Report on Missouri Incentive Programs

Incentives Review Committee

Appointed by Greg Steinhoff, Director of
the Missouri Department of Economic Development
pursuant to the Request of Matt Blunt, Governor

MISSOURI
DEPARTMENT OF ECONOMIC DEVELOPMENT

November 22, 2005

Report on Missouri Incentive Programs
By the
Incentives Review Committee
Missouri Department of Economic Development

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Table of Contents

Section A: Executive Summary…….……3

Section B: Program Information……7

Section C: Expectations of Customers, Taxpayers and Budget Officials …….8

Section D: Evaluation Methodology and Criteria……..9

Section E: Evaluation Criteria of Program Categories…….11

Section F: Consistency Standards…….16

Section G: Program Analysis and Recommendations. ……17

Appendix

A: Detailed Program Information……47

Section A: Executive Summary

This report evaluates 62 existing state and local incentive programs in Missouri established over the last three decades to improve the economy and quality of life in our communities. The programs include those administered by the Missouri Department of Economic Development (DED), the Missouri Development Finance Board, the Missouri Housing Development Commission and political subdivision of the State. The reviewed programs are directly related to community and economic development activities.

These programs have been created with numerous intended results by gubernatorial administrations and legislators since 1977, when the earliest program – the Neighborhood Assistance Tax Credit – was created. The funding methods include tax credits, general revenue appropriations for loans or grants, tax diversion, tax apportionment, exemptions, abatements, and new taxes or assessments.

The total cost to the State in Fiscal Year 2005 of all 62 programs covered by this report was $295 million, not including the local development programs and state tax exemption/apportionment programs for which data is not readily available.

The measurable benefits of these programs are in three categories:

1. Programs that directly impact the economy (create/retain jobs, create new state/local taxes, and create new private investment);
2. Programs that indirectly impact the economy (improve the quality of life in a community, provide affordable housing, provide necessary community services, and others); and
3. Programs that directly and indirectly impact the economy (reduce blighting conditions by facilitating redevelopment, and facilitate worker training).

In April 2005, Governor Matt Blunt assigned Department of Economic Development Director Greg Steinhoff to:

- Evaluate state and local incentives that relate to small business development, seed or venture capital, industry specific programs, competitive projects, infrastructure development, community development, redevelopment, workforce development, and affordable housing development to determine if they are effective, efficient, fair and consistent; and,

- Recommend necessary improvements, both administrative and legislative, and the rationale thereof. This may include the modification or elimination of existing programs, creation of new programs, combination of programs, or maintenance of programs.

In April 2005, Director Steinhoff appointed a committee for the purpose of making such recommendations to the Governor. The members of the Committee are:

- Mike Downing, Committee Chair, Director of Promotions, DED Division of Business and Community Services
- Jay Burchfield, President, Wilgate Development, LLC, Columbia
- Amy Deem, Manager, DED Division of Workforce Development
- Judy Gehrke, Manager of Finance Programs, DED Division of Business and Community Services
- Brian Grace, Director of Policy, DED
- Sallie Hemenway, Director of Operations, DED Division of Business and Community Services
- Terry Maglich, Project Manager, DED Division of Business and Community Services
- Dan Mehan, President, Missouri Chamber of Commerce (assisted by Jeff Craver)
- Mike Mills, Deputy Director, DED
- Robert Miserez, Executive Director, Missouri Development Finance Board
- Rob O'Brian, President, Joplin Area Chamber of Commerce and Immediate Past President, Missouri Economic Development Council (assisted by Ray McCarty, MEDC governmental affairs consultant)
- David Queen, Gilmore & Bell, P.C. (MDFB legal counsel and Special Counsel to DED), Kansas City

The Committee first met on April 26, 2005, to discuss the formulation of the review methodology and criteria. On May 6, a draft review methodology was posted on DED's website for public comment. A statewide news release and an article in the DED e-newsletter *Missouri Focus* notified the public of the availability of the draft and comment period. Numerous comments were received and distributed to the Committee for consideration at its meeting of May 18. At the Committee's next meeting on May 25, the review methodology was finalized and the evaluation began. Additional meetings were held on June 7 and July 1 to complete the evaluations and recommendations. On July 14, Chairman Downing discussed the activities of the Committee to the Joint Committee on Tax Policy in Jefferson City. The Committee met to finalize the report on November 21, 2005. On November 22, the final report was submitted to Director Steinhoff.

A summary of the recommendations is below:

Program	Recommended Action	Impact to Annual Caps
Small Business Development Programs		
Rebuilding Communities Tax Credit	Combine	- $8 million/yr
Loan Guarantee Fee Tax Credit	Delete	- $100,000/yr
CDBG Action Fund Loan	Improve	None
CDBG Loan Guarantee	Delete	None
Urban Enterprise Loan	Delete	None
Business Incubator Tax Credit	Combine	- $500,000/yr
Wine and Grape Growers Tax Credit	Improve	None

Film Production Tax Credit	Delete	- $1.5 million/yr
Charcoal Producers Tax Credit	(Sunsets)	None
Mutual Fund Apportionment	Maintain	None
MO Rural Economic Stimulus Act	Improve	(see MODESA)
Capital Access	Maintain	None
Seed/Venture Capital Programs		
Certified Capital Companies Tax Credits	Maintain	None
Capital Tax Credits	Maintain	None
Seed Capital Tax Credits	Maintain	None
New Enterprise Creation Tax Credits	Maintain	None
Competition Project Programs		
BUILD Bonds/Tax Credits	Improve	None
Missouri Quality Jobs	Improve	+ $12 million/yr
Development Tax Credit	Improve	None
Enhanced Enterprise Zone Credits	Maintain	None
CDBG Interim Financing Loan	Maintain	None
Sales Tax Exemption, Manufacturing Equipment	Maintain	None
Inventory Property Tax Exemption	Maintain	None
Chapter 100 Bonds/Tax Abatement	Improve	None
CDBG Industrial Infrastructure Grant	Maintain	None
Affordable Housing Programs		
Affordable Housing Credit	Maintain	None
Low-Income Housing Credit	Maintain	None
CDBG Open Cycle Housing Grant	Combine	None
CDBG Low Income Housing Match Grant	Combine	None
Community Development Programs		
Neighborhood Assistance Program Tax Credit	Combine	+ $6 million/yr
Family Development Account Tax Credit	Delete	None
Community Development Corporation Grant	Delete	None
Community Development Bank Tax Credit	Maintain	None
Youth Opportunities Program Tax Credit	Combine	- $6 million/yr
Public Purpose Infrastructure Programs		
MDFB Contribution Tax Credits	Maintain	None
MDFB Bond Guarantee Tax Credits	Improve	+ $25 mil. (one-time)
CDBG Community Facility Grant	Maintain	None
CDBG Other Public Needs Grant	Combine	None
CDBG Emergency Grant	Maintain	None
CDBG Water and Wastewater Grant	Combine	None
CDBG Engineering Plans and Specifications	Combine	None

Neighborhood Improvement Districts (local)	Improve	None
Community Improvement Districts (local)	Improve	None
CDBG Speculative Building Loan	Combine	None
CDBG Bridge, Street, Drainage Grant	Combine	None
Transportation Development Districts	Improve	None
Redevelopment Programs		
CDBG Downtown Revitalization Grant	Improve	None
Urban Redevelopment Corp. (353) (local)	Improve	None
CDBG Neighborhood Development Grant	Delete	None
Neighborhood Preservation Tax Credits	Improve	None
Brownfield Remediation Tax Credits	Combine	None
Brownfield Jobs/Investment Tax Credits	Combine	None
Brownfield Demolition Tax Credits	Combine	None
Historic Preservation Tax Credits	Maintain	None
MODESA (Downtown Economic Stimulus Act)	Improve	-$82 million/yr cap
Downtown Preservation	Improve	None
State Tax Increment Financing	Improve	+ $18 million/yr cap
Local Tax Increment Financing	Improve	None
Worker Training Programs		
New Jobs Training Bonds	Improve	None
Retained Jobs Training Bonds	Improve	+ $30 mil. (one-time)
DESE Customized Training	Combine	- $2.8 mil/year
DWD Customized Training	Maintain	+ $2.8 mil/year

Net Expected Fiscal Impact of Recommendations:

- Annual cap reductions: $62.1 million.
- One-time cap increases: $55 million* *($25 million is for the MDFB Bond Guarantee Credit, which is a reserve fund for defaults of bonds for public infrastructure projects. Historically, the amount of tax credits actually issued has been less than 4% of the total amount of authorized tax credits, only a small portion of this amount will likely be issued, and if so, not for several years. $30 million is for the Retained Jobs Training Bonds, which represents the maximum amount of bonds that can be outstanding for all projects. The annual amount to service the bonds, which is derived from the diversion of the withholding tax of the retained employees, depends on the term and interest rate of the bonds.)*

Section B: Program Information

The following information has been developed for the state and local programs applicable to the study, and detailed in Appendix A:

- Administering agency.
- Eligible areas.
- Program type (tax credits, appropriations, etc.).
- Funding source.
- Annual or cumulative cap per program.
- Funding level (past fiscal year, current fiscal year, and obligations for future years).
- Maximum years of program benefit.
- Maximum program amount per project.
- Maximum percentage of program to total project cost.
- Maximum program amount per job (if applicable).
- Type of approval process.
- Whether a but-for test is required for approval. (Need-based, competition, or return on investment (ROI required as a condition of approval.)
- Whether an application must be approved by DED prior to the announcement/commencement of the project.
- Purpose of the program.
- Eligible use of program funds.
- Eligible types of projects.
- Other important eligibility features of the program.
- For tax credit programs, limitations upon use of the tax credits (carry forward, carry back, sellable, refundable, expiring, etc.)

Section C: Expectations of Customers, Taxpayers and Budget Officials

In determining whether incentive programs are effective, it is important to consider the expectations of key participants – customers, taxpayers, and budget officials. The Committee has considered the following expectations in evaluating the programs with the goal of proposing changes if programs do not meet these expectations.

- Customers Expect:
  - Fair access to programs for eligible projects.
  - Clarity and consistency of eligibility, application processes, funding procedures, and post-award reporting. Clarity and simplicity of the application process will also result in less errors and a more timely response.
  - A single and consistent point of contact.
  - Easily accessible application process, with all application/guideline information by several means (hard copy, email, disk, web).
  - An efficient program, such that it does not require unnecessary legal, accounting, or other outside professional guidance. (Some level of professional expertise will be necessary for complex situations.)

- Taxpayers Expect:
  - Results that would not likely have been achieved "but-for" the use of the program.
  - That funding is minimized to efficiently produce the intended results.
  - That the results will have a significant impact on the state/local economy, or have a significant impact on the improvement of the quality of life for Missourians.
  - That the results and users of the programs can be properly tracked to ensure accountability.
  - Maximum efficiency.
  - Fair and open awarding of funds.
  - Full accountability.

- State Budget Administrators Expect:
  - Reasonable predictability of annual funding.
  - Maximum efficiency.
  - Results that would not likely have been achieved "but-for" the use of the program.
  - Full accountability.

Section D: Evaluation Methodology and Criteria

Since there is a significant diversity in the purpose and results of the programs that are covered in this report, it is not possible to evaluate a program based upon a single test. Many of the programs were not designed to directly impact the state or local economy or tax base. A fiscal benefit evaluation would not measure the intended result. In addition, for programs that are expected to directly impact the economy, a cost/benefit evaluation by itself can be misleading. Given the diverse nature of the programs, the Committee has evaluated each program using the following criteria:

- Effectiveness:
    - The degree the program achieves its stated purpose.
    - The degree to which the program creates an ongoing self-sustainable activity or operation.
    - The degree the results of the program would likely have NOT been achieved "but-for" the funding of the program.
    - The degree the results could be significantly increased if additional funding were available. (If the program has no statutory maximum, these criteria would not apply.)
    - The degree the program does not duplicate other programs and funding sources (federal, state or local). Programs intended to supplement other programs would not be considered redundant.
    - The degree the program is flexible to adapt to unique but highly beneficial needs.

- Efficiency:
    - The degree that the amount of indirect costs (of the administering agency and the beneficiary), relative to the amount of benefit derived from the program, are reasonable. Procedures that add to the costs but are deemed unnecessary will be rated lower. Legal and other professional costs should be minimized except where absolutely necessary.
    - The degree the definitions, application processes, reporting requirements, and other procedures are consistent with other related programs, and in the most effective method.
    - The degree there is unnecessary complexity in the program. This is somewhat related to the unnecessary costs and inconsistent procedures above, but is designed to capture other issues, such as need for outside professional assistance, not otherwise addressed.
    - The degree that turn-around time from application to approval and funding is reasonable. Programs that require the approval of boards or commissions should be structured where the approval process is streamlined and predictable.
    - The degree that the program provides for adequate accountability.

- Fairness:

- The degree the basis for approval, and the amount thereof, for the program is the recommended method for this type of program. (See Section E.)
- The degree that the opportunity to access the program is equitable, geographically and otherwise.
- If the program has discretionary approval, the degree the approvals are consistent with clear program guidelines.

- Impact:
  - Programs designed to directly impact the state/local economy or tax base: The Committee favors programs that:
    - Impact traded companies (companies that primarily sell outside the region);
    - Impact higher quality companies (companies with wages above the average wage, provide health benefits, and are in growing industries);
    - Are responsive to current and projected economic trends; and
    - Are of a magnitude to have a significant long-term impact relative to the size of the community.

  - Programs designed to indirectly impact the economy (improve the quality of life in communities). The Committee favors programs that:
    - Impact the most critical or basic needs of a community – basic infrastructure and the reduction of severe blighting conditions; and,
    - Are of a magnitude to have a significant impact relative to the size of the community.

Recommendation: Based upon the foregoing factors, the Committee assigned one or more of the following recommendations:

- Maintain: No changes needed.
- Improve: Some revisions are needed.
- Combine: The program should be combined with one or more other programs.
- Delete: The program should be deleted.

Section E: Evaluation Criteria of Program Categories

The following criteria were used to evaluate effectiveness, efficiency, and fairness of the program relative to consistent standards. As used herein, the term "quality jobs" generally means that the jobs are above the average wage for the area and provide health insurance benefits. The term "traded companies" generally means businesses that primarily sell outside the region, such that new money is brought in to the region and is providing a larger economic stimulus.

The Committee has grouped programs into three categories for the purposes of evaluation – Economic Benefit Programs, Quality of Life Programs, and Hybrid Programs – to ensure a consistent comparison. Within each category, there are sub-groupings of programs of a similar purpose in order to determine if there is duplication or inconsistencies.

<u>Economic Benefit Programs:</u> Programs designed to directly impact the state/local economy or tax base.

The key results desired by this category of programs are new/retained jobs (preferably quality jobs), new private capital investment, number of projects, and net state fiscal benefit (which is the amount of new direct and indirect taxes created over a certain time period, less the amount of state costs involved in the project). State fiscal benefit is primarily impacted by high wage new jobs in traded companies, which mostly impact state income and sales taxes. Since the state does not have a property tax, the level of new investment affects the state fiscal benefit only slightly; but, it does have an impact on how long the company will be operational and the degree new technology affects the future of that facility.

Local fiscal benefit is impacted by new capital investment (e.g., real estate) and new employment since the primary sources of local revenues are property and sales taxes. Personal property, while significant, depreciates 15-20% per year to a floor of about 30%, depending on the type of assets. The most significant taxing entity involved in property taxes is school districts, which often account for approximately 70% of property tax revenues.

New retail sales are a major source of state and local sales tax; however, the amount of new retail sales is difficult to measure. Certain sales "displace" current retail sales in the same market and/or in the state. Also, a significant percentage of retail employment provides below average wages and often offers few, if any, benefits. DED has pursued a strategy of targeting incentives and marketing efforts in higher technology businesses in growing industries that will result in higher wage jobs, better employee benefits, and the potential for future growth.

<u>Small Business Development Programs:</u> Programs that are designed to supplement private debt and equity funding to assist the growth of new or expanding businesses. These companies generally have fewer than 100 existing

employees, with the exception of technology life sciences and high growth companies.

- Recommended results measure: New/retained quality jobs, net state fiscal benefit, number of projects, new private capital investment.
- Recommended funding method: Gap financing of either subordinated loans or loan guarantees, limited to state fiscal benefit.
- Recommended approval method: Discretionary approval by DED or an independent entity that has expertise in such projects based on likely success of the company (based on quality of management, industry growth, financial analysis, and other factors), amount requested relative to projected benefit, net state fiscal benefit, leverage of non-state funds, and need for funds.
- Coordinated with: United States Small Business Authority (SBA) and United States Department of Agriculture programs, which are the most prolific source of public sector assistance for small businesses, and local banks.

Seed/Venture Capital Programs: Programs that are designed to supplement private funding to facilitate the growth of start-up or early stage technology/life science/high growth companies.

- Recommended results measure: new/retained quality jobs, net state fiscal benefit, number of projects, new private capital investment.
- Recommended funding method: Gap financing of an equity investment in the company, limited to state fiscal benefit.
- Recommended approval method: Discretionary approval based on an analysis by an independent consultant with expertise in such projects projecting likely success of the company (based on quality of management, industry growth, financial analysis etc.), amount requested relative to projected benefit, net state fiscal benefit, leverage of non-state resources, and need for funds.
- Coordinated with: private sector venture/seed capital firms and related SBA programs.

Competitive Project Incentives: Incentives designed to compete with other states for higher impact projects. Such projects should include only traded companies that pay above area median wages while providing health benefits. Additional consideration should be provided for projects in communities that provide local incentives relative to the amount of new local revenues.

- Recommended results measures: new/retained "quality" jobs, net state fiscal benefit, number of projects, new private capital investment.
- Recommended funding method: direct subsidy to the company, limited to state fiscal benefit.
- Recommended approval methods: first come first served, or formula based for high impact projects. In highly competitive situations involving very large projects, discretionary approval by either DED or a qualified board based on (i) amount requested relative to benefit, (ii)

state fiscal benefit, (iii) leveraging of non-state resources, including local incentives, (iv) targeted industry, (v) economic distress of area, (vi) level of competition by another state, and (vii) probability of success of the project.

- Coordinated with: local agencies, utilities, and federal funds attempting to attract the project.

- **<u>Quality of Life Programs:</u> Programs designed to improve the quality of life in communities and indirectly impact the economy.**

These programs provide are a diverse set of resources that affect non-profit groups, for-profit developers, public entities, and individuals with the broad goal of improving the quality of life in a community. These programs were not designed to primarily create a state fiscal impact, although there would be some created in most cases. The infrastructure and community development programs are designed to correct or prevent health or safety problems relating to public facilities, provide or encourage services provided by public entities or non-profit organizations, and/or improve the quality of life in communities in cases of deficient facilities or services. To the extent possible, these programs should reward entities that have planned for adequate maintenance and have demonstrated good management practices. The affordable housing programs are designed to provide a subsidy necessary for private developers to construct an adequate supply of housing for persons that are not able to afford market rate housing.

<u>Public Infrastructure Development Programs:</u> Programs that are designed to supplement funding to communities unable to provide complete funding for the development of critical public facilities that will facilitate a significant or otherwise important level of development or redevelopment or provide an acceptable level of public services due to inadequate infrastructure.

- Recommended results measures: number of projects, number of persons benefited, or leverage of other resources.
- Recommended funding method: supplement funding to the community in such an amount they are unable to provide for necessary costs.
- Recommended approval methods: competitive selection based on need for funds, high impact projects, economic distress of area, community support, financial capacity of the community, projected future development caused by the project, and probability for success.
- Coordinated with: federal funds or community funding programs.

<u>Affordable Housing Development Programs:</u> Programs designed to supplement funding of developers or community agencies that develop affordable housing for lower-income persons.

- Recommended results measures: number of projects, number of lower-income persons benefited, or leverage of private funds.

- Recommended funding methods: bridging estimated gap in conventional financing, verification costs are reasonable and necessary, and the probability the project will have a high impact.
- Recommended approval methods: competitive or criteria based selection based on need for funds, high impact projects, economic distress of area, amount or degree of private sector risk, leverage of other funds, and probability for success.
- Coordinated with: federal programs, private developers and local housing authorities.

Community Development Programs: Programs designed to facilitate private funding to community-based agencies to improve the quality of life in a community.

- Recommended results measures: number of projects and number of persons benefited.
- Recommended funding method: supplement funding to the community agency in such an amount they are unable to provide for necessary costs.
- Recommended approval methods: competitive or criteria based selection based on need for funds, high impact projects, community support, financial capacity of the community, economic distress of area, and probability for success.
- Coordinated with: local non-profit and community based agencies, applicable federal funds, private foundations.

- **Hybrid Programs: Programs designed to both improve the state/local economy and quality of life for Missourians.**

Redevelopment Programs: Programs that supplement private funding and local incentives to eliminate blight, increase the state/local tax base, and create new jobs and/or residential development in underserved/distressed areas.

- Recommended results measure: New residential and commercial units, net state and local fiscal benefit, number of projects, new private capital investment, leverage of other funding, new private capital investment of nearby property due to redevelopment of subject property.
- Recommended funding method: Bridging estimated gap in conventional or other public financing based on (i) minimum requirements for qualifying for public or private mortgage financing, (ii) project capital costs are reasonable and necessary, and (iii) developer costs and project soft costs are reasonable and necessary, and the project has a high impact.
- Recommended approval methods: competitive or criteria based approval based on need for funds, priority/high impact projects, public sector contribution and/or private risk, stimulation of other development, economic distress of area, and probability for success.

- Coordinated with: applicable federal programs, local redevelopment programs, private developers.

Worker Training Programs: Programs that are designed to supplement the funding of companies that improve the skills of new or existing workers, primarily in traded companies that pay reasonable wages with insurance benefits and will improve the wages and future job potential of the trainees. Such skill improvements are of critical importance to companies, especially in higher technology industries.

- Recommended results measures: new/retained quality jobs, net state fiscal benefit, number of projects, number of persons completing training that increases their salary.
- Recommended funding methods: direct funding of training costs or reimbursement to the company, limited to state fiscal benefit.
- Recommended approval methods: competitive selection based on need for training funds, high impact projects, future growth potential of type of job, and level of wages.
- Coordinated with: federal funds, local/regional training providers.

Section F: Consistency Standards

Improvements in the consistency of definitions, procedures, forms, and application processes of related programs will improve customer satisfaction and reduce errors in processing. The following are areas that should be considered for consistency improvements:

- **Definitions**: The most important definitions that require consistency for related programs are "new jobs," "new private investment," "project facility," "related company," "base employment," "taxpayer", and "eligible company."

- **Procedures:** The process to apply and the approval response should be consistent in format and procedure. Application forms should be electronic via the internet (fillable forms), assuming that current technology will ensure the applicant's identity and private information are protected. The type and format of the application should be consistent.

- **Tax Credits:** Certain attributes of tax credit programs should be examined for consistency and efficiency, such as carry back, carry forward, transferability, and "certification" of the credit.

Section G: Program Analysis and Recommendations

The programs are grouped by Economic Benefit Programs, Quality of Life Programs, and Hybrid Programs and the methodology for the analysis and recommendations of these categories are indicated in previous sections. The Committee recommends that, except in unique situations, the minimum activity to warrant an individual program should be $3 million annually due to administrative efficiency, unless the program is unique or serves a critical purpose not otherwise addressed.

A. Economic Benefit Programs

Small Business Development Programs
1. Rebuilding Communities Tax Credit
2. Loan Guarantee Fee Tax Credit
3. CDBG Action Fund Loan
4. CDBG Loan Guarantee
5. Urban Enterprise Loan
6. Business Incubator Tax Credit
7. Wine and Grape Growers Tax Credit
8. Film Production Tax Credit
9. Charcoal Producers Tax Credit
10. Mutual Fund Apportionment
11. MO Rural Economic Stimulus Act
12. Capital Access

1. Rebuilding Communities Credit:

Purpose: The program is intended to encourage certain types of companies to locate or expand in distressed areas.

Analysis/Comments: Since the program provides the incentives based primarily on new investment by eligible companies, the fiscal benefit and job creation/retention are difficult to measure. Additionally, the program is limited to companies that have less than 100 total employees at all locations. This does not encourage high-growth companies to locate in Distressed Areas.

The program provides tax credits of 25-40% of new specialized equipment and expenses for eligible businesses located in distressed areas. There is no local incentive matching requirement. Administration of the program is hampered by the difficulty of the verification of eligible purchases. This is the only state program that provides incentives for in-state relocation of companies.

Additionally, most eligible businesses of this program are also eligible for the Quality Jobs program, or, if located in qualified areas, the Enhanced Enterprise Zone program. These programs have a greater benefit to the state because they

provide incentives based on job creation, which more directly impacts state fiscal benefit. Finally, the amount of redeemed credits is less than the $3 million minimum activity level that the Committee recommends to have a separate program.

Results: In FY05, there were $2.2 million in redeemed tax credits. In FY04, there were 59 projects, with $1.2 million authorized, $1.2 million issued, $1.4 million redeemed and $2.8 million in new investment. No data for new jobs exists since it is not a basis for credit issuance. In FY03, there were 73 projects, with $2.3 million in redeemed credits and $9.4 million in new investment.

Recommendations: Enact legislation to: (a) Combine with Quality Jobs and Enhanced Enterprise Zone Programs; and (b) Transfer 50% of the $8 million annual cap to Quality Jobs.

2. Loan Guarantee Fee Credit:

Purpose: The program's purpose is to offset the fees imposed by SBA or USDA for their guaranteed loan programs, which typically are 2% to 3.5% of the guarantee.

Analysis/Comments: The fees the program is designed to offset can be included in the project loan. The tax credit has a negligible impact on whether a business will either use the guarantee program or obtain the loan. Also, the amount of redeemed credits is less than the $3 million minimum activity level that the Committee recommends to have a separate program.

Results: The program was created in 1999, but deleted in 2001 by a bill that was subsequently declared unconstitutional. Since the reinstatement in 2004, 12 projects have been approved with $104,000 in tax credits authorized and issued and $11,000 redeemed.

Recommendation: Enact legislation to delete the program. (Program does not have a cap; therefore, the savings is based on an estimate of what the program will redeem in FY06, $100,000.)

3. CDBG Action Fund Loan:

Purpose: Facilitate higher risk loans in rural areas by "traded" companies, creating new jobs, new investment and new state/local tax revenue.

Analysis/Comments: The program is the only real source of a subordinated loan that is near equity available in the rural areas. Venture/seed capital firms rarely invest in areas that are not in close proximity to their offices, which are in metro areas. While this program has a fairly high default rate compared to bank loans, it is designed to be a source of last resort, higher risk capital to supplement other

funding of projects that have the potential to grow. A problem with the program is the onerous federal CDBG requirements, which the state cannot change.

Results: In the period of FY02 to FY05, there were 14 projects that resulted in 387 new jobs created and $18.2 million in private funds leveraged, with loan funds totaling $4,820,000. The repayments are typically over a 7-10 year period.

Recommendation: Improve (by administrative action). Clarify most efficient uses and true "gap" situations.

4. CDBG Loan Guarantee:

Purpose: Facilitate higher risk loans in rural areas by "traded" companies, creating new jobs, new investment and new state and local tax revenue.

Analysis/Comments: This program was created in 1987 due to the proposed elimination of the federal SBA 7a loan guarantee. It has been used only rarely, as not to duplicate that program.

Results: No activity in several years.

Recommendation: Delete (by administrative action). The SBA 7a program is not in danger of elimination. Program activity has been minimal for several years. No legislative action is necessary.

5. Urban Enterprise Loan:

Purpose: Facilitate higher risk loans in selected areas of St. Louis and Kansas City, creating new jobs, new investment and new state/local tax revenue.

Analysis/Comments: This program is limited to certain lower-income areas of St. Louis and Kansas City; however, other similar low-income areas of the state are not eligible. The administration of the program by contract entities has been problematic and the impact of the program has been insignificant. The amount of funding is low and most of the benefiting companies are not traded companies. Other programs, such as SBA 7a, SBA 504, EDA revolving loans, Enhanced Enterprise Zone, and Quality Jobs may also be applicable.

Also, the funding level is less than the $3 million minimum activity level that the Committee recommends to have a separate program.

Results: The program received no appropriations for FY05. In FY04, the program was appropriated $291,000.

Recommendation: Enact legislation to delete. Since there were no appropriations in FY05, this would not cause a savings.

6. Business Incubator Credit:

Purpose: Facilitate the development of small business incubators (typically involving high tech companies), creating new quality jobs, new private investment, and new state and local taxes.

Analysis/Comments: Tax credits are granted to contributors that provide a cash or property contribution to a non-profit corporation that owns a small business incubator. The contributed funds may be used for capital improvements, or business development services.

Results: In FY05, the amount of redeemed credits was $246,807. In FY04, there were three projects involving $524,500 in contributions, with $167,360 in redeemed tax credits.

Recommendation: Improve. Enact legislation to (a) Combine with the Neighborhood Assistance Program (see page 32); (b) Delete the $500,000 cap from this program, but set-aside $1 million/year cap within the cap of the Neighborhood Assistance Program; and (c) Clarify and restrict non-capital costs.

7. Wine and Grape Growers Credit:

Purpose: The purpose is to develop the winery industry, specifically for tourism and agricultural purposes.

Analysis/Comments: There are many sectors of the tourism and agricultural industries that do not receive incentives. As structured currently, the program provides tax credits based on a specific form of capital investment, which does not directly relate to the amount of state sales tax or other fiscal benefit realized by winery operations. There is no new job creation requirement or other results-oriented requirements of the program.

Results: In FY05, the amount of redeemed credits was $179,323. In FY04, there were 47 projects that used the program for purchases of $3.5 million in new equipment with redeemed credits of $260,397.

Recommendation: Improve. Enact legislation to (a) Transfer administrative authority to the Missouri Agriculture and Small Business Development Authority (MASBDA); (b) Limit the amount of annual tax credits issued to $500,000; (c) Provide that the credits can be sold; and (d) Provide that the method of selection is discretionary by MASBDA based on priority criteria.

8. Film Production Credit:

Purpose: Facilitate film production in Missouri, resulting in increased economic activity.

Analysis/Comments: While beneficial in their level of public interest and notoriety, film projects have a very short-term benefit. The fiscal impact is low.

Results: The amount of redeemed credits in FY05 was $322,079. For FY04, there were three projects that created $2.1 million in film production expenditures, with $423,900 in redeemed tax credits.

Recommendation: Enact legislation to delete. The annual cap is currently $1.5 million.

9. Charcoal Environmental Improvements Credit:

Purpose: Provide an incentive to charcoal production companies to implement environmental (clean air) improvements.

Analysis/Comments: The projects are reviewed and approved by the Department of Natural Resources; however, the statutes provide that DED issue and monitor the tax credits. This is an inefficient method. Additionally, the use of the program has been limited. If the goal is to encourage environmental improvements, the program should be expanded to other businesses besides charcoal manufacturers. The program sunsets in 2005.

Results: Since the inception of the program, there have been five companies involving 13 projects. In FY-05, there were no credits redeemed.

Recommendation: No action necessary since the program sunsets in 2005.

10. Mutual Fund Tax Apportionment:

Purpose: Provide tax relief to mutual fund companies comparable to other businesses relative to out-of-state income.

Analysis/Comments: This program allows a change in the apportionment of corporate income taxes of mutual fund companies by exempting income derived in other states that is taxed by the other states. About one third of the states provide this type of tax treatment. The program was enacted to make Missouri more competitive in the growth of the industry. It provides a comparable type of taxation to mutual fund companies relative to other companies that derive income from out of state. DED certifies the approval of companies, but the Department of Revenue administers the apportionment.

Results: In FY04, there were 3 companies certified, and 2 in FY05. The amount of fiscal impact due to the program is undetermined since DED does not have access to these companies' tax records.

Recommendation: Improve. Enact legislation to transfer the administration of the program to the Department of Revenue.

11. Missouri Rural Economic Stimulus Act:

Purpose: Provide an incentive to facilitate value-added agriculture projects in rural areas, particularly ethanol or bio-diesel facilities.

Analysis/Comments: The cost of infrastructure related to an ethanol plant construction project is high. The incentive needs to offset an annual debt in a manner consistent with any projected revenue stream. The current MORESA structure limits that revenue stream to the number of employees.

Results: No applications have been submitted since the program was created in August 2003.

Recommendation: Improve. Enact legislation to (a) Pursue additional incentive opportunities to match resources to the increment financing for public infrastructure; (b) Determine an option of expanding the authority to create a loan pool to offer low interest loans to incent farmer ownership; and (c) transfer/reduce the MORESA/MODESA annual cap as described in the MODESA program (page 42).

12. Capital Access:

Purpose: Provide a pooled fund for defaults of bank small business loans.

Analysis/Comments: The program was created in 1997; however, only $100,000 was appropriated the next fiscal year, which was determined to be insufficient to initiate the program. The concept generally is regarded as fairly effective by some independent studies; however, it is unknown whether this would generate loans that would not have been made using other established programs, particularly the SBA 7a.

Results: The program was never initiated.

Recommendation: Maintain. No action at this time.

Venture/Seed Capital Programs
1. Certified Capital Companies Tax Credits
2. Capital Tax Credits
3. Seed Capital Tax Credits
4. New Enterprise Creation Tax Credits

1. Certified Capital Companies Credit:

Purpose: Provide eligible early stage growth companies with equity capital in order to create economic activity.

Analysis/Comments: The cumulative cap has been reached, so no new funds can be authorized unless the statute is amended. The amount of private funds and venture capital available since the program's inception has been substantial and the need for further CAPCO incentives is not critical for the state at this time.

Results: New projects have not been approved for several years because the cap has been exhausted.

Recommendation: No action necessary.

2. Capital (Small Business Investment Company) Credit:

Purpose: Provide eligible small companies with equity capital in order to create economic activity.

Analysis/Comments: The cumulative cap has been reached, so no new funds can be authorized unless the statute is amended. The percentage of the credits ranged from 30%-60% of the investment, based upon then current statutes. It is unknown whether the investor would have made the investment without the tax credit or, if so, how much. However, since the investor is at risk for 40%-70% of the investment, it is doubtful that the credit was the determining factor in the decision to make the investment. This program will not create enough economic activity to offset the tax credits used. The Committee believes state resources should be allocated to a new program that provides a better method for seed and venture capital investments in targeted companies.

Results: New projects have not been approved for several years due to reaching the cumulative cap.

Recommendation: No action necessary..

3. Seed Capital Credit:

Purpose: Provide eligible early stage growth companies with equity capital in order to create economic activity.

Analysis/Comments: The cumulative cap has been reached, so no new funds can be authorized unless the statute is amended. The program was originally designed so that Innovation Centers would create a pool of venture capital, as they had the ability to approve the credits. However, this "pooling" concept did not materialize and the program evolved into a similar method of the Capital Tax Credit program for single projects.

State resources should be allocated to a new program that provides a better method for seed and venture capital investments in targeted companies.

Results: New projects have not been approved for several years because the cumulative cap was reached.

Recommendation: No action necessary.

4. New Enterprise Creation Credit:

Purpose: Facilitate equity investments for eligible start-up companies

Analysis/Comments: The Missouri Seed Capital Investment Board solicited proposals for a fund manager that would establish a pooled fund. The Board selected Prolog Ventures of St. Louis. The program provided the investors tax credits for their investments based on 100% of their investment, plus a share of the return on the fund. State resources should be allocated to a new program that provides a better method for seed and venture capital investments in targeted companies.

Results: The program will use $16.8 million in tax credits over four years to generate $33.6 million in equity investments. As of 2004, there were 11 Missouri companies receiving investments with a total of $30 million will be invested, with 385 jobs created at the highest point.

Recommendation: No action necessary.

Competition Project Incentives
1. BUILD Bonds/Tax Credits
2. Missouri Quality Jobs
3. Development Tax Credit
4. Enhanced Enterprise Zone Credits
5. CDBG Interim Financing Loan

6. Sales Tax Exemption, Manufacturing Equipment (Statutory)
7. Inventory Property Tax Exemption
8. Chapter 100 Bonds/Tax Abatement (local)
9. CDBG Infrastructure Grant

1. BUILD Bonds/Tax Credits:

Purpose: Encourage an eligible company to locate or expand a larger project in the state in cases where Missouri is in a competitive situation.

Analysis/Comments: The program provides tax credits to a company based on the amount of debt service payments for a bond issued by the Missouri Development Finance Board (MDFB) in favor of the company. The bond is for a portion of the new capital investment of a project, or for the public infrastructure of a project, and the amount is negotiated by DED and MDFB but limited to statutory restrictions. One of the considerations for approval (which is discretionary by the MDFB based on a recommendation of DED) is the level of competition against another state, which has been difficult if not impossible to verify since companies do not want to divulge this information. In certain cases this requirement has encouraged companies to obtain an incentive proposal from another state when they otherwise would not. Also, the bond has no benefit except that it is required in order for the company to obtain the tax credits. The bond issuance process adds unnecessary complexity, time delays, and costs to the process.

BUILD is one of the few discretionary programs that DED can use for competitive projects. One significant strength of the program is the level of accountability. Companies must create and maintain jobs over 15 years. If the company fails to maintain jobs it loses the benefits of the tax credits.

The use of bonds requires additional credits to cover interest payable on the bonds. Eliminating this requirement would substantially reduce the cost to the state. MDFB approval adds an unnecessary step.

Results: In FY05, there was $3.8 million in tax credits redeemed/refunded.

Recommendation: Improve. Enact legislation to: (a) Provide an option that the tax credits may be issued without the provision of a bond issue; (b) Eliminate necessity of MDFB approval unless bonds are used; and (c) Eliminate the requirement of the company obtaining an incentive proposal from another state.

2. Missouri Quality Jobs (Withholding/Credits):

Purpose: Encourage eligible companies to add new “quality” jobs.

Analysis/Comments: The program provides benefits mostly to "traded" companies for the creation or retention of jobs with above average wages and insurance benefits. Unlike BUILD which is discretionary, it is an entitlement program.

Results: The program was enacted in the 2005 session and began on August 28, 2005. As of the date of this report, the $12 million tax credit cap has been committed to $6,800,000 remaining in the highest year of the five year benefit period. (The withholding taxes provided are not capped.)

Recommendation: Improve. Enact legislation to: (a) clarify the definition of "new jobs", "payroll of the new jobs", and "base employment", (b) Provide that the increase to $1 million in tax credits for high impact projects may be only for projects in excess of 500 new jobs created within three years, (c) Provide that if a company located in the state relocates the "project facility" to another Missouri county, DED must first obtain the endorsement of the existing community for the company to use the program for the net new jobs at the new community, or the new county's average wages will be the same as the current county's average wages for that project, and (d) Increase the annual cap on tax credits by an additional $12 million (in addition to the current $12 million) derived by reallocating $8 million from MODESA/MORESA and $4 million from Rebuilding Communities.

3. Development Credit:

Purpose: Encourage an eligible company to locate or expand a larger project in the state in cases where Missouri is in a competitive situation.

Analysis/Comments: This program was an outgrowth of the Neighborhood Assistance Program (NAP), originally designed to encourage the contribution of closed manufacturing facilities to local non-profit organizations, such that they could be marketed to new companies and placed back in operation. It later evolved into a program for competitive situations, given the lack of other resources for such projects. (BUILD was used for larger competitive projects, and Development was used for smaller.) Unlike BUILD, this program may be used for retained jobs. The process of having a non-profit corporation as the recipient of the contributions and then leasing the asset back to the company is not necessary in most situations.

Results: In FY04, there were four projects, 1,097 new and retained jobs, $55 million in new investment, with $562,622 in redeemed tax credits. In FY05, there was $2.5 million in redeemed credits, and the amount for FY06 is estimated to be $3 million.

Recommendation: Improve. Enact legislation to (a) Eliminate the locational requirements, and (b) Provide that the contribution to a non-profit is optional,

such that a credit may be issued solely on the basis of up to 50% of the purchase of new capital improvements (as approved by DED on a discretionary basis), limited to an amount of new and/or retained quality jobs.

4. Enhanced Enterprise Zone Credits:

Purpose: Encourage eligible new or expanding companies to increase new jobs and private investment, which will also create new state/local tax revenues.

Analysis/Comments: The former Enterprise Zone program was modified in 2003 to this program since many of the original zones were about to expire. In addition, the EZ program tax credits could not be sold, refunded (except for the first $75,000), or carried forward. The new EEZ program has less restrictive demographic requirements and there are an unlimited number of zones that may be approved. The local real property tax abatement is almost identical to the old EZ program; however, many larger projects are incented using Chapter 100 bonds. Chapter 100 bonds may provide personal, as well as real, property abatement and provide a sales tax exemption for building materials. By administrative decision, DED has elected to provide the state tax credits in a first come, first served manner for eligible project based on 2% of the payroll of the new jobs (similar to the methodology of Quality Jobs), and ½% of new investment, both each year for five years. In addition, many projects that are eligible for EEZ are also eligible for Quality Jobs, with the difference being that EEZ does not have the average wage and insurance requirement. Also, EEZs new job threshold is only two, compared to Quality Job's 10/20/40/100, and EEZ provides tax credits based on new investment, whereas Quality Jobs does not. A company cannot use EEZ and Quality Jobs for the same project.

Results: Ten zones have been certified to date and several more are in process of approval.

Recommendation: Maintain.

5. CDBG Interim Financing Loan:

Purpose: Encourage new and expanding traded companies in rural areas to create new jobs and investment, resulting in new state and local tax revenues.

Analysis/Comments: This program is a short term (maximum 30 months), low rate (0%-1%), bullet payment loan to a company used in competitive situations. Since it is a float loan (CDBG funds already obligated to other projects), there must be a bank letter of credit to guarantee timely payment. The benefit of the program to the company is not significant. The company has to pay a fee to the bank for the letter of credit and the spread between the effective costs of this program versus private loans is low. With the initiation of Quality Jobs and Enhanced Enterprise Zone, the use of this program will be very limited.

However, the program has no loan losses and no other costs to the state. The federal CDBG procedures are onerous, but the state has no discretion to make improvements.

Results: In the period from FY02 to FY05, there were 4 projects that involved $4 million of loan funds, resulting in $13.1 million of private investment and 219 new jobs created.

Recommendation: Maintain.

6. Sales Tax Exemptions - Manufacturing Machinery and Equipment:

Purpose: Exempt the sales tax on new and replacement manufacturing machinery and equipment. This will encourage companies to locate and expand in Missouri, thereby leading to increased economic activity.

Analysis/Comments: This exemption is statutory. Nearly every state provides this exemption; therefore, Missouri must also do so to remain competitive.

Results: There are no reports to determine what the total amount of exemption is currently or the results of the projects.

Recommendation: Maintain. Consider sales tax exemptions of machinery and equipment for other key industries such as life sciences, information technology and others.

7. Inventory Property Tax Exemptions:

Purpose: Exempt the property tax on business inventories, which encourages companies to locate and expand in Missouri; thereby leading to increased economic activity.

Analysis/Comments: This exemption is statutory. Nearly every state provides this exemption; therefore, Missouri must also do so to remain competitive.

Results: There are no reports to determine what the total amount of exemption is currently or the results of the projects.

Recommendation: Maintain.

8. Chapter 100 Bonds (property tax abatement, sales tax exemption):

Purpose: Exempt (partially or entirely) the real and/or personal property tax on new capital investment and the sales tax on building materials, which encourages companies to locate and expand in Missouri, thereby leading to increased economic activity.

Analysis/Comments: Property tax abatement is a fundamental tool for Missouri economic development. Every state offers tax abatement in some form. The ownership of the real and/or personal property by a city or county provides that the property is exempt, except for "bonus value." A city or county typically negotiates a payment in lieu of tax for some percentage of the tax that would have been paid. The revenue bond process is not an incentive or advantage, but merely a mechanism for the city or county to obtain ownership of the assets in order to provide the abatement. This is the only method available (along with Land Clearance for Redevelopment Authority bonds) to provide abatement of personal property and the exemption of sales tax on building materials, both of which many states provide.

Results: There are no centralized reports to determine what the total activity is currently or the results of the projects.

Recommendations: Improve. (a) Evaluate legal structures to eliminate the requirement of transferring property to a city or county and the requirement of a revenue bond issue: (b) Enact legislation making it clear that the leasehold property interests created under a Chapter 100 lease are exempt from taxation, and (c) Standardize and provide a central reporting of property tax abatements.

9. **CDBG Industrial Infrastructure Grant Program**:

Purpose: Provide necessary public infrastructure to facilitate a business project that will result in new jobs and new capital investment, plus new state and local tax revenues.

Analysis/Comments: This program is federal CDBG funds granted by DED to a non-entitlement community for the purpose of facilitating public infrastructure improvements, such as streets and utilities, necessary to facilitate a business project. Typically, a community provides part of the project funding.

Results: In the period of FY02 to FY05, this program provided funding of $15.2 million for 48 projects, resulting in 2,615 new jobs and $470 million in new private investment.

Recommendation: Maintain.

B. Quality of Life Programs

Affordable Housing Programs
1. Affordable Housing Credit
2. Low-Income Housing Credit

3. CDBG Open Cycle Housing Grant
4. CDBG Low Income Housing Match Grant

1. Affordable Housing Credit:

Purpose: Facilitate affordable rental housing projects for low-income families by providing funding for auxiliary/supportive facilities.

Analysis/Comments: The program is administered by the Missouri Housing Development Commission (MHDC). The tax credit is 55% of contributions to a non-profit organization. The contributions can be cash, services, goods or real estate. Applications are approved on a discretionary basis by Missouri Housing Development Commission based on program ranking criteria.

Results: The amount of redeemed tax credits in FY05 was $7.7 million, FY04 was $7.6 million, and FY03 was $7.6 million. MHDC's results on Form 14 indicated 50 projects involving 655 housing units produced for FY04, and 47 projects involving 801 housing units in FY03. The program is also designed to remove blight in communities, which can not be measured.

Recommendation: Maintain.

2. Low-Income Housing Credit:

Purpose: Facilitate affordable rental housing projects for low-income families by providing incentives to developers.

Analysis/Comments: The program provides tax credits based on (a) 9% of eligible development costs, and (b) 4%, if a tax-exempt bond (approved by DED) finances the project, both limited to the amount provided under the federal tax credit. Applications are approved by the MHDC on a competitive basis based on stated criteria. The credit is issued over a 10-year period.

Results: For FY04, there were 57 projects that involved $36.9 million in redeemed credits. There were $202.6 million in projects authorized. There were 3,778 housing units produced in FY04, with 2,881 and 3,969 housing units produced respectively in the prior two fiscal years.

Recommendation: Maintain.

3. CDBG Open Cycle Housing Grant:

Purpose: This program provides federal CDBG grant funds to non-entitlement communities for different types of housing projects for lower income persons.

Analysis/Comments: Such facilities must predominately benefit low and moderate income persons. The program is awarded based on meeting stated criteria.

Results: In FY04, the program provided $1 million.

Recommendation: Combine with CDBG Other Public Needs (by administrative action).

4. CDBG Low-Income Housing Match:

Purpose: This program provides federal CDBG grant funds to non-entitlement communities for supplemental funding to better enable the use of the MHDC Low-Income Housing Tax Credit program.

Analysis/Comments: Such facilities must predominately benefit low and moderate income persons. The program is awarded based on meeting stated criteria.

Results: In FY04, the program provided $1 million.

Recommendation: Combine with CDBG Other Public Needs (by administrative action).

Community Development Programs
1. Neighborhood Assistance Program Tax Credit
2. Family Development Account Tax Credit
3. Community Development Corporation Grant
4. Community Development Bank Tax Credit
5. Youth Opportunities Program Tax Credit

1. Neighborhood Assistance Program Tax Credit:

Purpose: Provide assistance to community-based non-profit organizations to enable them to implement community or neighborhood projects, including community services, education, crime prevention, job training, and physical revitalization.

Analysis/Comments: The program provides tax credits of 50% (70% in certain rural areas) to contributors who donate to a non-profit organization that has been approved for the program. The non-profit submits an application to DED. Approvals are made on a competitive basis, with approximately one out of five approved.

Results: There were $9.3 million in redeemed tax credits in FY05. In FY04, there were 101 projects that involved $10.2 million in redeemed credits. (The redeemed credits were mostly for projects authorized in prior years.) There was $10.2 million in investment in residential buildings, $12.3 million in investment in non-residential buildings, and $27 million in non-profit community services. Additional results were $1.4 million in increased wages due to training, 37 new/renovated facilities, 1,882 persons that were involved in training programs, and $7.5 million in leveraged funds (net of credits provided).

Recommendations: Improve. Enact legislation to: (a) Combine with the Youth Opportunities and Incubator Programs, (b) Provide that the credits may be transferable, (c) Include all corporations or individuals to be eligible contributors (since some are limited under current statute); (d) Focus program eligibility categories to economic and community development activities; and (e) minimize operating cost awards.

2. Family Development Account Tax Credit:

Purpose: Promote self-sufficiency of low-income persons through the establishment of a matched savings program that can be used for education, job training, purchase and/or rehab of a primary residence, or start-up capital for a small business.

Analysis/Comments: The statute provides that eligible applicants are formed under Chapter 352. The users of the program are few.

Results: This is a very small program that involved two projects with $27,500 in redeemed tax credits in FY04 and $12,875 in FY05.

Recommendation: Enact legislation to delete.

3. Community Development Corporation Grant:

Purpose: The program provides grant funding to community development corporations for targeted housing, neighborhood revitalization, and micro-lending.

Analysis/Comments: The CDCs are non-profit organizations contributing to the efforts of revitalizing neighborhoods. The one year program requirement does not match the types of projects and the need in these targeted areas. The funding has been insufficient to make an impact. In FY06, there were no appropriations.

Results: There was $730,433 provided in both FY04 and FY05.

Recommendation: Enact legislation to delete.

4. **Community Development Bank Tax Credit**:

Purpose: Facilitate funding of small business loans or equity investments, or real estate development/redevelopment by community development banks, which provide funding in economically distressed areas.

Analysis/Comments: The cumulative cap has been met; therefore, no new tax credits can be provided. The program provides a tax credit of 50% for a contribution or investment into a pre-approved community bank.

Results: No new projects have been approved in the past few years since the cumulative cap has been met.

Recommendation: No action.

5. **Youth Opportunities Program Tax Credit**:

Purpose: Broaden and strengthen opportunities for positive development and participation in community life for youth, and discourage criminal and violent behavior.

Analysis/Comments: The program provides tax credits of 50% of cash contributions (30% for services) to approved non-profit and other sponsoring organizations that conduct projects. Credits are awarded on an open cycle against required criteria. The purpose and method is very similar to the Neighborhood Assistance Program.

Results: There were $3.2 million in redeemed credits in FY05. In FY04, there were 47 projects authorized for $6.4 million in tax credits, with $3.3 million in credits redeemed (mostly for projects authorized in prior years). There were 10,919 youth earning GEDs, job training, and other skills, two new/renovated facilities, and $3.7 million in other funds leveraged (net of YOP tax credits).

Recommendation: Improve. Enact legislation to combine with Neighborhood Assistance Program, along with the program's $6 million/year cap.

Public Infrastructure Development Programs
1. MDFB Contribution Tax Credits
2. MDFB Bond Guarantee Tax Credits
3. CDBG Community Facility Grant
4. CDBG Other Public Needs Grant
5. CDBG Emergency Grant
6. CDBG Water and Wastewater Grant
7. CDBG Engineering Plans and Specifications Grant

8. Neighborhood Improvement Districts (local)
9. Community Improvement Districts (local)
10. CDBG Speculative Building Loan
11. CDBG Bridge, Street, Drainage Grant
12. Transportation Development Districts

1. MDFB Contribution Tax Credits:

Purpose: Facilitate contributions to be used for the development or redevelopment of public facilities or infrastructure, which will mitigate blight, promote the state economy, or resolve health or safety problems.

Analysis/Comments: The program provides 50% tax credits to contributors of projects approved by the MDFB. The approval is based on whether the credits are needed to obtain the contributions, the quality and impact of the project, the state fiscal benefit (if the project is designed to impact the economy), or other relevant factors. The contributions must be provided to the MDFB, who may then grant or loan the funds to a public entity or a non-profit for the benefit of the project.

Results: In FY05, there was $10.4 million authorized and $25.9 million redeemed (mostly from prior years). In FY04, there were four projects that were authorized $34 .8 million, with $482 million in leveraged project investment.

Recommendation: Maintain.

2. MDFB Bond Guarantee Tax Credits:

Purpose: Facilitate the financing of infrastructure development projects that are needed for an overall redevelopment project.

Analysis/Comments: The program, approved on a discretionary basis by MDFB, provides tax credits in the event of a default on the payments of a bond issued by the MDFB for public infrastructure.

Results: The total tax credits issued over the life of the program are $1,871,130. Of the $50 million in cumulative cap available by the statute, there is currently $48.8 million outstanding. Projects utilizing the program include two public garages owned by MDFB in St. Louis and the Midtown and Uptown Redevelopment plans in Kansas City. The program represents an effective method of leveraging local funds for qualifying infrastructure programs.

Recommendation: Improve. Enact legislation to increase the current $50 million cap on the amount of outstanding bonds by an additional $25 million (from the MODESA cap).

3. **CDBG Community Facility Grant**:

Purpose: Provide federal CDBG grant funds to non-entitlement communities to provide community facilities such as community centers, day cares, rural health clinics, senior/youth centers, telecommunications, and others.

Analysis/Comments: Such facilities must predominately benefit low/moderate income persons. The program is awarded based on meeting stated criteria.

Results: In the period from FY02 to FY05, the program provided $8.7 million for 38 community facility projects that leveraged $6.6 million of other funds.

Recommendation: Maintain. This program is below the $3 million in minimum recommended level, but the program is unique to the other CDBG categories.

4. **CDBG Other Public Needs Grant**:

Purpose: Provide CDBG grant funding to communities in non-entitlement areas for public needs/facilities that are not included in the other CDBG categories.

Analysis/Comments: Such facilities must predominately benefit low to moderate income persons. The program is awarded based on meeting stated criteria.

Results: In the period of FY02 to FY05, the program provided $5.3 million for 39 projects that leveraged $12.4 million in other funds.

Recommendation: Combine with the CDBG Bridge, Street, and Drainage, Speculative Building Loan, Bridge, Street, and Drainage, and Low-Income Housing Match programs (by administrative action).

5. **CDBG Emergency Grant**:

Purpose: Provide CDBG grant funding to communities in non-entitlement areas for critical infrastructure (water systems, sewer, others) that unexpectedly became non-functional.

Analysis/Comments: The program is awarded based on meeting stated criteria in emergency situations.

Results: In the period from FY02 to FY05, there was $8.4 million provided for 35 projects that leveraged $9.8 million in other funding.

Recommendation: Maintain. Although the level of funding is less than the minimum recommended level of $3 million, the program serves as a last resort for essential infrastructure funding in emergency situations.

6. **CDBG Water and Wastewater Grant**:

Purpose: Provide CDBG grant funding to communities in non-entitlement areas for improvements to water or sewer systems.

Analysis/Comments: Such facilities must predominately benefit low to moderate income persons. The program is awarded based on meeting stated criteria.

Results: In the period from FY02 to FY05, the program provided $32.7 million in grant funds for 92 projects, which leveraged $88.2 million in other funds.

Recommendation: Combine with CDBG Engineering Plans and Specifications program (by administrative action).

7. **CDBG Engineering Plans and Specifications Grant**:

Purpose: Provide CDBG grant funding to communities in non-entitlement areas for engineering plans and specifications for improvements to water or sewer systems.

Analysis/Comments: Such facilities must predominately benefit low to moderate income persons. The program is awarded based on meeting stated criteria.

Results: Funding amounts have been included in other CDBG programs.

Recommendation: Combine with CDBG Water and Wastewater grant program (by administrative action).

8. **Neighborhood Improvement Districts (local)**:

Purpose: Provide funding for public infrastructure that is desired by the property owners in a designated area.

Analysis/Comments: The area of the district (which is not a separate public entity) and the scope of the improvements are established in a petition by the property owners. If the required percentage of the property owners approve of the petition, it is submitted to the city or county for approval. If approved, the city or county would issue general obligation bonds to finance the improvements. The bonds are retired by a special assessment on the property that benefits.

Results: Use of this program is on the increase, but a total of results is not available.

Recommendation: Improve. Enact legislation to provide communities the option of combining the benefits of Community Improvement Districts, Neighborhood

Improvement Districts, and Transportation Development Districts into one broad program given their similarity of purpose

9. Community Improvement Districts (local):

Purpose: Provide funding for public infrastructure, maintenance, landscaping, security, marketing, and other eligible costs that is desired by the property owners in a designated area.

Analysis/Comments: Somewhat similar to NID and TDD, the CID is different in that it allows costs for non-construction activities. A CID is typically a separate public entity since it can impose a sales or property tax within the area benefiting.

Results: Use of this program is on the increase, but a total of results is not available.

Recommendation: Improve. Enact legislation to provide communities the option of combining the benefits of CID, NID, and TDD into one broad program given their similarity of purpose.

10. CDBG Speculative Building Loan:

Purpose: Facilitate the construction or rehabilitation of a speculative industrial building by a non-profit community organization in order to entice the location of industry.

Analysis/Comments: This program, through federal CDBG funds, is established as a grant to a city or county, which is loaned to a non-profit organization. The loan, typically at 0%-1% (and in some cases is partially forgiven) has a maximum term of 30 months, since it is on the basis of a float, which are funds that have been granted to other state CDBG projects. As such, the loan must be secured by a letter of credit to ensure timely and complete payment. Speculative buildings can be beneficial in the attraction of new companies to a community, but may take many years to market.

Results: The annual cap of $12 million is shared by the CDBG Interim Financing Loan. In the period of FY02 to FY05, there was $400,000 provided for 1 project.

Recommendation: Combine with CDBG Other Public Needs (by administrative action).

11. CDBG Bridge, Street, and Drainage Grant:

Purpose: Provide CDBG grant funding to communities in non-entitlement areas for bridges, streets, and storm drainage systems.

Analysis/Comments: Such facilities must predominately benefit low to moderate income persons. The program is awarded based on meeting stated criteria.

Results: In the period of FY02 to FY05, there was $9.7 million provided for 35 projects that involved leveraging of $5.1 million in other funding.

Recommendation: Combine with CDBG Other Public Needs (by administrative action).

12. Transportation Development Districts (local):

Purpose: Provide funding for transportation improvements that will facilitate a development project.

Analysis/Comments: This program allows an area to be designated by the Circuit Court as a new political subdivision for the purpose of imposing an additional sales tax of up to ½% on retail sales within the district. The district may also impose a property tax and/or a special assessment. The district may issue bonds for public improvements related to transportation. It is similar to Neighborhood Improvement Districts (special assessments for various public infrastructure) and Community Improvement Districts (sales tax, property tax and/or special assessment for infrastructure, marketing, etc.). This program typically involves retail development projects since the primary source of funds is a sales tax.

Results: Use of this program is on the increase, but since it is a local program, no reports are filed with the state to determine the level of use.

Recommendation: Improve. Enact legislation to provide communities the option of combining the benefits of Community Improvement Districts, Neighborhood Improvement Districts, and Transportation Development Districts into one broad program given their similarity of purpose.

C. Hybrid Programs

Redevelopment Programs
1. CDBG Downtown Revitalization Grant
2. Urban Redevelopment Corp. (353) (local)
3. CDBG Neighborhood Development Grant
4. Neighborhood Preservation Tax Credits
5. Brownfield Remediation Tax Credits
6. Brownfield Jobs/Investment Tax Credits
7. Brownfield Demolition Tax Credits
8. Historic Preservation Tax Credits
9. MODESA (Downtown Economic Stimulus Act)

10. State Tax Increment Financing
11. Local Tax Increment Financing

1. **CDBG Downtown Revitalization Grant**:

   Purpose: The program provides federal CDBG funds to a non-entitlement community to facilitate the redevelopment of a downtown area.

   Analysis/Comments: The project must have a redevelopment plan that included both private and public improvements. The program is based on a 50% local match for public improvements. The program is unique to the other CDBG categories and provides a significant benefit of the removal of blight and increase in economic activity in downtown areas.

   Results: In the period of FY02 to FY05, there was $4.8 million provided for 16 projects that leveraged $12 million in other funding.

   Recommendation: Improve. Redirect an increased amount of the annual allocation (by administrative action, subject to public comment).

2. **Urban Redevelopment Corporation (Chapter 353) Tax Abatement (local)**:

   Purpose: Promote redevelopment of blighted areas by providing abatement to improvements to real property.

   Analysis/Comments: With the increased use of Tax Increment Financing, Chapter 100 tax abatement and the expansion of enterprise zones, the use of Chapter 353 is infrequently used.

   Results: There is no central filing source to determine the extent of use of Chapter 353 abatement. The State Tax Commission periodically provides the number of parcels and amount of property involved.

   Recommendation: Improve. Enact legislation to simplify the statutory procedures for smaller projects.

3. **CDBG Neighborhood Development Grant**:

   Purpose: Provide federal CDBG funds to non-entitlement communities in order to facilitate neighborhood redevelopment in low to moderate income areas.

   Analysis/Comments: The program provides grant funds for housing rehabilitation, public infrastructure improvements, and demolition in conjunction with a neighborhood redevelopment strategy. MHDC has initiated a rehabilitation program with federal HOME funds.

Results: In the period between FY02 and FY05, there was $13.3 million provided for 54 projects that leveraged $10 million in other funding.

Recommendation: Delete (by administrative action). Transfer the funding to the other CDBG categories.

4. Neighborhood Preservation Tax Credit:

Purpose: Facilitate the rehabilitation of owner-occupied housing in economically distressed areas.

Analysis/Comments: The program provides tax credits to homeowners or developers ranging from 15% (new infill housing) to 35% of the eligible rehab costs. The program is based on a first-come allocation and the demand is significantly more than the annual allocation. As such, the distribution of funding has been on a lottery basis, which does not provide for a concentrated redevelopment impact. Also, some areas in the city-wide distressed areas are not lower income.

Results: In FY05, the program provided $8.5 million in redeemed tax credits and there was $13.6 million authorized. In FY04, there were 196 (233 housing units) projects with $16 million authorized, with $24 million in other funds leveraged.

Recommendation: Improve. Enact legislation to award funds on a competitive basis, requiring a comprehensive neighborhood redevelopment plan.

5. Brownfield Remediation Tax Credits:

Purpose: Promote the redevelopment of "brownfield" properties in order to correct blighting conditions and place the property back in useful economic activity.

Analysis/Comments: Brownfield properties must be enrolled in DNR's Voluntary Cleanup Program to use this program. The Remediation Tax Credit Program may provide up to 100% of the cleanup costs of hazardous substances, depending on the return on investment of the developer and the state fiscal impact.

Results: In FY05, there was $15.5 million authorized with $10.6 million redeemed (which most was authorized in prior years). In FY04, there were 11 projects that were authorized $9.6 million, resulting in $12.2 million in other funds leveraged. The new jobs created (1,470 reported in FY03 and 363 in FY04) should be considered over a long term.

Recommendation: Maintain

6. **Brownfield Jobs/Investment Tax Credits**:

Purpose: Promote the redevelopment of Brownfield properties in order to correct blighting conditions and place the property back in useful economic activity.

Analysis/Comments: Brownfield properties must be enrolled in DNR's Voluntary Cleanup Program to use this program. This program provides tax credits based on new jobs and new investment by companies that locate in a brownfield property. The approval of the credits is discretionary, and the credits are expiring. This program was modeled almost exactly after the former Enterprise Zone program.

Results: In FY05, there were $406,000 in new tax credits authorized (since most are for a multi-year basis), with $1.7 million credits redeemed (mostly authorized from prior years). In FY04, there was $68 million in investment, and in FY03, there was $116 million in investment.

Recommendation: Improve. Enact legislation to combine with the Enhanced Enterprise Zone and Quality Jobs program.

7. **Brownfield Demolition Tax Credits**:

Purpose: Promote the redevelopment of Brownfield properties in order to correct blighting conditions and place the property back in useful economic activity.

Analysis/Comments: Brownfield properties must be enrolled in DNR's Voluntary Cleanup Program to use this program. The Remediation tax credit program may provide up to 100% of the cleanup costs of hazardous substances. The program has no total cap, but the approval is discretionary by DED based on the return on investment of the developer and the state fiscal impact.

Results: No projects have been approved since the inception of this program four years ago.

Recommendation: Improve. Combine with the Brownfield Remediation program.

8. **Historic Preservation Tax Credits**:

Purpose: Facilitate the redevelopment of properties (commercial and residential) that are historic (are on the federal historic register or are located in a local historic district).

Analysis/Comments: The program provides tax credits based on 25% of the eligible rehabilitation costs of a historic property. Commercial properties may

also use the 20% federal historic tax credit. The program is an entitlement and has no annual or cumulative cap. Both commercial and residential properties are eligible, except for those owned by a non-profit, public, or religious entity.

Results: In FY05, there was $117 million in credits authorized, and $74.5 million in credits redeemed (mostly from prior years). In FY04, there were 179 projects that involved $101 million in authorized credits, and $269 million in other funds leveraged. There were 1,784 residential housing units involved, and 997 jobs (mostly retail and local service) created.

Recommendations: Maintain.

9. Missouri Downtown Economic Stimulus Act (MODESA):

Purpose: Facilitate the redevelopment of downtown areas, thereby reducing blight and promoting new economic activity.

Analysis/Comments: The program is very similar to State TIF, except that MODESA is limited to "downtown/central business districts" and the state incentives involve both withholding taxes and sales tax. Also, MODESA funds are limited to public infrastructure.

The application process is complex and difficult to complete. In addition, the applications must be approved by DED and MDFB.

One difficulty with the program has been measuring the effect of displaced sales taxes. Displaced sales taxes are sales taxes that are theoretically moved from one Missouri location to another as a result of the project.

Results: Only one project, Kansas City Live, has been approved. The funding was for $119 million over 25 years.

Recommendation: Improve. Enact legislation to: (a) Eliminate the requirement of MDFB approval, (b) Clarify the test for determining displacement, (c) Of the current $140 million annual cap (which is applicable to both MODESA and MORESA), transfer $25 million to the MDFB Bond Guarantee (as a one-time cumulative cap increase for that program), $8 million to Quality Jobs, and $18 million to State TIF, and (d) delete $31 million of the cap. This would result in a new annual cap for MODESA/MORESA of $58 million.

10. Downtown Preservation Program:

Purpose: Facilitate the redevelopment of downtown areas, thereby reducing blight and promoting new economic activity.

Analysis/Comments: The program is very similar to MODESA, except that the state incentives for this program involve only sales tax. Compared to MODESA, the application process is simpler.

Results: The program was enacted in the 2005 legislative session, and no projects have been approved since.

Recommendation: Maintain.

11. State Tax Increment Financing:

Purpose: Facilitate the redevelopment in eligible blighted areas, thereby reducing blight and providing new economic activity.

Analysis/Comments: The program provides discretionary approval of up to 50% of incremental state sales tax or state withholding tax. Currently, there are four projects that have applied, and if all are funded, the annual cap may be met. One difficulty with the program has been measuring the effect of displaced sales taxes.

Results: Since the inception of the program, there have been 11 projects approved for a total of $323 million over a period up to 23 years. This leveraged an estimate of $2 billion in other funding.

Recommendation: Improve. Enact legislation to: (a) Clarify the test for determining displacement, (b) Limit reimbursable costs to blight remediation and public infrastructure costs, (c) Prohibit direct subsidy of private improvements other than demolition, site preparation, parking and other public infrastructure, and (d) Transfer $18 million in annual cap from MODESA to this program.

12. Local Tax Increment Financing:

Purpose: Facilitate the redevelopment in eligible areas (blighted, conservation), thereby reducing blight and providing new economic activity.

Analysis/Comments: The program allows a city or county to create a TIF Commission, which can provide a recommendation on whether to enact a TIF for a specific project or an area. Part of the basis of TIF is whether the area would reasonably be expected to be developed but-for the use of TIF.

Results: According to the 2004 annual report prepared by DED, there were 210 projects that are currently active by 53 different cities or counties that involved $2.045 billion in TIF funding. The amount of other funding that the TIF funds leveraged was not included in the report, but a conservative estimate would be $4 billion.

Recommendations: Consider the recommendations of the Senate Interim Committee on Tax Increment Financing and the House Committee on Local Government.

Worker Training Programs
1. New Jobs Training Bonds
2. Retained Jobs Training Bonds
3. DESE Customized Training
4. DWD Customized Training

1. New Jobs Training Bonds:

Purpose: Facilitate the training of new employees of a company.

Analysis/Comments: This program involves the issuance of bonds and/or certificates by a community college with the debt service paid by the diversion of a portion of the state withholding taxes of the new employees. Typically, the benefiting company purchases the bonds, which is an unnecessary and undesired situation. In addition, the community college is provided an administrative fee of 15% of the bond issuance.

Results: In FY05, there was $6.8 million in diverted withholding taxes to retire NJTB bonds. In FY04, there were three new projects approved for $4.7 million involving 738 new jobs.

Recommendation: Improve. By either legislation or administrative action, control indirect costs and provide a mechanism for funding that provides an option to the bonding/certificate process.

2. Retained Jobs Training Bonds:

Purpose: Facilitate the training of retained employees of a company.

Analysis/Comments: The program is similar to the New Jobs Training program, except it is applicable to retained jobs. DED must approve whether the project is actually a retention situation.

Results: Program was authorized in the 2004 legislative session, providing for a maximum amount of outstanding bonds of $15 million, and in the 2005 legislative session, the program received an annual appropriation of $5 million. (The

payments are derived from a diversion of the state withholding tax of the retained employees.)

Recommendation: Improve. By either legislation or administrative action: (a) Control indirect costs and provide a mechanism for funding that provides an option to the bonding/certificate process; and (b) increase the current $15 million bond cap by an additional $30 million, and increase appropriations to a sufficient amount to provide an adequate amount for debt service. (The bond cap represents the maximum amount of bonds that may be outstanding, with the annual payments depending on the rate and term of the bonds.)

3. **Missouri Department of Elementary and Secondary Education (DESE) Customized Training Grant**:

Purpose: Facilitate training as an integral part of vocational and technical education, which provides a partnership between the state and local education agencies, industry, and the post-formal education student (employees).

Analysis/Comments: The funding for this program is primarily from general revenue appropriations, which fluctuates each year. This program is very similar to the Division of Workforce Development Customized Training Program, but there are different eligibility criteria and areas of interest.

Results: In FY05, there was $2.8 million in funding.

Recommendation: Combine all Customized Training program funding under DED to emphasize job creation and retention.

4. **Division of Workforce Development (DWD) Customized Training Grant**:

Purpose: Facilitate training of new or existing employees of a company, resulting in higher wages and job security for the workers, as well as assisting companies with job creation and retention efforts.

Analysis/Comments: The funding for this program is general revenue appropriations, which fluctuates each year.

Results: In FY05 the program provided funding of $8.5 million. The program was appropriated $7.6 million for FY06. The FY05 funding resulted in assisting 185 companies and consortiums, training of 29,850 new and current workers at an average wage of $19.75/hour.

Recommendation: Combine all Customized Training program funding under DED to emphasize job creation and retention.

D. Programs Deleted in Previous Legislation

Program	Program Type
1. Research Tax Credit	Small Business/Venture Capital
2. Dry Fire Hydrant Tax Credit	Public Infrastructure
3. Individual Training Tax Credit	Training
4. Mature Worker Child Care Tax Credit	Training
5. Transportation Development Tax Credit	Public Infrastructure
6. Business Facility Tax Credit	Competition Incentives
7. Enterprise Zone Tax Credit	Competition Incentives