



## Business Incentives and Economic Development Expenditures: An Overview of Missouri's Program Investments and Outcomes

### Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Missouri's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness. In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Missouri.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

In Fiscal Year (FY) 2014, the most recent year for spending data available for program expenditures, Missouri spent \$83 million on economic development program expenditures. In 2011, the most recent year with available data, the state was forecasted to have spent roughly \$195 million on tax expenditures.

### Overview of Business Incentives

Missouri has a total 36 active incentive programs, including programs specific to targeted geographic areas. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, infrastructure improvement, site facility improvements, and so forth.<sup>1</sup>

<sup>1</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Missouri. For a current list of incentive programs as defined by the state, please see the [Missouri Department of Economic Development](#) website.



**Figure 1: Missouri State Business Incentives by Agency, 2014**

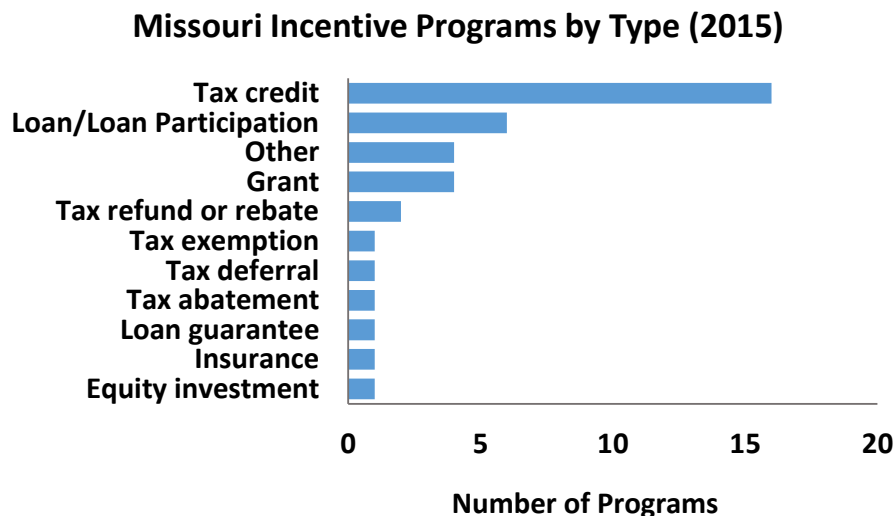
State Agency	Number of Programs
<b>Missouri Department of Economic Development</b>	29
<b>Missouri Department of Agriculture</b>	3
<b>Missouri Department of Revenue</b>	3
<b>Missouri Department of Natural Resources</b>	1

Source: C2ER State Business Incentives Database

In Missouri, four (4) different state agencies are responsible for administering the active incentive programs. The primary agency responsible for administering incentive programs is the Missouri Department of Economic Development which administers 29 of the 36 active programs (See Figure 1). The Department of Economic Development administers both tax (primarily tax credits) and non-tax programs (primarily loan/loan participation).

The different category of incentive programs in the state of Missouri include, grants, loans, tax credits, tax refunds or rebates, tax exemptions, tax deferrals, tax abatements, insurance and equity investments. Accounting for 42 percent of Missouri’s incentive types, tax credits represent the largest percentage of Missouri’s incentive types while loan/loan participation and grants account for 16 percent and 11 percent respectively (See Figure 2). The emphasis of the state’s current portfolio of incentives is on tax/regulatory burden reduction and on capital access or formation (See Figure 3).

**Figure 2: Incentive Programs by Type\*\***



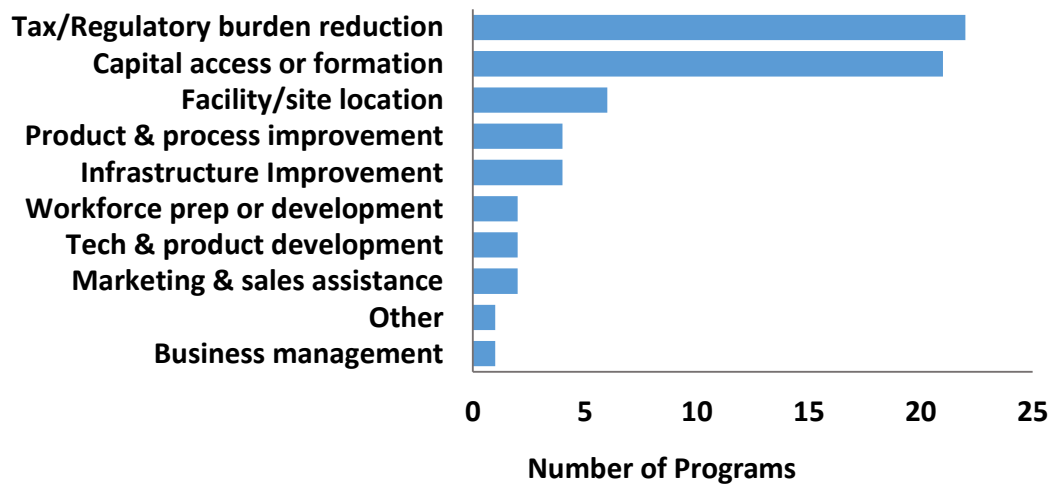
Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they provide multiple incentive types.



**Figure 3: Incentive Programs by Business Need\*\***

**Missouri Incentive Programs by Business Need (2015)**



Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they are intended to fulfill multiple business needs.

**Economic Development Program Expenditures**

Examining Missouri’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>2</sup>

According to Missouri’s [FY 2016 Executive Budget](#), which details actual FY 2014 spending, the state spent approximately \$83 million on economic development in FY 2014. This level of spending represents an average of \$442 per business, which is around half of the median average of \$877 per business spent in other states for that fiscal year. Most of Missouri’s economic development expenditures went primarily to the Department of Economic Development and the Department of Agriculture.

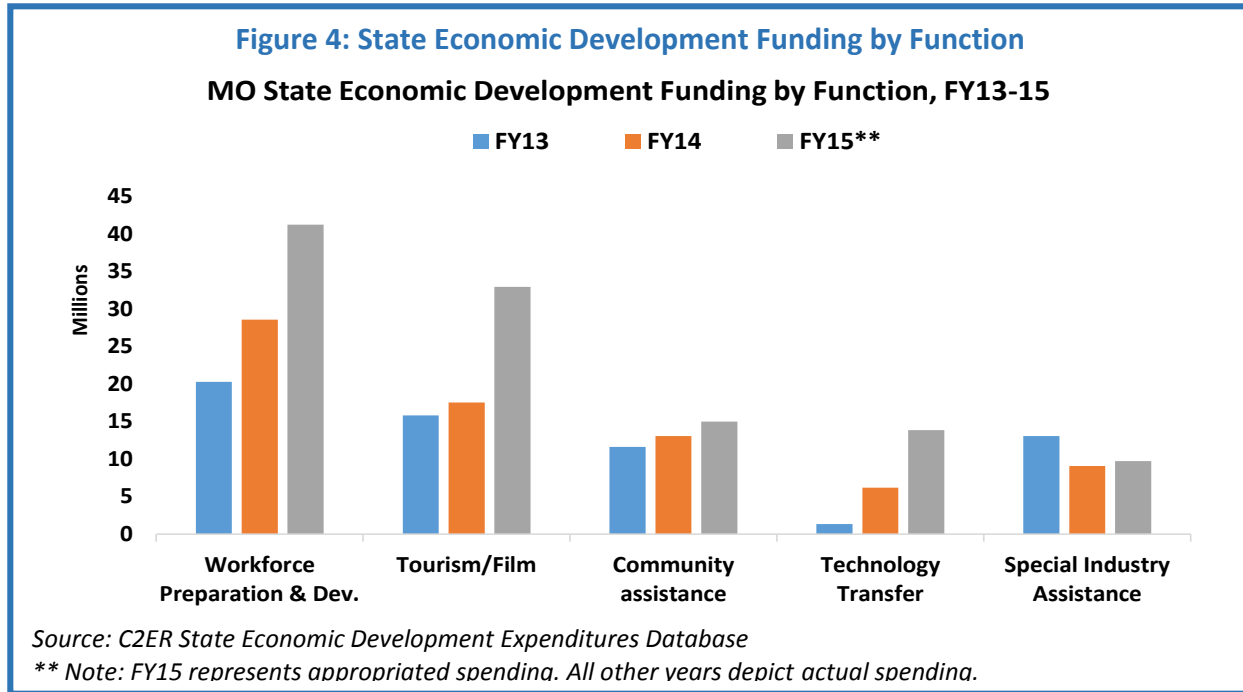
**State Economic Development Expenditures  
Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

<sup>2</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)



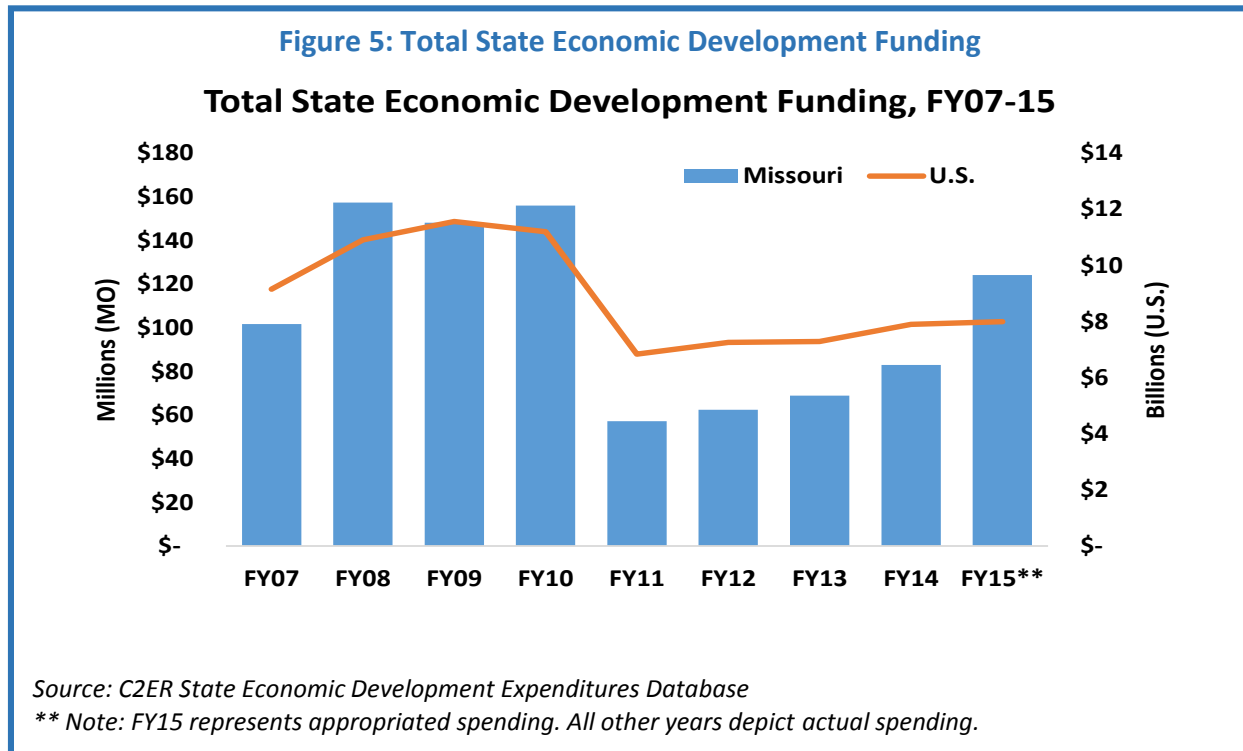
The Department of Economic Development received most of the funding, with roughly 75 percent of overall state economic development funding.



In comparison to economic development expenditures nationally, between FY 2007 and FY 2016, Missouri spent a greater proportion of its budget (relative to other states) on programs related to workforce preparation and development, tourism/film, community assistance, and special industry assistance (See Figure 4). On the other hand Missouri spent a relatively lower share on programs related to business assistance, business finance, domestic recruitment, entrepreneurial development, international trade and investment, and minority business development.



Between FY 2007 and FY 2010, economic development spending remained high in Missouri, with an average of just over \$140 million. Economic development program expenditures then significantly decreased in FY 2011, which is consistent with national trends in economic development spending as most states decreased spending in FY 2011 following the Great Recession. Since FY 2011 Missouri has made gradual spending increases that have not yet reached the levels they were at pre-recession. (See Figure 5.)



## Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”<sup>3</sup> *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The most recent tax expenditure data available for Missouri is the 2009 Tax Expenditure Report<sup>4</sup>, published by the Economic & Policy Analysis Research Center at the University of Missouri. In this report there were figures accounting for actual expenditures up until 2006 – the remaining fiscal years, from 2007-2011, were forecasted values. The forecasted values for FY 2011 were used in the remainder

<sup>3</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)

<sup>4</sup> See the 2009 Missouri Tax Expenditure Report: [http://eparc.missouri.edu/publications/tax\\_exp/nd/tax\\_exp.htm](http://eparc.missouri.edu/publications/tax_exp/nd/tax_exp.htm)



of this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. In some instances, tax incentives are listed as having no tax expenditures for that year or negligible expenditures.

In FY 2011, the state of Missouri forecasted economic development tax expenditures totaling just over \$195 million, corporate income tax accounting for 96 percent of expenditures and the remainder being represented by corporate franchise tax. While there were tax exemption programs specific to sales/use taxes, there were no listed expenditures for these programs. While the 2009 Tax Expenditure Report is unclear as to which entities administered tax expenditures, contemporary documentation suggests that the majority of tax expenditures have been and continue to be administered by the Department of Economic Development.

In FY 2011, 68 percent of Missouri's economic development tax expenditures were projected to be tax deductions. The remainder of tax expenditures fell under tax credits. The primary economic development functional goals of these tax expenditures programs were to encourage domestic recruitment, and special industry assistance, and community assistance. However, domestic recruitment and special industry assistance were the only functional goals to receive tax expenditure funding. Domestic recruitment was estimated to be responsible for 97% of all tax expenditures in FY 2011. The remainder of tax expenditures fell under special industry assistance.

The majority of Missouri's tax expenditures (97 percent) were non-specific to a particular industry. However, a variety of industries are represented across the tax expenditure programs made available by the state. The industries supported by tax expenditures fit within the following NAICS code descriptions: agriculture, forestry, fishing, and hunting; arts, entertainment, and recreation; information, manufacturing; mining, quarrying, and oil and gas extraction; real estate and rental and leasing; transportation and warehousing; and utilities. Of these descriptions, the mining, quarrying, and oil and gas extraction industry received the most tax expenditures (2 percent). The remainder of the tax expenditures fell across the variety of other industries.

## **Analysis of Available Outcome Data**

In Missouri, according to the 2004 Tax Credit Accountability Act, tax credit specific programs are required to be reviewed by the Department of Economic Development (DED). By statute, DED is required to prepare an annual report accounting for "all economic incentives administered in the previous calendar year and submit the report to the Governor, President Pro Tem of the Senate, and the Speaker of the House of Representatives."<sup>5</sup> The most recent Accountability Report was submitted in 2015, accounting for FY 14 tax credits and noted tax credits issued per participating program as well as new jobs created by each program. To assist in the process of incentive accountability, tax credit specific programs are also reviewed by the Bi-Partisan Missouri Tax Credit Review Commission,

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<sup>5</sup> Missouri Department of Economic Development. 2015. *Tax Credit Accountability Report: Annual Status Report of Development Programs*. <https://ded.mo.gov/upload/1099Reporting2015.pdf>



comprised of a variety of stakeholders including business, community, and legislative leaders across the state.<sup>6</sup> This commission was created in 2010 in order to track impact and return on tax credit programs in the state as well as present recommendations regarding the “repeal, consolidation, or elimination” of particular tax credit programs.<sup>7</sup> Ahead of producing recommendations, the Commission works in concert with a myriad of stakeholders across the state of Missouri. In addition to holding public hearings and fielding public testimony, the Commission works with state agencies integral to the administering of business incentives. A few of the agencies include the Department of Economic Development, Department of Revenue, the Missouri Small Business and Agriculture Development Authority, and the Missouri Development Finance Board.

The commission issued its first report in 2010 and issued its most recent report in 2012. According to the 2010 report, Missouri assesses the efficacy of its tax credit programs using an economic forecasting model called the REMI model. This model notes how much general revenue is created for every dollar expended for a given tax credit<sup>8</sup>. The most recent report highlights the comparison between general revenue collections and tax credit redemptions as well as reveals the top 10 tax credit programs measured by FY 12 redemptions and authorizations. This report also organizes the tax credits issued from FY 10-12 by type, showing the comparison between authorization, issuance, and redemption.

In 2012, Missouri was credited as having one of the most effective economic impact analysis models as relates to the tracking of incentive performance. Missouri was considered as one of thirteen states “leading the way” regarding the development of a comprehensive approach to evaluating incentives.<sup>9</sup>

However, a 2012 report by the Office of Missouri State Auditor noted that the state agencies administering incentives had room to improve in the category of assessing incentive outcomes. The report noted that the “state law does not prohibit the same project costs from being claimed under more than one tax credit program.”<sup>10</sup> According to the report, this has created an environment in which tracking incentive outcomes is challenging. The report notes that the state, specifically referencing the BUILD program, “issues additional tax credits without any additional economic activity or state benefit generated.”<sup>11</sup>

Demonstrated by Missouri’s inclusion of the public and a diversity of stakeholders in its tax credit review process, the state has worked to improve its transparency. The recent report categorizing states according to online spending transparency, *Following the Money 2015: How the 50 States Rate in*

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<sup>6</sup> State of Missouri. “About the Commission.” Tax Credit Review Commission. <http://tcrc.mo.gov/>

<sup>7</sup> Missouri Tax Credit Review Commission. 2012. *Report of the Missouri Tax Credit Review Commission*.

<http://tcrc.mo.gov/pdf/2012-tcrc-report.pdf>

<sup>8</sup> Missouri Tax Credit Review Commission. 2010. *Report of the Missouri Tax Credit Review Commission*.

<http://tcrc.mo.gov/pdf/TCRCFinalReport113010.pdf>

<sup>9</sup> Pew Center on the States. 2012. *Evidence Counts: Evaluating State Tax Incentives for Job Growth*

[http://www.pewtrusts.org/~media/assets/2012/04/12/pew\\_evaluating\\_state\\_tax\\_incentives\\_report.pdf](http://www.pewtrusts.org/~media/assets/2012/04/12/pew_evaluating_state_tax_incentives_report.pdf)

<sup>10</sup> Schweich, Thomas A. 2012. *Economic Development: Division of Business and Community Services*.

<http://app.auditor.mo.gov/Repository/Press/2012-117.pdf> pg. 2-3

<sup>11</sup> Ibid



*Providing Online Access to Government Spending Data*,<sup>12</sup> suggests that Missouri has room to improve in the transparency category as well. While Missouri has an operating transparency website called *MapYourTaxes*<sup>13</sup> run by the Office of Administration, the report ranks Missouri as 1 of 13 states with C grade transparency.

## Conclusion

Missouri has a moderate number of business incentive programs when compared to the rest of the country – the state spends roughly half per business on program expenditures compared to the national average. The state’s incentive programs are dominated by tax credits, and while there are a number of reports intended to make those credits accountable to the legislature, the most recent tax expenditure report is from 2009. There is a clear focus on businesses’ bottom line in the business needs that the incentive programs address – tax reduction and capital access are by far the majority of programs. On the other hand, economic development program spending is concentrated in workforce development, especially through the Missouri Job Development Fund.

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<sup>12</sup> U.S. PIRG. 2015. *Following the Money 2015: How the 50 States Rate in Providing Online Access to Government Spending Data*. <http://www.uspirg.org/sites/pirg/files/reports/Following%20the%20Money%202015%20vUS.pdf>

<sup>13</sup> Missouri Office of Administration. *MapYourTaxes*. [www.mapyourtaxes.mo.gov/map](http://www.mapyourtaxes.mo.gov/map)





## Appendix A: Full List of Missouri State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
<b>Action Fund Loan Program</b>	Missouri Department of Economic Development	Capital access or formation; Product & process improvement	Loan/Loan Participation
<b>Advantage Missouri Program</b>	Missouri Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Agricultural Products Utilization Contributor Tax Credit</b>	Missouri Department of Agriculture	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Bank Franchise Tax Credit</b>	Missouri Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Brownfield Redevelopment Program</b>	Missouri Department of Economic Development	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>BUILD (Business Use Incentives for Large-scale Development)</b>	Missouri Department of Economic Development	Capital access or formation; Facility/site location; Tax/Regulatory burden reduction	Tax credit
<b>Business Facility Tax Credit Program</b>	Missouri Department of Economic Development	Tax/Regulatory burden reduction	Tax credit
<b>Chapter 353 Tax Abatement</b>	Missouri Department of Economic Development	Capital access or formation; Facility/site location; Tax/Regulatory burden reduction	Tax abatement
<b>Chapters 100 Sales Tax Exemption, Personal Property</b>	Missouri Department of Economic Development	Facility/site location; Tax/Regulatory burden reduction	Tax exemption
<b>Charcoal Producers Credit</b>	Missouri Department of Natural Resources	Tax/Regulatory burden reduction	Tax credit
<b>Disabled Access Tax Credit (DAC)</b>	Missouri Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Downtown Preservation</b>	Missouri Department of Economic Development	Other	Grant
<b>Export Finance Program</b>	Missouri Department of Economic Development	Capital access or formation	Loan/Loan Participation; Loan guarantee; Insurance
<b>Family Farm Breeding Livestock Loan Program</b>	Missouri Department of Agriculture	Capital access or formation	Loan/Loan Participation
<b>Industrial Development Bonds</b>	Missouri Department of Economic Development	Capital access or formation	Other



<b>Industrial Infrastructure Grant</b>	Missouri Department of Economic Development	Infrastructure Improvement	Grant
<b>Industrial Revenue Bond Program</b>	Missouri Department of Economic Development	Capital access or formation	Loan/Loan Participation
<b>Interim Financing Loan</b>	Missouri Department of Economic Development	Capital access or formation	Grant
<b>Manufacturing Jobs Program</b>	Missouri Department of Economic Development	Product & process improvement; Tax/Regulatory burden reduction	Tax refund or rebate
<b>Microenterprise</b>	Missouri Department of Economic Development	Capital access or formation	Loan/Loan Participation
<b>Missouri Alternative Fuel Infrastructure Tax Credit</b>	Missouri Department of Economic Development	Tech & product development; Tax/Regulatory burden reduction	Tax credit
<b>Missouri IDEA Funds</b>	Missouri Department of Economic Development	Capital access or formation	Equity investment
<b>Missouri Works</b>	Missouri Department of Economic Development	Tax/Regulatory burden reduction; Workforce prep or development	Tax refund or rebate
<b>Missouri Works Training</b>	Missouri Department of Economic Development	Workforce prep or development	Grant
<b>MORESA (Missouri Rural Economic Stimulus Act)</b>	Missouri Department of Economic Development	Capital access or formation; Facility/site location; Infrastructure Improvement; Tax/Regulatory burden reduction	Tax deferral
<b>Mutual Fund Tax Apportionment</b>	Missouri Department of Economic Development	Capital access or formation	Other
<b>Neighborhood Assistance Program</b>	Missouri Department of Economic Development	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Private Activity Bond Allocation</b>	Missouri Department of Economic Development	Capital access or formation; Facility/site location	Other
<b>Qualified Beef Tax Credit Program</b>	Missouri Department of Agriculture	Tax/Regulatory burden reduction	Tax credit
<b>Small Business Incubator Tax Credit</b>	Missouri Department of Economic Development	Tax/Regulatory burden reduction	Tax credit
<b>Small Business Loan Program</b>	Missouri Department of Economic Development	Capital access or formation	Loan/Loan Participation
<b>State Supplemental Tax Increment Financing</b>	Missouri Department of Economic Development	Capital access or formation; Infrastructure Improvement; Facility/site location; Tax/Regulatory burden reduction	Other



<b>Tax Credit For Contribution</b>	Missouri Department of Economic Development	Capital access or formation; Infrastructure Improvement; Marketing & sales assistance; Tax/Regulatory burden reduction	Tax credit
<b>Wine and Grape Tax Credit</b>	Missouri Department of Economic Development	Business management; Marketing & sales assistance; Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Wood Energy Tax Credit</b>	Missouri Department of Economic Development	Tech & product development; Tax/Regulatory burden reduction	Tax credit
<b>Work Opportunity Tax Credit</b>	Missouri Department of Economic Development	Tax/Regulatory burden reduction	Tax credit



## Appendix B: MO Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$1,071,516
Business Assistance	Business retention/expansion	\$1,033,916
Business Assistance	Other Business Assistance	\$4,731
Business Assistance	Small business dev. (e.g., SBDCs)	\$750,868
Business Finance	Fund Management	\$817,244
Community assistance	Funding for targeted geographic zones	\$42,564
Community assistance	Infrastructure (e.g., road/sewer/telecommunications)	\$12,283,512
Community assistance	Other Community assistance	\$737,114
Domestic Recruitment/Out-of-State	Marketing/Prospect Dev. (Domestic)	\$1,811,516
Domestic Recruitment/Out-of-State	Other Domestic Recruitment/Out-of-State	\$1,847,500
International Trade and Investment	Overseas representation	\$1,026,535
Program Support	Economic research	\$211,326
Special Industry Assistance	Agriculture/agribusiness	\$9,083,113
Technology Transfer	Other Technology Transfer	\$6,169,200
Tourism/Film	Film Promotion	\$84,946
Tourism/Film	Major events/festivals	\$4,322,898
Tourism/Film	Tourism development	\$13,099,684
Workforce Preparation & Dev.	Customized training	\$6,236,452
Workforce Preparation & Dev.	Incumbent worker training	\$22,335,205
<b>Total</b>		<b>\$82,969,840</b>



## Appendix C: MO Economic Development Tax Expenditures (2014)

Description	Total Funds
Seed Capital Credit	\$60,000
New or Expanded Business	\$3,460,000
Small Business Incubator	\$3,110,000
Infrastructure Development	-\$1,590,000
Enterprise Zone	\$14,760,000
Development and Reserve	\$3,460,000
Community Bank Investment	\$0
Small Business Investment	-\$30,000
Brownfield Job/Investment Credit	\$6,850,000
Transportation Development	\$700,000
Agricultural Product Utilization Con	\$1,380,000
New Generation Cooperative Incentive	\$1,480,000
Remediation (Brownfield)	\$2,310,000
SBA Guaranty Fee	\$0
Demolition Tax Credit	\$980,000
Development Tax Credit	\$0
<b>BUILD</b>	<b>\$10,420,000</b>
Enterprise Creation	\$3,260,000
Qualified Research	\$0
Film Production	-\$160,000
Wood Energy	\$670,000
Charcoal Producers	\$260,000
Used for Drying Crops	\$0
Agricultural Diesel Fuel	\$0
Farm Machinery and Equipment	\$0
Repair Farm Machinery	\$0
Baling Wire, Baling Twine	\$0
Feed, Seed, Fertilizer, Pesticides, Etc.	\$0
Replacement Machinery	\$0
New or Expanded Plant	\$0
Electrical Energy	\$0
Pollution Control Equipment	\$0
Electric and Gas for Steel & Cellular Glass	\$0
Drug Research and Development	\$0
Common Carriers–Replacement Parts	\$0
Pipeline Pumping Equipment	\$0
Railroad Rolling Stock	\$0
Barge Fuel	\$0



<b>SBIC</b>	\$50,000
<b>Wine and Grape Production</b>	\$140,000
<b>Advantage Missouri Program</b>	\$0
<b>Missouri Individual Training Account</b>	\$0
<b>Bank Tax Credit for S-Corp</b>	\$0
<b>Strategic Initiative Investment</b>	\$10,810,000
<b>Bank Franchise</b>	\$0
<b>Accelerated Depreciation</b>	\$3,510,000
<b>Business Start-up Costs</b>	\$0
<b>Mineral Exploration/Development</b>	\$1,900,000
<b>Alaskan Native Corporation</b>	\$0
<b>Blue Cross &amp; Blue Shield</b>	\$3,300,000
<b>Shipping Companies</b>	\$100,000
<b>Property Installment Sales</b>	\$1,000,000
<b>Timber Growing Costs</b>	\$100,000
<b>Mining Reclamation</b>	\$0
<b>Mutuals and Cooperative Income</b>	\$500,000
<b>Deferral of Gain on Sale of Farm Refiners</b>	\$100,000
<b>Film &amp; TV Production</b>	-\$200,000
<b>Expensing of Certain Small Investments</b>	\$3,200,000
<b>U.S. Production Activities</b>	\$117,900,000
<b>Equipment Used in Refining of Liquid Fuels</b>	\$0
<b>Energy Efficient Commercial Building Property</b>	-\$100,000
<b>Geological and Geophysical Expenditures over 2 yrs.</b>	\$0
<b>Natural Gas Distribution Pipelines Treated as 15 yr property</b>	\$1,000,000