

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3054S.02I
 Bill No.: SB 785
 Subject: Economic Development; Department of Economic Development
 Type: Original
 Date: January 16, 2024

Bill Summary: This proposal modifies the Missouri Works Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)

*The changes in the proposal could increase utilization of the Missouri Works Program. **Oversight** notes if this proposal resulted in a 1% increase in combined retained withholdings this would be a loss to General Revenue of approximately \$640,000. Therefore, Oversight assumes the impact from this proposal could result in a loss exceeding the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** note:

Sections 620.2005 & 620.2010 MO Works Program

The Missouri Works program was created in 2013 and allows large companies that invest the delineated amount of money into their factories outlined in this statute, or retain a certain number of jobs, can receive a tax credit and/or retain employee withholding tax. The program has a cap of \$126 million, of which \$10 million is reserved for car manufacturers, and another \$10 million is reserved for infrastructure projects.

For fiscal note purposes, DOR is providing the authorization, issuances and redemption of the credits for this program since it began. DOR is also showing how much of the withholding tax is being retained by the participating companies.

Year	Authorized	Issued	Withholding	Total Redeemed
FY 2023	\$58,234,898.00	\$139,364,971.66	\$59,039,193.29	\$100,419,077.97
FY 2022	\$80,498,453.00	\$131,465,595.90	\$81,460,659.34	\$134,716,930.11
FY 2021	\$230,661,649.74	\$112,293,173.91	\$51,694,704.48	\$100,393,654.20
FY 2020	\$153,823,786.33	\$134,393,278.36	\$81,074,270.49	\$113,472,125.29
FY 2019	\$100,482,945.49	\$82,326,471.67	\$39,414,426.91	\$64,786,980.04
FY 2018	\$185,732,973.08	\$45,830,250.31	\$36,394,962.32	\$56,398,908.94
FY 2017	\$155,506,188.16	\$35,547,214.37	\$20,546,348.51	\$35,065,682.60
FY 2016	\$114,719,436.24	\$23,741,677.22	\$12,010,486.07	\$12,075,788.82
FY 2015	\$289,578,581.00	\$3,588,784.56	\$3,588,784.56	\$3,588,784.56
FY 2014	\$116,445,144.00	\$146,923.00	\$146,923.00	\$146,923.00
FY 2013	\$0.00	\$0.00		\$0.00
FY 2012	\$0.00	\$0.00		\$0.00
TOTALS	\$1,485,684,055.04	\$708,698,340.96	\$385,370,758.97	\$621,064,855.53

This proposal attempts to modify some of the definitions used in determining whether a company meets the requirements to participate in this program. DOR does not assume any additional impact from the definition changes.

DOR notes that the definition of “gross wages” and “taxable wages” which are being added to this proposal refer to a specific box number on a taxpayer’s W-2. It should be noted that the federal government can change the box numbers on the W-2 at any time, so it is unclear how this proposal would be implemented if that would occur.

It is unclear if the changes in the definition will result in more or less of the tax credits being issued. However, since the cap on the program is unchanged, DOR assumes any changes to the tax credit program will not result in an additional fiscal impact to the state.

DOR is unable to determine if the changes in the definitions will impact the amount of employee withholdings a company can retain. Should these definition changes allow more withholding to be retained, this will result in an additional unknown negative impact to general revenue.

Officials from the **Department of Economic Development and Office of Administration – Budget & Planning** both assume the proposal will have no fiscal impact.

Oversight notes that this proposal, Section 620.2005, modifies the Missouri Works program by modifying several definitions. The definition of "average wage, gross wages, taxable wages, new payroll, notice of intent" is modified to require such notice to be accompanied by an affidavit attesting to the estimated number of new jobs, position types, and new payroll. Multiple definitions are modified to change "payroll" and "wages" to "gross payroll" and "gross wages".

Additionally, in the event that the average wage for all new jobs created fails to meet the average wage requirement, this act allows a qualified company to retain withholding tax for the minimum number of required jobs. Current law bases the amount of tax credits to be authorized for a qualified company on a percentage of new payroll. This act changes the base for such tax credits to a percentage of new taxable wages.

Lastly, Oversight notes the proposal, Section 620.2010, also requires the Department of Economic Development to consider certain factors when determining the amount of tax credits to award to a qualified company. This act requires the Department to consider whether the qualified company participates in a pre-apprenticeship program, and the location of the headquarters of any contractor used by the qualified company.

Oversight notes the §620.2020.8 RSMo placed a \$75 million cap on the withholding tax that can be claimed by companies for new jobs with a project facility base employment of at least 50; however, there is still no cap on companies with base employment of less than 50.

Oversight assumes the proposed changes including the average requirement (620.2010.1 (4)) could potentially allow a company that doesn’t meet the current average wage requirement to retain withholdings for new jobs created. Oversight assumes there could be an additional unknown loss to General Revenue.

\$250,000 Threshold:

Oversight notes if this proposal resulted in a 1% increase in combined retained withholdings (based on a three year average of the amounts provided by DOR above) this would be a loss to General Revenue of approximately \$640,000 $((\$59,039,193 + \$81,460,659 + \$51,694,704)/3 \times 1\%)$. Therefore, Oversight assumes the impact from this proposal could result in a loss greater than the \$250,000 threshold.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 \$5,000. 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 its 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Revenue Loss – Section 620.2005 & 620.2010 – potential increase in retained withholdings</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that qualify for the Missouri Works Program could be impacted by this proposal.

FISCAL DESCRIPTION

This act modifies the Missouri Works program by modifying several definitions. The definition of "average wage" is modified by dividing aggregate new payroll by the aggregate actual hours worked for new jobs multiplied by 2,080. A definition is added for "gross wages" and "taxable wages". The definition of "new payroll" is modified to include amounts paid by a qualified company for health insurance premiums if such qualified company pays 100% of the health insurance premiums of its full-time employees. The definition of "notice of intent" is modified to require such notice to be accompanied by an affidavit attesting to the estimated number of new jobs, position types, and new payroll. Multiple definitions are modified to change "payroll" and "wages" to "gross payroll" and "gross wages". (Section 620.2005)

In the event that the average wage for all new jobs created fails to meet the average wage requirement, this act allows a qualified company to retain withholding tax for the minimum number of required jobs. The Department may choose which new jobs to include in the minimum number to be averaged that will meet or exceed the average wage requirement.

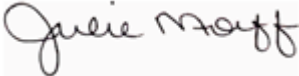
Current law bases the amount of tax credits to be authorized for a qualified company on a percentage of new payroll. This act changes the base for such tax credits to a percentage of new taxable wages.

Current law requires the Department of Economic Development to consider certain factors when determining the amount of tax credits to award to a qualified company. This act requires the Department to also consider whether the qualified company participates in a pre-apprenticeship program approved by the Missouri Department of Higher Education and Workforce Development and the location of the headquarters of any contractor used by the qualified company, with preference given to contractors that are selected through an open bidding process that are headquartered in Missouri and for whom at least 85% of the workforce used for any work performed by the contractor for a qualified company reside within fifty miles of the site of such work. (Section 620.2010)

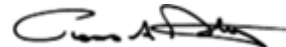
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration
Department of Revenue
Office of the Secretary of State
Joint Committee on Administrative Rules



Julie Morff
Director
January 16, 2024



Ross Strope
Assistant Director
January 16, 2024