must be located in a city meeting certain population parameters in a county meeting certain parameters (Hazelwood is only city that currently qualifies); - Must have had at least 2,000 jobs at the project site for each of the five preceding years; - Must retain the number of jobs (actual number of jobs not the 2,000 minimum) for the duration of the BUILD certificates (10 15 years); and - Must invest at least $500 million (new investment) in the project.

The proposal also eliminates the cumulative cap and replaces it with an annual tax credit cap of $11 million.

Enterprise Zone Program: (new Sections 135.276, 135.277, 135.279, 135.281, 135.283, RSMo):

This part of the proposal contains new provisions that build on existing enterprise zone law. The proposal follows the pattern of existing enterprise zones except as follows: - Must be an "essential industry" to be eligible to apply for the retention program: - Must be a "targeted industry" one that is critical to state's economic security and growth as determined by DED and affirmed by the Joint Committee on Economic Development Policy & Planning; -Enterprise zone must include all or part of a city meeting certain population parameters in a county meeting certain parameters (Hazelwood is only city that currently qualifies) - Must have had at least 2,000 jobs at the project site for the five preceding years; - Must retain the jobs for 10 years (actual number of jobs not the 2,000 minimum); - Must invest at least $500 million (new investment) in the project over 2 year period within first 5 years of project; - DED must consider soundness of project; - Local incentives must be provided; - Wages must exceed average wage of county; - The incentive must be needed to make a project remain in Missouri; and - Company must be considering another state for the project.

DESCRIPTION (continued)

The proposal offers a refund mechanism: - Eligible to apply if tax credits exceed taxable income for facility by $1 million; - No more than $2 million refund in any year; - Cannot receive refund for more than five consecutive years; - If tax credits exceed taxable income by more than 2 million, those credits can be carried forward for refund purposes.

Community College New Jobs Training Program (Section 178.892, RSMo)

Modified to allow for retention projects in "essential industries": - Must be a "targeted industry" one that is critical to state's economic security and growth as determined by DED and affirmed by the Joint Committee on Economic Development Policy & Planning; - Must be located in a city meeting certain
population parameters in a county meeting certain parameters (Hazelwood is only city that currently qualifies); - Must have had at least 2,000 jobs at the project site for the five preceding years; - Must retain the jobs (actual number of jobs not the 2,000 minimum) for the duration of the CCNJT certificates (8 years); - Wages must exceed average wage of county.

The proposal will expire January 1, 2006 if a project has not been approved by DED by December 31, 2005. If a project has been so approved, act will terminate on January 1, 2020.

Senate Amendment 1:

Senate Amendment 1 addresses how the economic activity taxes and new state tax revenues shall be calculated when a national headquarters moves from another state into Missouri. The amendment states the incremental increase shall be the amount of total taxes generated from the net new jobs brought in and that the redevelopment project can not receive an appropriation in excess of 50 percent of the new state revenues.

The proposal has an emergency clause.

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

RAS:LR:OD (12/02)

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning

**NOT RESPONDING:** **City of Hazelwood, St. Louis County**

Mickey Wilson

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APRIL 16, 2003