

HCS HB 1 -- ECONOMIC INCENTIVE AND DEVELOPMENT PROGRAMS

SPONSOR: Richard

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Job Creation and Economic Development by a vote of 11 to 0.

This substitute changes the laws regarding economic incentive and development programs.

ADMISSION TICKET SALES (Sections 67.306 and 578.395, RSMo)

Cities and counties may not prohibit the sale or resale of tickets for admission to any legal event at any price. Fees associated with the sale or resale of the tickets are also permitted. Ordinances or regulations related to criminal activity, consumer fraud, false advertising, or other deceptive business practices will still be enforced.

The substitute decriminalizes ticket scalping by repealing Section 578.395.

TAX INCREMENT FINANCING (Sections 99.805 and 99.843)

The substitute defines "greenfield area" as it relates to tax increment financing (TIF).

New TIF projects are prohibited from being authorized in any greenfield area located within St. Louis City or the counties of Franklin, Jefferson, St. Charles, and St. Louis.

DISTRESSED AREAS LAND ASSEMBLAGE TAX CREDIT ACT (Section 99.1205)

The substitute establishes the Distressed Areas Land Assemblage Tax Credit Act which authorizes, beginning January 1, 2008, a tax credit equal to 50% of the costs and 100% of the interest incurred for the acquisition of an eligible parcel of land.

Eligible parcels must be located within an eligible project area which is to be redeveloped and must be acquired before the applicant begins condemnation proceedings. Parcels acquired by the applicant from a municipal authority are not included. The applicant cannot redevelop more than 75% of the area identified in the redevelopment plan. The remainder of the area must be redeveloped by a redeveloper to whom the applicant has assigned its redevelopment rights under the plan. Funds raised through the use or sale of these tax credits must be used to redevelop

the eligible project area. Applicants can receive these credits for up to five years after the land's acquisition. These credits may be carried forward for up to six years or sold.

No more than \$10 million tax credits can be issued annually, and no more than \$95 million can be issued for the life of the program. If applications for the tax credit exceed \$10 million in any year, the Department of Economic Development can issue the entire amount to one applicant if there is only one eligible applicant or on a pro rata basis to all the eligible applicants. Any eligible amount which is not issued because of the \$10 million annual limit will be carried forward and reserved for the applicant in future years.

Eligible project areas must meet the following requirements:

- (1) The area must consist of at least 75 acres, which can include parcels which are not eligible parcels;
- (2) At least 80% of the area must be located within a Missouri qualified census tract area or a distressed community;
- (3) Eligible parcels acquired by the applicant within in the project area must be at least 75 acres; however, the parcels are not required to be contiguous;
- (4) The average number of parcels per acre must be at least four; and
- (5) Less than 5% of the acreage within the area's boundaries can consist of owner-occupied residences which the applicant has identified for acquisition.

An applicant is any person or company which has incurred acquisition costs for land meeting the requirements for an eligible project area and who has been appointed or selected by a municipal authority to redevelop an urban renewal area, a redevelopment area that includes all of an eligible project area, or a redevelopment plan or area which has been approved or adopted under a Missouri economic incentive act.

No tax credits can be authorized for the program after August 28, 2013.

TAX CREDIT ELIGIBILITY

The substitute revises the definition of "business firm" to

include charitable organizations that are exempt from federal income tax as it relates to the Neighborhood Assistance Program (Section 32.105).

The definition of "taxpayer" is revised to include charitable organizations that are exempt from federal income tax as it relates to the Missouri Development Finance Board (Section 100.286), Neighborhood Preservation Act (Section 135.478), Transportation Development in a Distressed Area Tax Credit (Section 135.545), Domestic Violence Shelters Tax Credit (Section 135.550), Maternity Home Tax Credit (Section 135.600), Residential Treatment Agency Tax Credit (Section 135.1150), Small Business Incubator Tax Credit (Section 620.495), and Qualified Research Expenses Tax Credit (Section 620.1039).

The definition of "person" is revised to include charitable organizations that are exempt from federal income tax as it relates to the Missouri Certified Capital Company Law (Section 135.500), Seed Capital Tax Credit (Section 348.300), and New Enterprise Creation Tax Credit (Section 620.638).

The substitute also revises the definition of "taxpayer" to include charitable organizations that are exempt from federal income tax as it relates to the Pregnancy Resource Center Tax Credit (Section 135.630) and Missouri Higher Education Scholarship Donation Fund (Section 173.196) and allows these credits to be sold or transferred for at least 75% of par value.

QUALIFIED BEEF TAX CREDIT ACT (Section 135.679)

The Qualified Beef Tax Credit Act is established which allows a tax credit for each qualifying sale of a qualifying beef animal. From January 1, 2009, to December 31, 2016, the credit will be equal to 10 cents per pound for each pound above the animal's baseline weight, as long as the sale weight is at least 200 pounds above the baseline weight. The Agricultural and Small Business Development Authority can waive a portion of the weight gain requirement, but only in circumstances where a disaster declaration is issued by the United States Department of Agriculture.

A qualifying beef animal must be born in Missouri after August 28, 2008; raised and backgrounded or finished in Missouri by the taxpayer; less than 30 months old; and certified by the authority.

The tax credit must be claimed in the year in which the

qualifying sale occurs. Any unused portion may be carried back three years and carried forward five years. No more than \$3 million in credits can be issued in a fiscal year.

NEW MARKETS - QUALIFIED EQUITY INVESTMENT TAX CREDIT (Section 135.680)

The substitute authorizes a tax credit equal to 7% of the adjusted purchase price paid to the issuer of a qualified equity investment for the third credit allowance date and 8% for the next four credit allowance dates. The tax credits are not transferable or refundable but may be carried forward for up to five years. No more than \$15 million of these tax credits can be utilized annually.

The state is allowed to recapture credits when permissible under federal law and in situations where the issuer redeems or makes any principal repayments with respect to the qualified investment before the seventh anniversary of the investment's issuance. Any tax credit subject to recapture will be taken from the taxpayer that claimed the tax credit on a return.

No qualified equity investments can be made after Fiscal Year 2010 unless the program is reauthorized by the General Assembly.

FILM PRODUCTION TAX CREDITS (Section 135.750)

For tax years beginning January 1, 2008, the substitute lowers the minimum budget expenditure from \$300,000 to \$50,000 for a qualified film production project less than 30 minutes in length or \$100,000 for a project longer than 30 minutes. The substitute removes the individual project credit cap of \$1 million and increases the total annual program cap from \$1.5 million to \$4.5 million. The credit will be equal to 35% of the qualifying expenses for the project, which cannot include wages for highly compensated individuals.

ENHANCED ENTERPRISE ZONES (Sections 135.950, 135.963, and 135.967)

The substitute changes the laws regarding enhanced enterprise zones. The substitute:

- (1) Revises the definition of "employee" to a person employed by the enhanced business enterprise who is scheduled to work an average of at least 1,000 hours per year. Health insurance must be offered to employees at all times and must be partially paid

by the employer. Currently, the definition of "employee" includes full-time, part-time, and seasonal employees;

(2) Adds educational services, religious organizations, and public administration to the list of entities which are prohibited from being enhanced business enterprises. However, the headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory;

(3) Defines "facility base employment," "facility base payroll," "new job," "notice of intent," "related facility," and "related facility base employment";

(4) Allows speculative industrial or warehouse buildings constructed by a public entity, or a private entity if the land is leased by a public entity, to be exempt from ad valorem taxes, upon the approval of the governing authority. If the speculative building is owned by a private entity, the exemption cannot exceed two years. If it is owned or leased by a public entity, the exemption cannot exceed five years. Currently, only enhanced business enterprises can be exempt from these taxes;

(5) Increases the cap on the amount of tax credits that can be issued in a calendar year from \$7 million to \$14 million; and

(6) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

TAX EXEMPTION FOR AUTO MANUFACTURING (Section 144.030)

Currently, electricity used in the primary manufacturing of automobiles is exempt from local and state sales taxes if the raw materials used in the processing contain at least 25% recovered materials. The substitute specifies that raw materials used during the primary manufacturing of automobiles will be assumed to contain at least 25% recovered materials.

VOCATIONAL SCHOOL DISTRICTS (Section 178.716)

The counties of Bollinger, Butler, Cape Girardeau, Dunklin,

Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard, and Wayne are authorized to organize a vocational school district. The Coordinating Board for Higher Education must establish specified standards for the district.

COMMUNITY COLLEGE NEW JOB TRAINING PROGRAM (Sections 178.895 and 178.896)

The substitute allows community college districts to sell new job training program certificates until July 1, 2018, and extends the program until July 1, 2028. Currently, the program will expire on July 1, 2018; and the authorization to sell certificates expires July 1, 2008.

MISSOURI WORKFORCE INVESTMENT BOARD (Sections 620.511 - 620.513, 620.521 - 620.530, and 620.537)

The Missouri Workforce Investment Board is established to provide workforce investment activities that increase the employment, retention, and earnings of participants and improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of Missouri.

The substitute specifies the membership and terms of the board members and requires the board to meet the requirements of the federal Workforce Investment Act (WIA) of 1998 and assist the Governor with the functions described in Section 111(d) of the WIA 29 USC 2821d. The board must meet at least four times per year and submit an annual report of its activities to the Governor and General Assembly.

The Missouri Training and Employment Council Act is repealed and the Missouri Training and Employment Council is dissolved.

QUALITY JOBS PROGRAM (Sections 620.1878 and 620.1881)

The substitute changes the laws regarding the Quality Jobs Program. The substitute:

- (1) Defines "approval," "project facility base payroll," and "related facility base payroll";
- (2) Allows tax credits to offset taxes due from financial institutions under Chapter 148. Currently, the credits can only be used to offset state income taxes imposed under Chapter 143;
- (3) Specifies the way in which the county average wage will be

calculated when a qualified company relocates employees from one county to another;

(4) Revises the definition of "full-time employee" from an employee who works an average of 35 hours per week to an employee of the qualified company who is scheduled to work an average of 35 hours per week, but leaves the remaining requirements of the definition unchanged;

(5) Changes the calculation of "new direct local revenue" so that local earnings taxes are excluded;

(6) Specifies that no jobs created before the notice of intent will be deemed new;

(7) Specifies the way in which "new payroll" will be calculated;

(8) Adds educational services, religious organizations, public administration, and utilities regardless of whether or not they are regulated by the Missouri Public Service Commission to the list of entities which are prohibited from being qualified companies. However, the headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory;

(9) Expands the definition of "technology business project" to include a qualified company that researches, develops, or manufactures power system technology for aerospace, space, defense, hybrid vehicles, or implantable or wearable medical devices;

(10) Revises the definition of "withholding tax" to a computation using a schedule determined by the Department of Economic Development based on average wages. Currently, the definition is the state tax imposed under Sections 143.191 - 143.265;

(11) Increases the cap on the amount of tax credits that can be issued in a calendar year for the program from \$12 million to \$40 million;

(12) Expands the types of projects which are eligible to receive benefits to include small business job retention and flood survivor relief projects. In this case, a qualified company may receive a tax credit for the retention of jobs and flood survivor relief in this state for each job retained over a three-year period. The substitute specifies the requirements which must be

met for this type of project, including that the qualified company has fewer than 100 employees, the company's average wage must meet or exceed the county average wage, all of the company's facilities are located in Missouri, and its facilities were directly damaged by flood water rising above the level of a 500-year flood at least two years, but no more than eight years, before an application to the program is made. The qualified company must also invest at least \$2 million in capital improvements in facilities and equipment located at facilities that are not located within a 500-year flood plain. For this project type, the tax credit is equal to up to 100% of the withholding taxes generated by the full-time jobs at the project facility during a three-year period. The calendar year's annual maximum amount of tax credits which can be issued to a qualified company cannot exceed \$250,000. The department can propose that this maximum amount be doubled to \$500,000; however, this must be approved by the Quality Jobs Advisory Task Force. The total annual program cap is \$500,000;

(13) Prohibits a qualified company from participating in the Quality Jobs Program's Small Business Job Retention and Flood Survivor Relief project type if it received any state or federal benefits, incentives, tax relief, or abatement for locating its facility to a flood plain;

(14) Requires any taxpayer who participates in the Quality Jobs Program and knowingly hires illegal immigrants to forfeit the program's benefits and repay the state an amount equal to any tax credits redeemed or withholding taxes already retained;

(15) Allows the calendar year's maximum amount of quality jobs tax credits issued to a qualifying company that participates in both the Quality Jobs Program and the New Job Training Program to be increased by an amount equivalent to the withholding tax retained by that company under the New Job Training Program if the combined benefits do not exceed the projected state benefits of the project;

(16) Requires that if the calendar year's annual maximum amount of quality jobs tax credits issued to any qualified company is increased by \$1 million, the number of new jobs must exceed 500. Currently, this increase in tax credits can occur by receiving the approval of the department and the Quality Jobs Advisory Task Force;

(17) Requires the department to give preference to qualified companies and projects targeted at an area of the state which has

recently been classified as a disaster area by the federal government;

(18) Allows qualified companies to retain withholding taxes once the minimum number of new jobs has been attained and the county average wage has been exceeded; and

(19) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

The provisions regarding the New Markets - Qualified Equity Investment Tax Credit and the Film Production Tax Credits will expire six years from the effective date.

The substitute contains an emergency clause.

FISCAL NOTE: Estimated Cost on General Revenue Fund of More than \$487,018 - could exceed \$35,487,018 in FY 2008, More than \$759,941 - could exceed \$48,759,941 in FY 2009, and More than \$781,115 - could exceed \$66,781,115 in FY 2010. Estimated Cost on Other State Funds of Unknown in FY 2008, FY 2009, and FY 2010.

PROPONENTS: Supporters say that the bill will allow Missouri to continue competing effectively against neighboring states. The Quality Jobs and Enhanced Enterprise Zone programs have been very successful, but they require a cap increase in order to remain viable economic development tools. The land assemblage tax credit will help St. Louis City redevelop its urban areas by helping developers pay for acquisition and interest costs associated with large-scale development. This will result in better housing, more businesses, fewer vacant lots, and less crime. St. Louis has experienced a mass exodus in recent years. The city estimates that the damage done to St. Louis due to vacant lots and homes and a lack of business has hurt the city's economy more than Hurricane Katrina hurt New Orleans. Redeveloping urban areas in St. Louis City will also result in more tax revenue for the state and St. Louis schools. The tax credit for qualified beef will help Missouri beef producers and improve the reputation of Missouri beef throughout the nation. The resale of admission tickets will ultimately lead to a decrease in the price of tickets to sporting events. It will

also reduce the number of counterfeit tickets sold on the secondary market. Currently, people who live in Illinois can resell Cardinals and Rams tickets but Missourians cannot. The bill will give Missourians the same rights and privileges as citizens of other states.

Testifying for the bill were Representatives Richard and Schlottach; Department of Economic Development; Missouri Economic Development Council; Associated Industries of Missouri; Taxpayers Research Institute of Missouri; St. Louis Regional Chamber and Growth Association; Steven J. Anderson, St. Louis County Economic Council; Economic Development Corporation of Kansas City, Missouri; St. Louis Community College; Missouri Community College Association; Missouri Biotechnology Association; St. Louis Cardinals; Michael Naughton, St. Louis Rams; Kansas City Chiefs Football Club; Ticket Solutions, Incorporated; Mark Rhoads, The Ticket Guys, Incorporated; eBay, Incorporated; TicketMaster; Robert Iasoldt, St. Louis Blues; Jeff Rainford, City of St. Louis; Advantage Capital Partners; Reverend James Morris, Metropolitan Organizations Strengthening and Empowering Society; Robert Tillman; V. John Cross, Service Employees International Union Local 2000; Montgomery City Growth, Incorporated; Missouri Chamber of Commerce and Industry; Missouri Cattlemens Association; Kent Hayden, MFA Incorporated; Rex Ricketts, University of Missouri; J.P. Dunn, Missouri Soybean Association; Greater Kansas City Chamber of Commerce; Missouri Corn Growers Association; Associated General Contractors of St. Louis; Missouri Farm Bureau; Missouri Association for Community Action; Johnson County Economic Development Corporation; Chrysler; Harley-Davidson Motor Company; Mid-America Retail Food Industry Joint Labor-Management Committee; Ford Motor Company; and Missouri Restaurant Association.

OPPONENTS: Those who oppose the bill say that the Distressed Areas Land Assemblage Tax Credit Act is not good for St. Louis City because most of the tax credits will likely go to one developer and that developer has not disclosed the development plan to elected city officials. Opponents are concerned that elected officials and neighborhood groups are being denied an opportunity to participate in the planning and development process. Residents of these areas have a right to know what is going to be built in the area, and no one has told them. Many of the areas being considered for redevelopment are historic neighborhoods and historic preservation issues must be addressed in any redevelopment effort, but the bill does not do that. Currently, there is a lot of redevelopment occurring in north St. Louis City. Homeowners are investing in their properties, and

they are doing it without the benefit of tax credits. The bill requires that a minimum of 75 acres be included in the redevelopment area, but opponents believe this is an unrealistic threshold. Opponents are concerned that this tax credit is equal to state-sponsored land speculation, which would be an inappropriate use of taxpayer funds.

Testifying against the bill were Representative Nasheed; Landmarks Association of St. Louis, Incorporated; Barbara Manzasa, Citizens for the Near Northside; Anthony Coffin; and Tom Kruckmeyer, Missouri Budget Project.

OTHERS: Others testifying on the bill say that the area to be most heavily impacted by the Distressed Areas Land Assemblage Tax Credit Program actually has a lot of redevelopment happening already. It's not the vast wasteland depicted in news reports. There has been state assistance through the Department of Economic Development, the State Historic Preservation Office, and the Missouri Housing Development Commission. Some areas in north St. Louis certainly need assistance, but others do not. It's important to consider whether or not massive land assemblage would negatively impact the transformations that are happening now, because that may not be the best course of action.

Testifying on the bill was Sean Thomas, Old North St. Louis Neighborhood Restoration Group.