



Missouri Economic Development Council

Missouri Works 2.0
Business Development Incentives

Presenters:

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Test Your Knowledge

It's a Quiz!!!!!!

Flash Quiz – MO Works 1.0

Audience Participation

1. What are the 2 types of benefits (\$) found in the MO Works program?
2. What are the 3 types of business development activities that MO Works is designed to incent?
3. How do those benefits work for the company?
4. Name the tiers or categories found in the MO Works program.
5. List the basic thresholds that are found in the categories.

Flash Quiz – MO Works 1.0

Audience Participation

6. Do all of the categories in MO Works offer an entitlement amount?
7. Do all of the categories in MO Works offer an opportunity for additional discretionary amounts on top of the entitlement?
8. Do the discretionary amounts come in either 6%, 7%, 8% or 9% values depending upon the category?
9. What does being a “facility based” incentive mean?
10. Why is it important that we view all of a company’s “related facilities” in the State?

Flash Quiz – MO Works 1.0

Audience Participation

11. Name 3 items that differentiate MO Works from MO Quality Jobs?
12. Can non-profits participate in MO Works?
13. Name 3 things that make a company ineligible for the program?
14. What is an NOI and what does it do?
15. What are the 2 entry-ways into MO Works?

Proposal from DED/Partnership *versus* Application Direct from Company

- MO Works may be incorporated into a DED or Missouri Partnership *incentive proposal*, or;
- MO Works may be accessed by a company submitting a “Notice Of Intent (NOI)”;
- DED has 5 days to respond to the proposal request and 30 days to respond to a direct NOI.

Enrollment Process

“When to request a proposal and when to suggest a company submit a direct NOI”

- **Directly apply:**
 - Non-competitive projects
 - Traditional expansions
 - Entitlement benefits will win the deal
- **State of MO proposal:**
 - Competitive projects
 - Attraction projects
 - Retention projects
 - Need for discretionary incentives
 - Company need for incentive offer

Proposal Process

Company Needs Analysis



Project Information Request form submitted to DED project manager



Local and State Due Diligence performed



State of Missouri proposal sent to company



Company signs and submits completed proposal to DED



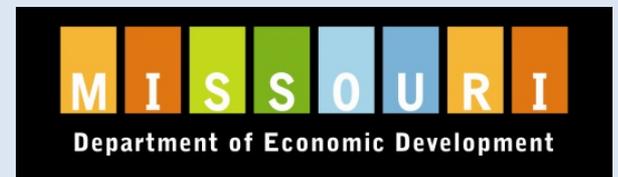
Completion of NOI and required attachments



Program approval



Announcement!?!?



Direct Application

Company submission of Notice of Intent



DED Due Diligence



Program approval



Announcement!?!?

Major Differences in MO Works

- Limits benefit for company who was going to do the project anyway;
 - An entitlement isn't an incentive.
- Performance based with consequences;
 - “Defines a project”, offers an annual benefit for good performance, establishes protection for poor performance.
- Eliminates diminishing returns;
 - Does not continue to provide benefits if the company creates more jobs than “defined in the project”.

Major Differences in MO Works

- Allows more participation;
 - Offers more categories and lower new job thresholds.
- Requires more strategy;
 - What is the least amount necessary to win the deal?
- Addresses criticisms
 - Holds company to their part of the bargain.

Understanding and Interpreting the Program

- The benefits in each category
- Tracking the cap and the importance of “defining a project”
- The but/for test
- The criteria used for adding Discretionary Benefits to a project
- Understanding the definition and impact of a “related facility”
- Owners and Employees – who counts?
- MO Works agreements

Focusing on New Jobs in today's training.

Information is for technical assistance only. The program guidelines and documents are still being developed. Final decisions are made at DED.

New Job Creation Project Benefits

Program	Min. New Jobs	Min. New Private Capital Inv.	Min. Avg. Wage	Health Ins. Offered & Paid at Least 50%	Benefits
Zone Works <i>(Note 1)</i>	2	\$100,000	80% of County Avg. Wage	Yes	Retention of WH, 5 or 6 years <i>(Note 3)</i>
Rural Works <i>(Note 2)</i>	2	\$100,000	90% of County Avg. Wage	Yes	Retention of WH, 5 or 6 years <i>(Note 3)</i>
Statewide Works	10	N/A	90% of County Avg. Wage	Yes	Retention of WH, 5 or 6 years <i>(Notes 3 & 4)</i>
Mega Works 120	100	N/A	120% of County Avg. Wage	Yes	6% of new payroll, 5 or 6 years <i>(Notes 3 & 4)</i>
Mega Works 140	100	N/A	140% of County Avg. Wage	Yes	7% of new payroll, 5 or 6 years <i>(Notes 3 & 4)</i>

Note 1: Project facility must be located in an Enhanced Enterprise Zone.

Note 2: Project facility must be located in a "rural" county, which would NOT include Boone, Buchanan, Clay, Greene, Jackson, St. Charles, and St. Louis City and County.

Note 3: Benefit period is 5 years, or 6 years for existing Missouri companies (those that have been operational in Missouri for at least 10 years).

Note 4: Companies may be proposed discretionary incentives of up to a maximum of 9% of new payroll if certain criteria are met.

Summary of All Categories

- All categories require health insurance offered and at least 50% paid
- Withholding tax benefits only:
 - Zone Works, Rural Works and Retention Works
- Entitlements only, no discretionary offered:
 - Zone Works, Rural Works
- Entitlements with discretionary offered:
 - Statewide works, Mega Works 120, Mega Works 140
- Discretionary portion of Statewide Works may be tax credits ranging from Company's AGI percentage of payroll, up to 9% of payroll - IT DOES NOT AUTOMATICALLY START AT 6% - (see AGI table)

Summary of All Categories, continued

- Discretionary portion of Mega Works 120 is between 6-9% of payroll
- Discretionary portion of Mega Works 140 is between 7-9% of payroll
- All benefits must reflect a positive economic impact and be the least amount necessary to “win the deal”

Zone Works

- **Projects locating inside Enhanced Enterprise Zones; existing or newly formed.**
- **Must create 2 new jobs**
- **Must pay at least 80% of County Average Wage**
- **Must pledge \$100,000 new investment**
- **New zones are formed locally with documentation sent to DED**
 - **Ordinances**
 - **Boundaries**
 - **Proof of eligibility (poverty, etc)**
 - **DED Technical Assistance available**
- **Benefit has no opportunity for “discretionary benefits”**
- **Benefit is withholding taxes only, no tax credits**

Zone Works

Benefit Calculation			Assumptions			
State Average Wage		\$ 43,122				
County Average Wage (Ray)		\$ 31,206	Withholding tax rate			2.63%
Avg New Job Wages as a % of County Avg Wage		96%	Annual Wage Growth			3%
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
New Jobs	4	7	8	8	8	
Average Wage	\$ 30,000	\$ 30,900	\$ 31,827	\$ 32,782	\$ 33,765	
New Payroll	\$ 120,000	\$ 216,300	\$ 254,616	\$ 262,254	\$ 270,122	
Prelim. Program Benefit	\$ 3,156	\$ 5,689	\$ 6,696	\$ 6,897	\$ 7,104	\$ 29,543
Estimated Retained WH	\$ 3,156	\$ 5,689	\$ 6,696	\$ 6,897	\$ 7,104	\$ 29,543

Rural Works

- **Projects located in designated Counties (all except Boone, Buchanan, Clay, Greene, Jackson, St. Charles, and St. Louis City and County)**
- **Must create 2 jobs**
- **Must pay at least 90% of County Average Wage**
- **Must pledge \$100,000 new investment**
- **Benefit includes no opportunity for “discretionary benefits”**
- **Benefit is withholding taxes only, no tax credits**

Rural Works

Benefit Calculation:			Assumptions			
State Average Wage		\$ 40,856				
County Average Wage (Cape Girardeau)		\$ 35,214	Withholding tax rate			3.21%
Avg New Job Wages as a % of County Avg Wage		142%	Annual Wage Growth			3%
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
New Jobs	5	8	8	8	8	
Average Wage	\$ 50,000	\$ 51,500	\$ 53,045	\$ 54,636	\$ 56,275	
New Payroll	\$ 250,000	\$ 412,000	\$ 424,360	\$ 437,091	\$ 450,204	
Prelim. Program Benefit	\$ 8,025	\$ 13,225	\$ 13,622	\$ 14,031	\$ 14,452	\$ 63,354
Estimated Retained WH	\$ 8,025	\$ 13,225	\$ 13,622	\$ 14,031	\$ 14,452	\$ 63,354

Statewide Works

- Must create at least 10 new jobs
- Must pay at least 90% of County Average Wage
- No new private investment requirement
- Benefit includes opportunity for “discretionary benefits”
- Benefit is withholding taxes only plus opportunity for tax credits
- Discretionary amount may range from percentage of payroll equal to company AGI, up to 9% of payroll (Starting point is not 6% 😊).

Statewide Works

Benefit Calculation:			Assumptions			
Statewide Average Wage	\$	43,122	Withholding tax rate		3.00%	
County Average Wage (Jackson)	\$	47,318	Benefit Year 1 (as listed on chart) is:		2014	
Avg New Job Wages as a % of County Avg Wage		93%	Average Annual Starting Wage:		\$ 40,000	
Discretionary benefit percentage		6%	Annual Wage Growth		3%	
Total entitlement and discretionary program benefits		6%				
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
New Jobs	10	100	100	10	100	
Average Wage	\$ 40,000	\$ 41,200	\$ 42,436	\$ 43,709	\$ 45,020	
New Payroll	\$ 400,000	\$ 4,120,000	\$ 4,243,600	\$ 437,091	\$ 4,502,035	
Prelim. Program Benefit	\$ 24,000	\$ 247,200	\$ 254,616	\$ 26,225	\$ 270,122	\$ 822,164
Estimated Retained WH	\$ 12,000	\$ 123,600	\$ 127,308	\$ 13,113	\$ 135,061	\$ 411,082
Estimated Tax Credits	\$ 12,000	\$ 123,600	\$ 127,308	\$ 13,113	\$ 135,061	\$ 411,082
Total Program Benefit	\$ 24,000	\$ 247,200	\$ 254,616	\$ 26,225	\$ 270,122	\$ 822,164

Mega Works 120

- **Must create at least 100 new jobs**
- **Must pay at least 120% of County Average Wage**
- **No required new investment**
- **Benefit may range from 6-9% of payroll**

Mega 120 Works

Benefit Calculation:				Assumptions			
Statewide Average Wage		\$	43,122	Withholding tax rate	3.40%		
County Average Wage (Jackson)		\$	43,122		Benefit Year 1 (as listed on chart) is:	2014	
Avg New Job Wages as a % of County Avg Wage			139%				
Mega Works Base Benefit			6%	Average Annual Starting Wage:	\$	60,000	
Additional benefit			3%	Annual Wage Growth		3%	
Total percentage of program benefits			9%				
	Year 1	Year 2	Year 3	Year 4	Year 5	Total	
New Jobs	100	100	100	100	100		
Average Wage	\$ 60,000	\$ 61,800	\$ 63,654	\$ 65,564	\$ 67,531		
New Payroll	\$ 6,000,000	\$ 6,180,000	\$ 6,365,400	\$ 6,556,362	\$ 6,753,053		
Prelim. Program Benefit	\$ 540,000	\$ 556,200	\$ 572,886	\$ 590,073	\$ 607,775	\$ 2,866,933	
Estimated Retained WH	\$ 204,000	\$ 210,120	\$ 216,424	\$ 222,916	\$ 229,604	\$ 1,083,064	
Estimated Tax Credits	\$ 336,000	\$ 346,080	\$ 356,462	\$ 367,156	\$ 378,171	\$ 1,783,870	
Total Program Benefit	\$ 540,000	\$ 556,200	\$ 572,886	\$ 590,073	\$ 607,775	\$ 2,866,933	

Mega Works 140

- **Must create at least 100 new jobs**
- **Must pay at least 140% of County Average Wage**
- **No required new investment**
- **Benefit may range from 7-9% of payroll**

Mega 140 Works (with NJT)

Benefit Calculation:				Assumptions			
Statewide Average Wage	\$	43,122		Withholding tax rate			3.40%
County Average Wage (Jackson)	\$	43,122		Benefit Year 1 (as listed on chart) is:			2014
Avg New Job Wages as a % of County Avg Wage		144%					
Mega Works Base Benefit		7%		Average Annual Starting Wage:	\$	62,000	
Additional benefit		2%		Annual Wage Growth			3%
Total percentage of program benefits		9%					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
New Jobs	100	100	100	100	100	100	
Average Wage	\$ 62,000	\$ 63,860	\$ 65,776	\$ 67,749	\$ 69,782	\$ 71,875	
New Payroll	\$ 6,200,000	\$ 6,386,000	\$ 6,577,580	\$ 6,774,907	\$ 6,978,155	\$ 7,187,499	
Prelim. Program Benefit	\$ 558,000	\$ 574,740	\$ 591,982	\$ 609,742	\$ 628,034	\$ 646,875	\$ 3,609,373
Estimated Retained WH							\$ -
Estimated Tax Credits	\$ 558,000	\$ 574,740	\$ 591,982	\$ 609,742	\$ 628,034	\$ 646,875	\$ 3,609,373
Total Program Benefit	\$ 558,000	\$ 574,740	\$ 591,982	\$ 609,742	\$ 628,034	\$ 646,875	\$ 3,609,373

Program Cap and “Defined Projects”

Caps:

- **Withholdings:**
 - withholdings for *job creation* projects = no cap;
 - withholdings for *job retention* projects = \$6 mil cap;
- **Tax Credits Cap (*used for job creation only*):**

Tax Credit Cap	FY 2014	FY2015	FY2016
Total Program	\$106 mil	\$111 mil	\$116 mil

How does DED track the cap?

- **Benefits are reserved for a “defined project” and counted against the annual program cap for the relevant term**
- **Cap space and benefits for a company is set aside at proposal and reserved at the execution of the agreement**
- **A maximum total benefit and maximum annual benefit is established for each defined project. No additional benefits will be made available.**
- **The company defines the project and executes the agreement.**
- **An agreement may contain multiple NOI’s at the choice of the company.**
- **If a company fails to meet the threshold criteria or is dropped from the program, the cap space is “freed up”.**

MO Works But/For Test

- Applies to “automatic” and “discretionary” components;
- Applies to job creation and job retention components;
- But/For Tests Include:
 - Company may not have.....
 - performed significant, project-specific site work at the project facility,
 - purchased machinery or equipment related to the project,
 - publicly announced its intention to make new capital investment at the project facility prior to the receipt of a proposal for benefits or approval of its Notice of Intent, whichever comes first.

Important Eligibility Dates

	Announcement May Occur	Investment May Occur	Jobs May be Hired
Company Receives Proposal	After Date Proposal Sent from DED	Date Proposal Sent from DED (Investment will only count as new investment after the proposal has been accepted by the company.)	After NOI received by DED
Company Applies Directly (NOI)	After NOI Approval	After NOI Approval	After NOI received by DED

Does This Action Violate the But/For Clause?

1. *“performed significant, project-specific site work at the project facility”*

Action	Consequence	Notes
Acquisition of Land or Building	No impact on But/For	
Due Diligence on Land or Building (soil tests, inspections, permitting)	No Impact on But/For	
Site work, dirt moving, clearance, demolition, footings, foundation	Impacts But/For -ineligible	
Lease of Land or Building	No Impact on But/For	
Tenant Improvements on Land or Building for Company by Company or Landlord	Impacts But/For - ineligible	Regardless of signing lease date, if tenant improvements are started it violates but/for.

Does This Action Violate the But/For Clause?

2. *“purchased machinery or equipment related to the project”*

Does This Violate the But/For Clause?			Does This Impact Discretionary \$'s?	
Type of “Project”	Down Payment on Equipment	Purchase of Equipment	Impacts Discretionary Investment	Impacts Required Investment
Competitive Attraction—No Decision on Location	No	No	This investment may not be used as a factor for determining discretionary incentives.	This investment may not be used to meet the investment requirements.
Attraction—Decision on Location	Yes	Yes	N/A	N/A
Existing Expansion at Location with no other Facilities (effectively a Decision on Location)	Yes	Yes	N/A	N/A
Existing Expansion –No Decision on Location	No	No	This investment may not be used as a factor for determining discretionary incentives.	This investment may not be used to meet the investment requirements.
Retention—At Existing MO Facility vs. Relocating to another State—No Decision on Location	Yes	Yes	N/A	N/A

Does This Action Violate the But/For Clause?

3. *“publicly announced its intention to make new capital investment at the project facility prior to the receipt of a proposal for benefits or approval of its Notice of Intent, whichever comes first.”*

Announcement by:	Consequence	Notes
Company Announces prior to receipt of proposal or approval of NOI	Impacts But/For - ineligible	
City Announces prior to receipt of proposal or approval of NOI	Impacts But/For - ineligible	
Project is listed on required public hearing for local benefit, no other communication from Company or City	No impact on But/For	No comments in press.

Criteria for Adding Discretionary Benefits

- The significance of the qualified company's need;
- The projected net fiscal benefit to the state;
- The overall size and quality of the proposed project;
- The financial stability and creditworthiness of the qualified company;
- The level of economic distress in the area;
- The competitiveness of alternative locations for the project facility;
- The percent of local incentives committed.

Criteria for Adding Discretionary Benefits

- Those items that would increase the likelihood for discretionary benefits:
 - The significance of the qualified company's need;
 - The projected net fiscal benefit to the state;
 - The overall size and quality of the proposed project;
 - The level of economic distress in the area;
 - The competitiveness of alternative locations for the project facility;
- Those items that would decrease the likelihood for discretionary benefits
 - The financial stability and creditworthiness of the qualified company;
 - The percent of local incentives committed.

Examples of Criteria for Adding Discretionary Benefits

- The significance of the qualified company's need;
 - Capital costs
 - Specialized workforce/training
 - Infrastructure support
 - Utility demand
 - Environmental permitting
- The projected net fiscal benefit to the state;
 - Defined as cost:benefit analysis from REMI model
- The overall size and quality of the proposed project;
 - # of jobs, wages, investment
 - Fortune 500
 - HQ

Examples of Criteria for Adding Discretionary Benefits

- The level of economic distress in the area;
 - Enterprise zone, empowerment zone, poverty rate, blighted area, TIF redevelopment area; unemployment
- The competitiveness of alternative locations for the project facility;
 - 1st hand knowledge of competition
 - Source of knowledge of competition
 - Relationship of company in competitor's states
 - Knowledge of competitors offer
 - Familiarity with other state's tools
 - Proximity to resources
 - Stalking horse.....

Examples of Criteria for Adding Discretionary Benefits

- **The financial stability and creditworthiness of the qualified company;**
 - Creditworthiness
 - Viability
 - Stress
 - Industry trends
 - Recent company history (incentives aren't bailouts)
- **The percent of local incentives committed**
 - Simple yes or no
 - Benchmark for consideration, not a bonus system

Related Facilities – Different than MQJ

- QJ - " a facility operated by the qualified company or a related company located in this state that is directly related to the operations of the project facility".
- MO Works adds another component: "...directly related to the operations of the project facility or in which operations substantially similar to the operations of the project facility are performed."
- How do you determine if a facility is related or not?

Related Facilities – “...directly related.....”

- Does the facility make the same product or perform the same function?
- Does the facility make a product or perform a function that is integral to the other facility product or function?
- Are the products used together in the market?
- Does either facility sell their product to other buyers than just providing the product to their own company?
- How are the facilities represented in the company organizational chart?

Related Facilities - “.....substantially similar.....”

- Can you transfer employees from one facility to the other with no additional training?
- Are the resources/machinery/equipment used in the facility and the processes undertaken with those resources/machinery/equipment similar?

Owners/Employees – Counting Jobs

The definition of “employee” excludes owners:

The term “owner”:

- Applies to both privately held and publicly traded businesses:
- LLC - any person with a membership interest
- General Partnership or Joint Venture, - any of the partners
- Limited Partnership - only those partners with management powers. (In most cases this will require an examination of the partnership agreement.)
- Corporation, any person who:
 - Is a member of the board of directors, or
 - Any person who owns more than 10% of the outstanding shares of stock
- For other business organizations DED will determine which persons qualify as owners based on management and control.

Benefit Agreements

- MO Works provides for actual agreements to be executed between the Company and DED;
- Agreements are applicable to “entitlement”, “discretionary benefits” and “retention benefits”;
- The Agreement “defines the project”;
- The Agreement shall specify, at a minimum:
 - The committed number of new jobs, new payroll, and new capital investment;
 - The term of the benefits;
 - The term of required reporting;
 - The date or time period during which the tax credits shall be issued.

Benefit Agreements - continued

- Claw-back provisions as may be required by the department including;
 - A material misrepresentation in the application;
 - A bankruptcy;
 - A relocation outside of the state;
 - Dropping below the minimum job threshold;
 - Dropping below the committed jobs (or a percentage thereof) and payroll during benefit term;
 - Failing to comply with the reporting requirements;
 - Failing to provide required capital investment.

Clawbacks

- **Clawbacks may:**
 - Include only a portion of a benefit;
 - Include the whole benefit;
 - Eliminate the discretionary component of a benefit;
 - Apply annually versus the full term.
- **Clawbacks are designed to:**
 - Encourage realistic estimates.
- **Clawbacks are not designed to:**
 - Eliminate competitiveness;
 - Penalize natural business shifts.

