

# Missouri Quality Jobs Program Results



Prepared by Ray McCarty, Executive Director  
Taxpayers Research Institute of Missouri  
3234 W. Truman Blvd.  
Jefferson City, MO 65109

## **EXECUTIVE SUMMARY**

The Missouri Quality Jobs program was first suggested by the Missouri Economic Development Council (MEDC), in cooperation with Governor Matt Blunt and the Missouri Department of Economic Development, based upon a study of best state practices in economic development that was commissioned by MEDC and performed by the Taimera Management Company in 2004. The authorizing bill, SB 343 was passed during the 2005 legislative session and signed into law by Governor Matt Blunt on July 5, 2005. The first project was approved August 29, 2005.

As of February 2007, the program has been in operation 19 months. Originally, the Missouri Quality Jobs program was assigned \$12 million in annual tax credits. Recent success has been hampered due to exhaustion of that tax credit limit.

The Missouri Quality Jobs program has produced real job growth in Missouri. The first 104 projects have created more than 12,500 jobs with an average annual wage of \$46,856. Estimated annual wages of jobs created under the program are anticipated to exceed \$630 million by 2012.

Based on projects approved to date, the program will produce an average of \$3.18 in state tax revenue for every state dollar invested (through retained withholding and tax credits) and more economic activity in the private sector that is not estimated in this report.

## Measuring the Results...

### ***For Families:***

The Missouri Quality Jobs program has produced more than 12,500 Missouri jobs. These jobs pay an average \$46,856 per year. Those employed in the jobs are also provided health insurance with at least half of the premiums paid for by the employer.

Unlike other economic development programs, Missouri Quality Jobs projects are not limited to any specific geographic area. The program may be used in any part of the state, urban or rural. The wages that must be paid to qualify for the program are based on the county average wage for the county in which the project facility is located. If the wages exceed the county average wage, the employer receives more benefit, creating an incentive for the employer to pay workers higher wages.

The benefits to Missouri workers may be measured by the amount of wages earned in these new jobs. By 2012, wages paid to workers in jobs created using the Missouri Quality Jobs program authorized prior to and including February 2007 are estimated to total \$630 million per year. The wages for jobs in each project range from \$20,500 to \$100,000.

There are three types of Missouri Quality Jobs projects with different benefits and qualifications: high impact projects, small and expanding business projects, and technology business projects. Technology business projects have produced the highest average wages for the new jobs created. High impact projects have created the most number of jobs per project of the three categories, which was an intended result. And the small and expanding business projects help provide benefits for companies that are not creating enough jobs for the high impact jobs, but are creating jobs that are important for their communities.

<i>February 2007</i>	<b>High Impact</b>	<b>Small &amp; Expanding</b>	<b>Technology</b>
<b>Average Wages of New Jobs</b>	\$46,979	\$41,851	\$50,452
<b>Average Jobs per Project</b>	335	60	72
<b>Total Jobs Created</b>	7028	2116	3447
<b>Average Wages per Project by 5<sup>th</sup> Year</b>	\$16,998,382	\$2,784,434	\$3,651,229
<b>Total # of Projects</b>	21	35	48

Just as important as the wages and numbers of jobs is the fact that jobs created in the Missouri Quality Jobs projects must have health insurance with more than 50% of the premiums paid for by the employer. Health care costs represent a significant cost to workers. Employer-provided health insurance with a portion of the premiums paid by the employer represents a significant benefit to workers employed in the newly created jobs.

## Measuring the Results...

### *For Employers:*

Missouri Quality Jobs has provided incentive for employers to locate jobs in Missouri that may have otherwise been lost to other states. The program allows Missouri employers to use the withholding tax from the newly created jobs to help supplement the wages paid to workers. This allows employers to pay higher wages and provide health benefits without compromising their ability to remain competitive.

Employers look for the best economic development deal when deciding the location of a new plant or new line for an existing operation. The Missouri Quality Jobs program provides a very attractive incentive for employers that provide good paying jobs with benefits and allows Missouri to compete for the jobs provided by these employers.

As of February 2007, 93 employers have received approval for 104 Missouri Quality Jobs projects. Several of these employers have used the program for multiple facilities in different locations around the state, resulting in a distribution of the economic benefit.

## Measuring the Results...

### *For the State of Missouri:*

Missouri economic development programs are often evaluated based on the return received for tax dollars invested. Oftentimes, the true benefit of an incentive program lies in the ancillary benefit that is provided to the state and local economy as a result of the incentive program, but quantifying these benefits with any degree of certainty is often difficult. For this reason, the true benefit of many economic development programs is never determined.

While the true benefit of the Missouri Quality Jobs program is the churning of the dollar six or seven times in the state and local economy, this study will focus on the return on investment as it relates to state tax dollars only. We will measure the new tax revenues generated by the newly created jobs and compare them with the amount of tax dollars invested by the state to encourage creation of those jobs.

### **Income Taxes**

It is assumed the jobs created by Missouri Quality Jobs projects will exist for at least ten years from the beginning of the project – a reasonable assumption since the employer only receives full benefit if the created jobs last five years. For purposes of estimating income tax impact, we assume the wages in the fifth year will continue at the fifth year level for the sixth through tenth years. Also, the effective tax rate used in calculating the income tax impact is calculated at \$10,000 income intervals, based on a single taxpayer with no dependents using standard deductions and receiving no special tax credits. The effective tax rates for each level of income would be as shown in the following table:

<b>Effective Tax Rates</b>		
<b>Income</b>	<b>State Tax</b>	<b>ETR State</b>
\$ 20,000	\$ 458	2.29%
\$ 30,000	\$ 968	3.23%
\$ 40,000	\$ 1,473	3.68%
\$ 50,000	\$ 2,040	4.08%
\$ 60,000	\$ 2,640	4.40%
\$ 70,000	\$ 3,240	4.63%
\$ 80,000	\$ 3,840	4.80%
\$ 90,000	\$ 4,440	4.93%
\$ 100,000	\$ 5,040	5.04%

The effective tax rate is then applied to the income generated through jobs created by the Missouri Quality Jobs program based on the average wage for each project to arrive at the estimated income tax benefit to the state. The average state income tax benefit over 10 years is estimated to be \$2,415,421 per project.

### **Sales Taxes**

Sales and use tax taxable sales in Missouri for Fiscal Year 2006 totaled \$74,822,292,728. It is assumed that 60% of this amount represents sales tax taxable sales and 90% of sales tax taxable sales equals the amount of sales tax paid by individuals, rather than businesses. Based on this calculation, the total amount of sales tax taxable sales made to individuals is \$40,404,038,073 for Fiscal Year 2006. The population of Missouri on July 1, 2006, as estimated by the Census Bureau was 5,842,713, yielding a per capita sales tax taxable sales figure of \$6,915. If this per capita taxable sales figure is applied to the new jobs created by each project and multiplied by the state tax rate of 4.225%, the average state sales tax benefit over 10 years is estimated to be \$353,709 per project.

### **Return on State's Investment**

Missouri state government's return on investment may be determined by comparing the state income tax and sales tax benefit for each project, less the incentives provided to the employer that created the jobs. Although it may be argued that the withholding tax allowed to be retained by the employer for these new jobs should not be included in the amount invested by the state because those jobs would not have occurred without the program, for the purposes of this study, we have included the withholding tax retention as an investment of state dollars. The amount of withholding tax retained plus tax credits issued for each of the projects represents the total amount invested by the state.

After deducting the amount invested by the state from the estimated new state sales and income tax benefit generated by the new jobs for each project, the average net tax benefit per job equals \$12,860. The return on each state dollar invested in each project ranged from \$1.19 to \$11.16 in new tax revenue, depending on the project. On average, the state will see a return of \$3.18 for each dollar invested in the Missouri Quality Jobs program through tax credits and withholding tax retention. Of course, this amount does not include any additional economic benefit or local tax impact, all of which would be in addition to the benefit received by the state of Missouri from this program.