



**Thomas A. Schweich**  
Missouri State Auditor

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# ECONOMIC DEVELOPMENT

## Division of Business and Community Services

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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Department of Economic Development, Division of Business and Community Services

**Due Diligence Procedures and Debt Limit** The Department of Economic Development (DED), Division of Business and Community Services (BCS) failed to perform adequate due diligence for various projects, including the Mamtek USA project. In May 2010, the BCS prepared and the company accepted a proposal under which the company could potentially be eligible for various state incentives totaling over \$17.6 million. In July 2010, the BCS allocated \$28 million in Recovery Zone tax exempt bond authority to the city of Moberly and the Industrial Development Authority of Moberly issued \$39 million in revenue bonds to finance the building of a sucralose manufacturing plant in Moberly for the start-up company Mamtek. The BCS, and the city of Moberly and other entities involved in issuing the industrial development bonds for the Mamtek project, did not ensure due diligence procedures were adequately designed, performed, and documented to protect the interests of all parties, and the company was forced into bankruptcy in January 2012. Moreover, while general obligation bonds are subject to debt limitations under the Missouri Constitution, Missouri has no constitutional or statutory limit on the type of debt issued for the Mamtek project.

Audit staff discovered due diligence procedures performed for some other projects were not always adequate, properly documented, or performed in a timely manner. For example, the BCS issued a proposal to a start-up company without performing an adequate credit check; the company failed to make its first payment on the Community Development Block Grant Action Fund loan, and the Missouri Attorney General's office filed suit against the company in March 2012. Although the BCS adopted uniform due diligence processes in February 2011, it should consider more stringent due diligence steps, especially for start-up company projects.

**Economic Incentives Claimed Under Multiple Programs** State law does not prohibit the same project costs from being claimed under more than one tax credit program. Developers can "stack" tax credits without generating additional economic activity or state benefit. For example, depending upon the applicable programs, for every \$1 of certain project costs, a developer could be issued up to \$3.27 in federal and state tax credits (\$1.11 in federal and \$2.16 in state tax credits). We calculated the state issued tax credits totaling over \$134 million related to project costs included in the basis of more than one tax credit program during the 11 years ended June 30, 2011.

In addition, the state does not reduce the amount of Low Income Housing tax credits available to recipients of Historic Preservation funding, which is done under similar federal programs. Because of this, between fiscal years 2000 and 2011 the state issued \$68 million more in tax credits than it would have if federal cost containment features were in place. State law also allows companies to claim new jobs and investments under the Business Use Incentives for Large-Scale Development (BUILD) Program while also claiming them under other economic development programs. The majority of companies participating in the BUILD program also participate in other

economic development tax credit programs, meaning that the state issues additional tax credits without any additional economic activity or state benefit being generated.

**Payment of Operating Costs of the Governor's Office**

For the two years ended June 30, 2011, the DED paid over \$149,000 for approximately 160 flights of the Governor's office, thereby circumventing the appropriations process. The BCS was allocated \$79,815 of the total flight costs, while the remainder was allocated to other DED divisions. Of 121 flights reviewed, 99 were for the Governor to publicize economic development incentives and the creation of jobs, but BCS employees were only included on 54 of these flights. The other 22 flights, totaling over \$6,000, had no clear benefit to the DED or the BCS. These flights included seven separate flights related to the A+ Schools Program and a \$910 flight to St. Joseph for the Governor to announce the Missouri National Guard was sending relief support to Haiti.

In the areas audited, the overall performance of this entity was **Fair**.\*

**American Recovery and Reinvestment Act (Federal Stimulus)**

During the audit period, the Department of Economic Development, Division of Business and Community Services (BCS) was awarded the following Federal Stimulus monies:

A \$6,433,629 Community Development Block Grant, \$2,525,082 of which was received and expended, to assist communities with economic revitalization.

A \$1,191,646 AmeriCorps grant, \$823,449 of which was received and expended, to support AmeriCorps programs in the state.

The BCS also helped administer two U.S. Department of Labor grants awarded to the Department of Economic Development, Division of Workforce Development, expending a total of \$426,797:

- \$273,621 to develop products to improve the level of green career information available to job seekers.
- \$153,176 to review, collect feedback, and revise a series of Employment and Training Administration webinars.

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

**Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

**Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

**Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

**Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Department of Economic Development

## Division of Business and Community Services

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# THOMAS A. SCHWEICH

## Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Chris Pieper, Acting Director  
Department of Economic Development  
and  
Sallie Hemenway, Director  
Division of Business and Community Services  
Jefferson City, Missouri

We have audited certain operations of the Department of Economic Development, Division of Business and Community Services, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2011 and 2010. The objectives of our audit were to:

1. Evaluate the division's internal controls over significant management and financial functions.
2. Evaluate the division's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in our audit of the division.

For the areas audited, we identified (1) deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Economic Development, Division of Business and Community Services.



Thomas A. Schweich  
State Auditor

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# Department of Economic Development

## Division of Business and Community Services

### Management Advisory Report - State Auditor's Findings

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#### **1. Due Diligence Procedures and Debt Limit**

The Department of Economic Development (DED), Division of Business and Community Services (BCS), as well as other parties involved in the Mamtek USA project, failed to perform adequate due diligence on the start-up company, its officials, and information provided by the company. No constitutional or statutory limit on the type of debt issued for this project currently exists. Also, BCS due diligence procedures performed for other projects were not always adequate, properly documented, or performed in a timely manner.

##### **1.1 Mamtek USA**

In January 2010, a start-up company, Mamtek USA, was searching for a location to build a sucralose manufacturing plant in the Midwest. The company was also searching for available state and local incentives that would assist in the financing of the plant and its operation. The company contacted the BCS. The BCS prepared a series of proposals based upon information provided by the company. In early April 2010, the company had narrowed the search to four cities in central Missouri. Later that month, the city of Moberly agreed to finance the project using annual appropriation bonds. The company selected Moberly as the site. In May 2010, the BCS prepared a proposal accepted by the company under which the company could potentially be eligible for various state incentives totaling over \$17.6 million including Missouri Quality Jobs, Business Use Incentives for Large-Scale Development (BUILD), Community Development Block Grant (CDBG), New Jobs Training, and other incentives. In July 2010, the BCS allocated \$28 million in Recovery Zone tax exempt bond authority to the city and revenue bonds totaling \$39 million were issued by the Industrial Development Authority of Moberly to finance the project. Construction of the plant began in October 2010. The company failed to make the first principal payment on the bond due in August 2011. The project was not completed and the company was forced into bankruptcy in January 2012. Several investigations have ensued and at least two lawsuits filed, one by the bankruptcy trustee and one by a bondholder. A credit rating service subsequently lowered the city of Moberly's issuer credit rating three steps from A to B.

The BCS, in February 2011, adopted uniform due diligence processes which cited: "the purpose of DED's due diligence process is to ensure, to the maximum extent practicable, that incentives are provided only to those applicants that are both eligible and capable. Eligibility is a primarily objective determination based upon the statutory, regulatory and administrative guidelines applicable to a particular program. Capacity is a more subjective measure based on an overall review of the applicant and, as applicable, the individuals employed by or associated with the applicant."

The BCS, and the city of Moberly along with other entities involved in issuing the industrial development bonds, did not ensure due diligence procedures were adequately designed, performed, and documented to protect the interests of all parties.



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- The BCS continued to develop the incentive proposal and increased the amount of bonds allocated to the city even though questions regarding the existence and operation of a plant in China remained unresolved.

In April 2010, prior to issuing a final proposal on state incentives, the BCS obtained information that appeared to contradict Mamtek USA claims as to the existence and operation of a plant in China. The BCS, in a communication to cities being considered as a potential location for the project, indicated vital information had not been provided to the BCS including the name/assets of the US partners, contracts for the presold product, or the location of the Chinese company. The BCS continued to develop the incentive proposals. On May 17, 2010, the day the BCS issued the incentive proposal accepted by Mamtek USA, the BCS received additional information from an official in DED's contract foreign office indicating addresses provided by Mamtek USA were not factory locations. However, the BCS did not share this additional information with the city of Moberly. In June 2010, the BCS increased the amount of recovery zone bonds allocated to the city, at the request of the city.

- In April 2010, the city of Moberly offered to use annual appropriation bonds to finance the project before significant due diligence steps had been completed by either the BCS or the city. Subsequently, the city did complete additional due diligence procedures, including the hiring of a business valuation firm which valued Mamtek USA intellectual property and pending patents at \$7 million, and obtaining a contract from Mamtek USA for presold products valued at \$45 million. However, it appears the BCS, city, bond underwriter, and bond counsel did not adequately question the validity of the contract for presold products or the existence of the company offering that contract. The city's bond counsel contacted Mamtek USA's patent attorney to verify information provided by that individual regarding the existence of a Chinese facility and pending patents. Moberly was also informed of additional due diligence to be performed by the bond underwriter's counsel ". . . to conduct properly their due diligence review of the organization, operations, and financial condition of the Borrower . . ." After the default on the bonds, a Mamtek official indicated there was little to no value in the intellectual property or pending patents.
- Neither the BCS nor any of the other parties involved in the project verified Mamtek USA's claims regarding 1) a bank account or cash-on-hand of \$7.2 million reported in the company's pro forma financial statements, 2) "company equity" from its own funds would



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be used to provide for the remaining cost of the project, or 3) whether the company had means to acquire such funds.

- The BCS approved the incentive package despite concerns raised by BCS employees. BCS employees questioned the reasonableness of significant changes in the cost and magnitude of the project that were the basis for various incentive packages offered by the DED. It is unclear whether BCS management was made aware of BCS employee concerns. The BCS did not appear to question the reasonableness of company financial projections provided to the BCS on June 3, 2010. Those projections included two major plant expansions within 18 months to be financed by two additional bond issues totaling over \$101 million. The projections also included estimated gross revenues of \$31 million in the first year and \$130 million in the second year of operation.
- The city of Moberly did not conduct an independent assessment of the project designs, relying on the representations of company officials and its representatives. Mamtek USA's original estimated project costs of \$40 million were based upon incomplete, inadequate, and unsafe designs. After construction was halted in September 2011, one Mamtek official indicated up to an additional \$45 million would be required to complete the initial phase of the project and an additional \$10 million would be required for operating capital.
- In testimony before the House Interim Committee on Government Oversight and Accountability, the bond underwriter and underwriter's counsel indicated they performed little, if any, due diligence on Mamtek USA's financial condition or capacity to complete the project. Because the city of Moberly decided to back the bonds, those involved with the bond issue were primarily concerned with the city of Moberly's financial condition and not the potential for a Mamtek USA default.

The bondholders filed a lawsuit in March 2012 alleging the bond underwriter and the underwriter's counsel failed to perform adequate due diligence. The lawsuit alleges when marketing the bonds for sale, these parties supplied untrue statements and omitted other material facts from information presented to potential buyers. These alleged untrue statements included: a Chinese facility was producing a proven sucralose product at the time of the bond issue; Mamtek USA was one of only two companies producing sucralose and competing in the market; and the company possessed a sucralose "cookbook" and pending patents, and had a contract for the purchase of its product exceeding the value of the bonds.



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The bankruptcy trustee filed a lawsuit in May 2012 against Mamtek USA's former President/CEO and his wife and a related company, Mamtek Group, alleging fraudulent use of bond proceeds by submitting 13 false and fraudulent invoices to expend bond proceeds totaling approximately \$6.6 million of which at least \$1.3 million was transferred directly to the former President/CEO and his wife. The alleged fraudulent submissions began with the first draw request dated July 23, 2010, the day the official bond offering was first published. In September 2012, the Attorney General filed felony charges in the Randolph County Circuit Court against the former President/CEO of Mamtek alleging stealing over \$25,000 and securities fraud. The U.S. Securities and Exchange Commission also filed a civil complaint against the former President/CEO in the U.S. District Court for the Central District of California alleging fraud in the offer or sale of securities and fraud in connection with the purchase or sale of securities.

## 1.2 No debt limitation

No constitutional or statutory limit on the type of debt issued for the Mamtek USA project currently exists, and the financial condition of the city was such that it could not make the debt service payments on the bonds (without making drastic cuts in basic city services) when Mamtek USA defaulted on lease payments. In addition, the city was only legally obligated to make debt service payments from monies obtained from lease payments. Implementation of debt limitations would provide political subdivisions additional safeguards when issuing appropriation backed debt.

The City of Moberly Industrial Development Authority issued industrial development revenue bonds of \$39 million to finance the project. According to the city's 2009 financial statements, the ending balance of unrestricted general governmental net assets at June 30, 2009, was only \$1.5 million, while payments on the bonds would average in excess of \$3.8 million per year over 15 years. The average annual bond payment would equal about 61 percent of the city's \$6.2 million in general fund revenues for the year ended June 30, 2009. The default on the bonds resulted in the lowering of the city's credit rating. The bond issue, approved by the city council, was issued under Section 349.055, RSMo, which does not require a public vote. There is no constitutional or statutory limit on the amount of bonds that may be issued under this method. Conversely, general obligation bonds issued under Section 100.090, RSMo, require a public vote and are subject to constitutional debt limitations of 10 percent to 20 percent of assessed valuations.

While the city had no general obligation debt as of June 30, 2009, the \$39 million of revenue bonds issued were approximately 27 percent of Moberly's 2010 assessed valuation of \$143.8 million. If the bonds had been issued as general obligation bonds of the city and subject to various indebtedness limitations of the Missouri Constitution, Article VI, the bond



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issue would have exceeded the debt limitations of 20 percent of assessed valuations.

### 1.3 Other projects

BCS due diligence procedures performed for other projects were not always adequate, properly documented, or performed in a timely manner.

The BCS has established due diligence procedures for job creation incentives, including the BUILD, CDBG, Enhanced Enterprise Zone, Automotive Manufacturing Jobs, Quality Jobs and Brownfield Remediation programs; bond allocation or re-allocation for private activity, energy, and recovery bonding authority; the historic preservation program; and other programs. The following table summarizes the projects that were authorized for more than \$1 million in incentives or bond allocation by type of incentive, number of projects, incentive amount authorized, and incentive amount issued for the period of January 2006 through October 2011.

BCS Incentive Type	Number of Projects	Authorized Amount <sup>1</sup>	Issued Amount <sup>1</sup>
Job Creation	167	\$ 690.6	\$ 152.3
Bond Allocations	172	3,352.4	2,394.2
Historic Preservation	166	615.8	278.6
Other	31	165.3	63.7
Total	536	\$ 4,824.4	\$ 2,888.8

<sup>1</sup> In Millions

**Due diligence procedures** The BCS adopted uniform written due diligence procedures in February 2011. Those procedures include an assessment of the quality of company management, growth potential, reputation, and business model; determination of the company's ability to obtain all state, local and professional licenses and permits; a determination whether delinquent state or local taxes are due; a review of past performance by the company in other incentive projects; and an assessment that the company meet program eligibility requirements. The preceding assessments and determinations may be gathered by conducting research on the internet and other publicly available information, reviewing the application and other documentation submitted by the applicant, performing a cost/benefit analysis of the project using economic modeling, performing credit checks on the business and key management, and conducting criminal background checks on key management. Each procedure is required to be documented and a program specific checklist must be completed.

Prior to the adoption of these formal procedures, the BCS used program specific checklists to indicate the due diligence steps taken during the preparation of business proposals and eligibility determinations. In addition, documentation requirements were less stringent as the BCS did not require credit and criminal history checks.



## Documentation and timeliness

We reviewed due diligence procedures performed by the BCS for 15 of 150 projects exceeding \$1 million in incentives and bond allocations authorized during the period October 2009 through October 2011. Our review of the 15 projects included incentives with an estimated value of approximately \$200 million from 10 programs, and noted the following concerns:

- The BCS could not provide documentation showing that specific due diligence procedures had been properly performed. For example, the BCS could not locate documentation of internet searches for three companies receiving incentives. For one of these projects, the DED could not locate a system printout to support information entered in the DED Customer Management System (CMS). BCS staff told us the requirements to document these steps had been revised shortly before the individual projects were approved.
- The BCS did not always complete checklists documenting due diligence procedures performed. We noted seven different checklists for various programs and projects with steps not marked as completed and other steps indicated as not completed (i.e. checked "no"). Examples of steps marked no included a form indicating no delinquent taxes was obtained from the Department of Revenue, the company health plan was received and reviewed, and the number of jobs proposed for the project was confirmed with the Missouri Economic Research and Information Center (MERIC) unit. Steps not marked as completed included business plan received, projected financial statements received, information entered into the CMS system, and a fee letter was prepared and sent. In addition, we noted six checklists where multiple steps were not completed. In most cases there was no explanation of why the checklist was not completed or specific steps were not performed. While applicable due diligence may have eventually been completed, or requested, the checklist was not adequately updated. Most of the due diligence checklists were also not dated to document when applicable steps were completed.
- The BCS issued a proposal to a start-up company without performing an adequate credit check. The company accepted a BCS proposal in April 2009 to participate in various state incentives totaling over \$2.7 million, including a \$1 million CDBG Action Fund Loan. In July 2010, the BCS became aware the company was named as defendant in a lawsuit filed in December 2009. In November 2010 the company failed to make its first payment on the loan. The BCS declared the loan in default in February 2011 and turned the case over to the Missouri Attorney General's office



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(AGO) for collection of the entire balance of the loan. The AGO subsequently filed suit against the company in March 2012.

- The BCS issued a proposal to another start-up company without performing a criminal background check. The company accepted a BCS proposal in May 2010 to participate in the Missouri Quality Jobs program and receive tax credits totaling over \$1.3 million. In November 2010 the BCS also committed to a \$750,000 CDBG Action Fund Loan to the company. In December 2010 the BCS learned the company's President and CEO had pleaded guilty to writing bad checks in 2007 and was placed on probation, a fact he failed to disclose when applying for state incentives. The BCS rescinded all proposed state incentives at that time.
- The BCS does not require some due diligence procedures to be performed until after the proposal is prepared and issued to the company. Due diligence procedures such as criminal background checks, check for non-compliance with other programs, and evaluation of a company's risk of failure and qualifications of their management should be required earlier in the due diligence process.

### Additional due diligence procedures

The BCS should consider more stringent due diligence steps, especially for startup company projects which inherently involve more risk. These steps include (1) national criminal background checks and national review for tax compliance when a company or its officials have no prior presence in Missouri, (2) private investigation into the backgrounds of key management, including national checks for civil litigation, and (3) increased reliance on the BCS international offices and staff to evaluate the international operations of parent companies and related parties.

The BCS currently limits the following steps to loan program projects, but should consider such additional due diligence for start-up companies applying for incentives from any discretionary program:

- Credit history check of the applicant; and for privately-held companies, the owners and managers.
- Third-party independent feasibility studies.
- Written assessment of the financial commitment by its active owners, based on the amount of personal resources invested in the company as a percentage of available resources.
- Written assessment of the validity and reasonableness of revenue and cost projections.



By performing sufficient and timely due diligence, the BCS can reduce the risk of awarding incentives to companies for projects that have a high risk of failure. While additional due diligence could never fully eliminate all risk, especially for startups, it could provide additional assurances as to a company's capacity to succeed. BCS officials acknowledge their review of the due diligence processes, communications, and evaluations is on-going.

## Recommendations

- 1.1&  
1.3. The BCS ensure due diligence procedures are properly designed, performed in a timely manner, and adequately documented. In addition, the BCS should continue to evaluate their due diligence procedures, adopting new procedures that may provide additional assurance regarding the feasibility of startup company proposals.
- 1.2. The Legislature consider establishing debt limitations regarding the use of industrial development revenue bonds.

## Auditee's Response

- 1.1 *The audit suggests that State incentives were "awarded" or "approved" for Mamtek, but Mamtek did not receive any State incentives. Under the State's performance-based incentive programs, a company may only receive incentives if they meet strict job creation and investment requirements. The incentive "proposal" or "package" referenced in the audit was simply a document listing and describing the incentive programs for which the company could potentially be eligible if it actually created the jobs and/or made the investment required. Because Mamtek failed to meet the strict job creation and investment requirements of the applicable programs, it never received any State incentives.*

*BCS performed substantial due diligence related to the Mamtek project, including the review of pro forma financial statements, the company's business and marketing plans, a product market study, letters of intent from potential customers, third-party reports on the company, internet and contract office research, and information regarding the company's intellectual property, which included information provided to the City of Moberly by intellectual property lawyer Michael Wise, partner with the international law firm Perkins Coie, indicating that he had personally visited and photographed the China plant and had evaluated the intellectual property there. BCS also reviewed information provided by the company in its application materials, which were certified by company officials, under penalty of perjury, as true and correct. BCS also reviewed a letter from then-U.S. Senator Christopher "Kit" Bond to company officials supporting the location of Mamtek's United States production facility in Missouri. BCS also performed site visits throughout 2011 and communicated regularly*



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*with the construction contractor regarding progress on construction.*

*The audit suggests BCS has a role in local bond issues. However, under Missouri law, BCS does not authorize, issue, underwrite or in any way guarantee local bonds. The Moberly IDA's local bond issue for this project requested designation of the bonds as tax exempt Recovery Zone Facility Bonds pursuant to state and federal law. Designation of local bonds as tax exempt Recovery Zone Facility Bonds is performed in accordance with state law and the requirements of 4 CSR 85-6.10, including a consideration of the applicant's ability to close on the local bonds prior to the December 31, 2010 deadline provided under federal law. Because the Moberly IDA had already adopted an inducement resolution for the bonds prior to submitting the application, the project was ready to close well in advance of the federal deadline. In addition to the Moberly IDA's application materials, the following materials were evaluated as part of the Moberly IDA's request to designate as tax exempt the local bonds the Moberly IDA was issuing for the project, including an analysis of the bond issue provided to the City by bond underwriter Morgan Keegan, Standard & Poor's assignment of an "A-" rating for the bonds, information that an independent valuation of the intellectual property the City was using as collateral was performed by third-party intellectual property valuation firm Pellegrino & Associates, information from representatives of the City that translated contracts for sale of the company's products were being submitted to Moberly's bond counsel, and information that the City received a payment of \$100,000 in earnest money from the company to cover costs associated with the local bond issue.*

*BCS disagrees that information regarding the company was not provided to the City of Moberly. As stated in testimony to the House Interim Committee on Government Oversight and Accountability, after BCS learned that City representatives had contacted the company and offered to "guarantee" financing for the project if the company would select Moberly as the location for its plant, BCS staff contacted the economic developer for the City and informed him that DED's China office had been unable to verify the location of the company's production facility in China. The City's economic developer responded that the City was retaining professionals to conduct their own investigation of the company and that he would share their findings with DED.*

## Auditor's Comment

The BCS contention that the audit suggests Mamtek USA actually received state incentives is inaccurate. The audit clearly notes the **proposal** prepared by the BCS and accepted by Mamtek USA, made the company **potentially eligible** to receive state incentives.



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The BCS lists several due diligence steps performed on the Mamtek USA project; however, as noted in the audit the BCS offered the company a proposal under which the company could receive up to \$17.2 million in incentives even though:

- Questions regarding the existence and operation of a plant in China were unresolved.
- Concerns of BCS employees regarding the reasonableness of the significant changes in the cost and magnitude of the project existed.
- The company failed to timely provide the name/assets of the US partners and any contracts for presold product.
- The validity of the contracts for presold goods and the existence of the companies named in the contracts had not been determined.
- The reasonableness of the pro forma financial statements had not been determined.
- The claims regarding a company bank account and cash-on-hand of \$7.2 million had not been verified.
- The existence of company equity or the ability to raise that equity to provide for the remaining cost of the project had not been verified.

The BCS contention that the audit suggests the BCS has authority over local bond issues is also inaccurate. In fact, the audit recommendation is addressed to the legislature, an entity that does have authority to establish debt limitations through the legislative process.

## Auditee's Response

- 1.2 *This audit of BCS includes a recommendation for the Legislature regarding debt limitations for the use of industrial revenue bonds by local governmental entities. As this recommendation is not directed at BCS, and BCS does not authorize, issue, underwrite, or guarantee local bonds, no response from BCS is required.*
- 1.3 *According to the audit, there were three projects for which a printout of the internet search conducted as part of the due diligence procedures was not included in the project files. However, the internet searches called for by the applicable due diligence procedures were conducted for each of the referenced projects. In the referenced projects, the internet search was completed, but a printout of the search was not included in the project file, which was consistent with the due diligence procedures in effect at that time. Under the uniform due diligence procedures adopted in February 2011, printouts of internet searches are now kept in all project files. The audit also suggests that there was one project file that did not have a printout from the DED Customer Management System (CMS) database kept in the project file. A report from the CMS system is not printed out and included in every project file because the content of such a report changes over time as additional information is entered into the CMS system.*



*The audit indicates that at the time the auditors reviewed the files, not all of the checklists documenting due diligence procedures had been completed. Checklist items are completed at different times during the course of a given project depending on the program involved and any project-specific issues that may arise. Regardless, all items on the due diligence checklist are completed prior to benefits being issued to a company. The checklists in the projects referenced as having checklist steps marked "no" or where certain steps were not yet marked at the time the file was reviewed by auditors provide an indication to BCS staff of the outstanding checklist items that must be resolved prior to benefits being issued for the project. In addition, for a number of the referenced projects, items such as a tax clearance from the Department of Revenue or a copy of the company's health plan were later obtained and included in the file prior the company receiving any benefits. Finally, the six projects referenced with multiple checklist steps not completed were projects that did not come to fruition. These projects had not advanced to the point of when the checklist items would have been completed, which is why the checklist items were not marked.*

*For the first start-up company referenced in the audit, BCS reviewed and analyzed three years of pro forma financial information, the qualifications and education of management, and the companies' business plan, among additional application materials. In addition, BCS obtained personal guarantees from the company owners prior to making the loan. The projects had also obtained private financing through a traditional bank loan.*

*The second start-up company referenced in the audit failed to meet the strict job creation and investment requirements of the applicable State programs and therefore received no State incentives.*

## **2. Economic Incentives Claimed Under Multiple Programs**

State law does not prohibit claiming the same project costs under two or more tax credit programs. As a result, we calculated the state issued tax credits totaling over \$134 million related to project costs included in the basis of more than one tax credit program during the 11 years ended June 30, 2011. In addition, if state law was amended to include similar cost containment features as federal law, the state could have saved an additional \$68 million in tax credits issued over this time period. State law also does not prohibit newly created job and investment activity from being claimed under two or more economic development programs.

### **2.1 Potential savings**

State law does not contain provisions to prohibit the same project costs from being claimed under more than one program. As a result, companies may



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claim certain<sup>1</sup> project costs under the Historic Preservation, Low Income Housing, Brownfield Remediation, and the Neighborhood Preservation Tax Credit programs. Currently, the BCS does not attempt to quantify the extent to which this occurs; however, BCS personnel indicated a significant portion of developer costs are claimed under more than one program. This "stacking" of tax credits can be lucrative for developers and additional tax credits are issued while no additional economic activity or state benefit is generated. A developer of a project utilizing Brownfield Remediation, state and federal Historic Preservation, and state and federal Low Income Housing credits could be issued up to \$3.27 in federal and state tax credits (\$1.11 in federal and \$2.16 in state tax credits) for every \$1 of certain project costs. Developers may receive up to \$2.27 in credits for a project cost included in the state and federal Historic Preservation and the state and federal Low Income Housing programs.

Between fiscal years 2000 and 2011, the state issued tax credits totaling approximately \$738 million for 117 projects that received funding from two or more of the tax programs noted above. Based on our analysis of available project data we calculated the state issued more than \$134 million in tax credits related to project costs claimed under more than one tax credit program. In addition, developers would have also received federal tax credits related to these project costs under the Historic Preservation and Low Income Housing programs.

In November 2010, the Missouri Tax Credit Review Commission<sup>2</sup> issued a report which recommended the elimination of, or placing restrictions on, the stacking of tax credits. In addition, the legislature has adopted statutory restrictions which prohibit companies from participating in more than one of the following programs: Business Facility, Brownfield Jobs/Investments, Enterprise Zone, Enhanced Enterprise Zone, Missouri Quality Jobs, Rebuilding Communities, and Neighborhood Preservation. The BCS should work with the General Assembly to establish cost containment provisions regarding project costs claimed under multiple tax credit programs.

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<sup>1</sup> Companies receive Brownfield Remediation, Historic Preservation, and or Low Income Housing tax credits when rehabilitating qualifying properties. Companies acquire abandoned or underutilized properties, some with environmental hazards such as chemical, asbestos, and or lead paint contamination, which qualify for rehabilitation under the Brownfield Remediation program and the federal and state Historic Preservation programs and also undertake rehabilitation activities that qualify under the federal and state Low Income Housing programs.

<sup>2</sup> A Commission created by the Governor in July 2010 that is composed of 27 business, community and legislative leaders. The Commission was charged with reviewing the state's tax credit programs and making recommendations for greater efficiency and enhanced return on investment.



## 2.2 Reduction for state historic preservation

State law does not provide cost containment features similar to those in federal law, costing the state approximately \$68 million in tax credits issued from fiscal years 2000 through 2011.

To calculate the qualified basis upon which the federal Low Income Housing credit is based, the eligible Low Income Housing basis must be reduced by the amount of the federal Historic Preservation tax credits attributable to the residential portion of the project unless the owner of the rehabilitated property elects to pass the credits to the lessee undertaking the Low Income Housing project. State law does not require similar reductions be made to the state Low Income Housing Tax Credit.

Between fiscal years 2000 and 2011, the state issued tax credits for 78 projects that received funding from both the Historic Preservation and Low Income Housing Tax Credit programs. Based on our analysis of available project data we calculated the state issued \$68 million more in tax credits than it would have if developers had been required to reduce the basis for the state Low Income Housing credit by the amount of state Historic Preservation tax credits attributable to the residential portion of the project.

The BCS should work with the General Assembly to establish provisions to require the qualifying basis for the state Low Income Housing tax credit to be reduced by the amount of state Historic Preservation credits issued.

## 2.3 BUILD and other programs

State law does not prohibit new jobs and investments claimed under the Business Use Incentives for Large-Scale Development (BUILD) Program from also being claimed under other economic development programs administered by the BCS. This results in the state issuing additional tax credits while no additional economic activity or state benefit is generated.

State tax credits issued for job creation and investment activity under the BUILD program may also be claimed in the employment and investment value statistics under other economic programs administered by the BCS. While the Missouri Development Finance Board (MDFB) requires companies to provide detailed employment and investment information for the BUILD projects, the DED does not require this information from companies participating in its programs. As a result, the extent jobs and investments qualified for credits under multiple programs could not be determined. However, we did identify two companies that received BUILD and Business Facility and or Enterprise Zone credits in the same year and for the same location. Credits totaling \$2.2 million were issued to these companies.

In addition to the two companies noted above, the MDBF indicated three additional companies participated in the BUILD program and either the Enterprise Zone or Business Facility tax credit programs. The MDFB also



reported that 22 of 32 companies participating in the BUILD program participate in other economic development including the Enhanced Enterprise Zone, Missouri Quality Jobs, Development, New Jobs Training, and Retained Jobs Training tax credit programs.

The BCS should work with the General Assembly to establish cost containment provisions regarding job creation and investment activity claimed under both the BUILD and other tax credit programs.

## Recommendations

We recommend the BCS work with the General Assembly:

- 2.1. To establish cost containment provisions regarding project costs claimed under multiple tax credit programs.
- 2.2. To establish provisions to require the qualifying basis for the state Low Income Housing tax credit to be reduced by the amount of state Historic Preservation credits issued.
- 2.3. To establish cost containment provisions regarding job creation and investment activity claimed under both the BUILD and other tax credit programs.

## Auditee's Response

*The BCS did not provide a response to these recommendations.*

### **3. Payment of Operating Costs of the Governor's Office**

For the 2 years ended June 30, 2011, the DED paid over \$149,000 for approximately 160 flights of the Governor's office, thus circumventing the appropriation process established by the General Assembly. The BCS was allocated \$79,815 of the total flight costs, while other DED divisions were allocated over \$69,400.

The flights typically included the Governor, members of his staff, and his security. The purpose of many of the flights, for example, was for the Governor to publicize economic development incentives and the creation of jobs. This was the case in 99 of 121 flights reviewed; however, only 54 of these flights included BCS related personnel.

In addition, for the other 22 flights there appears to have been no clear benefit to the DED or BCS. Charges for these flights totaled over \$6,000. Examples include seven separate flights, at a total cost of \$1,057, related to the A+ Schools Program and a flight to St. Joseph at a cost of \$910 to announce the Missouri National Guard was sending relief support to Haiti.

It does not appear appropriate for state agencies to bear the cost of flights that provide no clear benefit to the applicable agencies and include no BCS employees. This practice distorts the actual costs of operating the BCS and the Governor's office.



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## Recommendation

The DED work with the Governor's office to discontinue the practice of using DED and BCS appropriations to pay operating costs of the Governor's office.

## Auditee's Response

*The Office of Administration, Division of Budget and Planning, notifies departments of their share of the costs for the travel expenses benefitting state departments and their constituents. Flight charges are allocated based on the purpose of the flight. The Department believes the costs are an appropriate expense.*

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# Department of Economic Development

## Division of Business and Community Services

### Organization and Statistical Information

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The Missouri Department of Consumer Affairs, Regulation and Licensing was created July 1, 1974, with the Omnibus State Reorganization Act. Effective September 7, 1984, the department's name was changed to the Department of Economic Development (DED). The DED is currently composed of several divisions, including the Division of Business and Community Services (division), to execute statutory requirements and department policies.

The division, made up of the Sales, Marketing, Finance and Compliance teams, promotes Missouri as a place to do business and helps create the environment that will stimulate family supporting jobs and new private investment. The services include investing in Missouri's communities to allow for future sustainable growth by increasing opportunities for new local and state revenues. The division is the result of the combination of the previous Divisions of Business Development and Trade and Community Development in 2006. The new division's goal is to provide a direct access environment focused on the customer. The structure mimics a business model with measurable results.

Services to Missouri businesses and communities are provided through four teams - Sales, Marketing, Finance and Compliance.

- The Sales Team, through regional and industry specialization, provides individualized customer service to businesses considering locating or expanding within our state. The team assists communities with key development activities and work to develop export promotion opportunities for Missouri businesses to take their products and services to key world markets.
- The Business Intelligence & Communications Team produces competitive print and media materials to market our state. The team markets Missouri at the national and international level to increase lead opportunities and generally support the Sales and Finance teams.
- The Finance Team administers the many incentives offered by the department in a manner that promotes consistency and allows for expertise. The team assures access and understanding by DED customers of all of the programs offered and supports the Sales Team's efforts through coordination and communication.
- The Compliance Team assures accountability for each program by assessing the operations and determining compliance by conducting file reviews, on-site monitoring, eligibility determinations, identification and repayment of improperly claimed tax credits, and any follow-up requirements. The Finance and Compliance teams work proactively to assure compliance standards are met.



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The Missouri Economic Research and Information Center (MERIC) Team is the research division of the DED that provides analyses and assistance to policymakers and the public, including studies of the state's targeted industries and economic development initiatives. Other MERIC research includes economic condition reports, economic impact assessments, and labor market information produced in cooperation with the U.S. Department of Labor.

The division offers a wide range of business and community programs, including grants, loans and tax credits.

The Missouri Community Service Commission (MCSC) is part of a group of community improvement tools available through the division. The MCSC was created as a result of the National and Community Service Act signed into law in 1993. The legislation created the Corporation for National and Community Service (CNCS) to administer AmeriCorps, Learn and Serve America, and the existing national service programs of VISTA and SeniorCorps.

As of June 30, 2011, the BCS division had approximately 105 full-time employees. The MCSC, by statute, is composed of 15 to 25 commissioners appointed by the Governor and confirmed by the Senate.

In February 2012, both the Senate Committee on Governmental Accountability and the House Interim Committee on Government Oversight and Accountability issued reports on their investigations into the failed Mamtek project in Moberly, Missouri. The two reports included several recommendations that the General Assembly consider new legislation to reduce the risk of another such project failure in the future. As a result, several pieces of legislation were introduced during the 2012 legislative session. These bills include House Bills 1304 and 1771 - 1777; however, none of these bills were successful.

Additional investigations into Mamtek have been or are in the process of being conducted by the Securities and Exchange Commission and the Missouri Attorney General.

### American Recovery and Reinvestment Act 2009 (Federal Stimulus)

According to division personnel, the division was awarded the following American Recovery and Reinvestment Act of 2009 funding during the 2 years ended June 30, 2011:

A Community Development Block Grant of \$6,433,629 was awarded by the U.S. Department of Housing and Urban Development for economic development projects to assist communities with economic revitalization. These consist of public infrastructure improvements and loans to facilitate permanent job creation/retention. As of June 30, 2011, \$2,525,082 was received and expended by the division related to this grant.



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An AmeriCorps grant of \$1,191,646 was awarded to the MCSC to support AmeriCorps programs in the state of Missouri by providing tutoring, job counseling and placement, nutrition and food drive assistance, and other unmet human needs. As of June 30, 2011, \$823,449 was received and expended by the division related to this grant.

In addition, the division helped administer two U.S. Department of Labor grants awarded to the DED - Division of Workforce Development, expending \$426,797.

- The division, through the MERIC, expended \$273,621 from the Labor Market Information Improvement Grant. In this grant MERIC activities included the development of numerous products to improve the level of green career information available to job seekers. Products included green occupation employment projections, career guides, green industry and training provider surveys and reports, a green industry competency model, and an enhanced internet Career Explorer Tool that incorporated green careers.
- The division, also through MERIC, expended \$153,176 from the E-Learning Improvement Grant. In this grant MERIC reviewed, collected feedback, and revised a series of Employment and Training Administration (ETA) webinars targeted primarily at the education of workforce developers in Labor Market and Workforce Information. Final webinars are used in the DED-Division of Workforce Development training system, available for public use, and promoted by ETA for use by other states workforce professionals.

A summary of the division's financial activity is presented in the following appendixes A, B, and C. A summary of tax credit redemptions for tax credit programs administered by the BCS is presented in appendix D.

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Department of Economic Development  
 Division of Business and Community Services  
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments  
 Year Ended June 30, 2011

	Community Development Block Grant-Pass Through Fund	Community Development Block Grant- Administration Fund*	Department of Economic Development- Federal and Other Fund*	Department of Economic Development- Management Information Systems-Federal/ Other Fund	Missouri Technology Investment Fund	Community Service Commission- Federal/Other Fund*	Business Extension Service Team Fund*	Missouri Small Business Development Centers Fund*
<b>RECEIPTS</b>								
US Department of Housing and Urban Development	\$ 57,756,886	1,146,501	0	0	0	0	0	0
US Department of Treasury	0	0	8,886,997	0	0	0	0	0
US Department of Health and Human Services	0	0	0	0	0	3,864,621	0	0
Other miscellaneous receipts - federal	514,605	3,000	0	0	0	7,000	0	0
Other miscellaneous receipts - state	0	0	0	0	0	0	0	0
Other fees - tax credit and bond application fees	0	0	0	0	0	0	0	0
Recovery costs - tobacco settlement**	0	0	0	0	0	0	0	0
Interest income	0	0	0	0	0	0	0	115
Other	0	1,140	0	4,425	0	0	0	0
Total Receipts	58,271,491	1,150,641	8,886,997	4,425	0	3,871,621	0	115
<b>DISBURSEMENTS</b>								
Salaries and wages	0	755,189	833	0	0	165,962	0	0
Employee fringe benefits	0	338,322	341	0	0	78,033	0	0
Travel, in-state	7,060	19,385	0	0	0	18,804	0	0
Travel, out-of-state	37	1,339	0	0	0	23,117	0	0
Supplies	1,767	6,359	0	0	0	15,253	0	0
Professional development	3,547	18,851	0	0	0	13,170	0	0
Communication services and supplies	4,309	6,138	0	0	0	3,568	0	0
Professional services	325,771	42,849	0	0	0	44,485	0	0
Agency provided food	101	0	0	0	0	19,234	0	0
Refunds	0	0	4,117	0	0	0	0	0
Program Distributions:								
Aid to local governments	57,897,342	0	0	0	0	0	0	0
Program reimbursements	5,620	702	0	0	1,649,000	3,477,136	0	0
Public assistance payments	0	0	0	0	0	0	0	0
Medical assistance services	0	0	0	0	0	0	0	0
Cost allocations	0	0	0	0	0	0	2,189	565
Other	575	1,963	0	0	0	3,538	0	0
Total Disbursements	58,246,129	1,191,097	5,291	0	1,649,000	3,862,300	2,189	565
RECEIPTS OVER (UNDER) DISBURSEMENTS	25,362	(40,456)	8,881,706	4,425	(1,649,000)	9,321	(2,189)	(450)
<b>TRANSFERS</b>								
Transfers from:								
General Revenue Fund	0	0	0	0	1,649,000	0	0	0
Transfers to:								
Hero at Home Fund	0	0	0	(4,425)	0	0	0	0
Total Transfers	0	0	0	(4,425)	1,649,000	0	0	0
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	25,362	(40,456)	8,881,706	0	0	9,321	(2,189)	(450)
CASH AND INVESTMENTS, JULY 1, 2010	4,497	46,692	8,490	129	18,795	17,807	818,233	451
CASH AND INVESTMENTS, JUNE 30, 2011	\$ 29,859	6,236	8,890,196	129	18,795	27,128	816,044	1

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Department of Economic Development  
 Division of Business and Community Services  
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments  
 Year Ended June 30, 2011

	International Trade Show Revolving Fund*	Missouri Main Street Program Fund	Life Sciences Research Trust Fund*	State Supplemental Downtown Development Fund	Economic Development Advancement Fund*	Missouri Supplemental Tax Increment Financing Fund	Downtown Revitalization Preservation Fund	Total (Memorandum Only)
<b>RECEIPTS</b>								
US Department of Housing and Urban Development	\$ 0	0	0	0	0	0	0	58,903,387
US Department of Treasury	0	0	0	0	0	0	0	8,886,997
US Department of Health and Human Services	0	0	0	0	0	0	0	3,864,621
Other miscellaneous receipts - federal	0	0	0	0	0	0	0	524,605
Other miscellaneous receipts - state	0	0	126,840	0	0	0	0	126,840
Other fees - tax credit and bond application fees	0	0	0	0	4,368,751	0	0	4,368,751
Recovery costs - tobacco settlement**	0	0	33,157,888	0	0	0	0	33,157,888
Interest income	0	0	0	0	33,602	0	2	33,719
Other	23,996	0	0	0	0	0	0	29,561
<b>Total Receipts</b>	<b>23,996</b>	<b>0</b>	<b>33,284,728</b>	<b>0</b>	<b>4,402,353</b>	<b>0</b>	<b>2</b>	<b>109,896,369</b>
<b>DISBURSEMENTS</b>								
Salaries and wages	0	0	0	0	1,283,224	0	0	2,205,208
Employee fringe benefits	0	0	0	0	568,803	0	0	985,499
Travel, in-state	2,243	0	0	0	44,977	0	0	92,469
Travel, out-of-state	6,766	0	0	0	1,717	0	0	32,976
Supplies	7,525	0	0	0	33,020	0	0	63,924
Professional development	1,000	0	0	0	50,940	0	0	87,508
Communication services and supplies	0	0	0	0	19,009	0	0	33,024
Professional services	1,855	0	0	0	2,930,348	0	0	3,345,308
Agency provided food	1,038	0	0	0	291	0	0	20,664
Refunds	4,800	0	0	0	0	0	0	8,917
Program Distributions:								
Aid to local governments	0	0	0	0	0	0	0	57,897,342
Program reimbursements	0	42,614	0	820,625	502,106	8,022,409	176,910	14,697,122
Public assistance payments	0	0	26,313,901	0	0	0	0	26,313,901
Medical assistance services	0	0	7,443,750	0	0	0	0	7,443,750
Cost allocations	62	0	587,526	0	35,488	0	0	625,830
Other	2,500	0	0	0	5,212	0	0	13,788
<b>Total Disbursements</b>	<b>27,789</b>	<b>42,614</b>	<b>34,345,177</b>	<b>820,625</b>	<b>5,475,135</b>	<b>8,022,409</b>	<b>176,910</b>	<b>113,867,230</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(3,793)</b>	<b>(42,614)</b>	<b>(1,060,449)</b>	<b>(820,625)</b>	<b>(1,072,782)</b>	<b>(8,022,409)</b>	<b>(176,908)</b>	<b>(3,970,861)</b>
<b>TRANSFERS</b>								
Transfers from:								
General Revenue Fund	0	42,614	0	844,225	0	8,022,409	176,910	10,735,158
Transfers to:								
Hero at Home Fund	0	0	0	0	0	0	0	(4,425)
<b>Total Transfers</b>	<b>0</b>	<b>42,614</b>	<b>0</b>	<b>844,225</b>	<b>0</b>	<b>8,022,409</b>	<b>176,910</b>	<b>10,730,733</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS</b>	<b>(3,793)</b>	<b>0</b>	<b>(1,060,449)</b>	<b>23,600</b>	<b>(1,072,782)</b>	<b>0</b>	<b>2</b>	<b>6,759,872</b>
<b>CASH AND INVESTMENTS, JULY 1, 2010</b>	<b>75,890</b>	<b>0</b>	<b>1,345,177</b>	<b>47,840</b>	<b>4,762,436</b>	<b>0</b>	<b>0</b>	<b>7,146,437</b>
<b>CASH AND INVESTMENTS, JUNE 30, 2011</b>	<b>\$ 72,097</b>	<b>0</b>	<b>284,728</b>	<b>71,440</b>	<b>3,689,654</b>	<b>0</b>	<b>2</b>	<b>13,906,309</b>

\* Disbursements for these funds will not agree to expenditures on Appendix B primarily due to 1) employee fringe benefits and cost allocations handled by the Office of Administration and 2) disbursements made by various other state agencies or DED divisions.

\*\* Receipts for tobacco settlement are collected by the Attorney General's Office.

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Department of Economic Development  
 Division of Business and Community Services  
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments  
 Year Ended June 30, 2010

	Community Development Block Grant- Through Fund	Community Development Block Grant- Administration Fund*	Department of Economic Development- Federal and Other Fund*	Department of Economic Development- Management Information Systems-Federal/ Other Fund	Missouri Technology Investment Fund*	Community Service Commission- Federal/Other Fund*	Business Extension Service Team Fund*	Missouri Small Business Development Centers Fund*
<b>RECEIPTS</b>								
US Department of Housing and Urban Development	\$ 37,478,128	1,020,491	0	0	0	0	0	0
US Department of Health and Human Services	0	0	0	0	0	3,128,335	0	0
Other miscellaneous receipts - federal	704,363	0	0	0	0	7,055	0	0
Other fees - tax credit and bond application fees	0	0	0	0	0	0	0	0
Recovery costs - tobacco settlement**	0	0	0	0	0	0	0	0
Interest income	0	0	0	0	0	0	0	1,446
Other	0	0	0	450	0	0	0	0
Total Receipts	38,182,491	1,020,491	0	450	0	3,135,390	0	1,446
<b>DISBURSEMENTS</b>								
Salaries and wages	0	661,917	0	0	0	146,892	0	0
Employee fringe benefits	0	288,125	0	0	0	67,738	0	0
Travel, in-state	6,755	21,352	0	0	0	34,494	0	0
Travel, out-of-state	845	2,099	0	0	0	18,305	0	0
Supplies	1,191	9,559	0	0	0	14,309	0	0
Professional development	6,260	21,774	0	0	0	8,186	0	0
Communication services and supplies	4,412	5,155	0	0	0	6,170	0	0
Professional services	449,587	9,462	0	0	0	71,192	0	0
Agency provided food	0	0	0	0	0	48,618	0	0
Refunds	0	0	4,117	0	0	4,800	0	0
Program Distributions:								
Aid to institutions/individuals	0	0	0	0	0	0	0	0
Aid to local governments	37,715,455	0	0	0	0	43,066	0	0
Program reimbursements	0	410	0	0	1,698,318	2,662,032	0	352,500
Public assistance payments	0	0	0	0	0	0	0	0
Medical assistance services	0	0	0	0	0	0	0	0
Cost allocations	0	0	0	0	31,002	0	57	2,870
Other	53	3,834	0	0	0	5,511	0	0
Total Disbursements	38,184,558	1,023,687	4,117	0	1,729,320	3,131,313	57	355,370
RECEIPTS OVER (UNDER) DISBURSEMENTS	(2,067)	(3,196)	(4,117)	450	(1,729,320)	4,077	(57)	(353,924)
<b>TRANSFERS</b>								
Transfers from:								
General Revenue Fund	0	0	0	0	0	0	0	345,000
Federal Budget Stabilization Fund	0	0	0	0	1,748,114	0	0	0
Proceeds of Surplus Property Sales Fund	0	0	0	0	0	358	0	0
Transfers to:								
Hero at Home Fund	0	0	0	(450)	0	0	0	0
Total Transfers	0	0	0	(450)	1,748,114	358	0	345,000
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	(2,067)	(3,196)	(4,117)	0	18,794	4,435	(57)	(8,924)
CASH AND INVESTMENTS, JULY 1, 2009	6,564	49,888	12,607	129	1	13,372	818,290	9,375
CASH AND INVESTMENTS, JUNE 30, 2010	\$ 4,497	46,692	8,490	129	18,795	17,807	818,233	451

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Department of Economic Development  
 Division of Business and Community Services  
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments  
 Year Ended June 30, 2010

	International Trade Show Revolving Fund*	Missouri Main Street Program Fund*	Life Sciences Research Trust Fund*	State Supplemental Downtown Development Fund	Economic Development Advancement Fund*	Missouri Supplemental Tax Increment Financing Fund*	Total (Memorandum Only)
<b>RECEIPTS</b>							
US Department of Housing and Urban Development	\$ 0	0	0	0	0	0	38,498,619
US Department of Health and Human Services	0	0	0	0	0	0	3,128,335
Other miscellaneous receipts - federal	0	0	0	0	0	0	711,418
Other fees - tax credit and bond application fees	0	0	0	0	4,114,973	0	4,114,973
Recovery costs - tobacco settlement**	0	0	35,079,732	0	0	0	35,079,732
Interest income	0	0	0	0	59,513	0	60,959
Other	8,400	0	0	0	235	0	9,085
<b>Total Receipts</b>	<b>8,400</b>	<b>0</b>	<b>35,079,732</b>	<b>0</b>	<b>4,174,721</b>	<b>0</b>	<b>81,603,121</b>
<b>DISBURSEMENTS</b>							
Salaries and wages	0	0	0	0	734,774	0	1,543,583
Employee fringe benefits	0	0	0	0	311,003	0	666,866
Travel, in-state	0	0	0	0	33,593	0	96,194
Travel, out-of-state	2,306	0	0	0	4,483	0	28,038
Supplies	0	0	0	0	5,802	0	30,861
Professional development	0	0	0	0	18,040	0	54,260
Communication services and supplies	0	0	0	0	10,198	0	25,935
Professional services	11	0	4,800	0	2,513,359	0	3,048,411
Agency provided food	0	0	0	0	99	0	48,717
Refunds	0	0	0	0	17,918	0	26,835
<b>Program Distributions:</b>							
Aid to institutions/individuals	0	0	261,200	0	0	0	261,200
Aid to local governments	0	0	0	0	0	0	37,758,521
Program reimbursements	0	43,322	0	831,285	1,228	8,500,000	14,089,095
Public assistance payments	0	0	28,725,000	0	0	0	28,725,000
Medical assistance services	0	0	9,000,000	0	0	0	9,000,000
Cost allocations	124	328	375,349	0	34,004	28,047	471,781
Other	0	0	0	0	43	0	9,441
<b>Total Disbursements</b>	<b>2,441</b>	<b>43,650</b>	<b>38,366,349</b>	<b>831,285</b>	<b>3,684,544</b>	<b>8,528,047</b>	<b>95,884,738</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>5,959</b>	<b>(43,650)</b>	<b>(3,286,617)</b>	<b>(831,285)</b>	<b>490,177</b>	<b>(8,528,047)</b>	<b>(14,281,617)</b>
<b>TRANSFERS</b>							
<b>Transfers from:</b>							
General Revenue Fund	0	43,650	0	875,037	0	8,528,047	9,791,734
Federal Budget Stabilization Fund	0	0	0	0	0	0	1,748,114
Proceeds of Surplus Property Sales Fund	0	0	0	0	0	0	358
<b>Transfers to:</b>							
Hero at Home Fund	0	0	0	0	0	0	(450)
<b>Total Transfers</b>	<b>0</b>	<b>43,650</b>	<b>0</b>	<b>875,037</b>	<b>0</b>	<b>8,528,047</b>	<b>11,539,756</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS</b>	<b>5,959</b>	<b>0</b>	<b>(3,286,617)</b>	<b>43,752</b>	<b>490,177</b>	<b>0</b>	<b>(2,741,861)</b>
<b>CASH AND INVESTMENTS, JULY 1, 2009</b>	<b>69,931</b>	<b>0</b>	<b>4,631,794</b>	<b>4,088</b>	<b>4,272,259</b>	<b>0</b>	<b>9,888,298</b>
<b>CASH AND INVESTMENTS, JUNE 30, 2010</b>	<b>\$ 75,890</b>	<b>0</b>	<b>1,345,177</b>	<b>47,840</b>	<b>4,762,436</b>	<b>0</b>	<b>7,146,437</b>

\* Disbursements for these funds will not agree to expenditures on Appendix B primarily due to 1) employee fringe benefits and cost allocations handled by the Office of Administration and 2) disbursements made by various other state agencies or DED divisions.

\*\* Receipts for tobacco settlement are collected by the Attorney General's Office.

Appendix B

Department of Economic Development  
 Division of Business and Community Services  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>GENERAL REVENUE FUND</b>						
Marketing Personal Service	\$ 212,634	203,274	9,360	313,080	247,059	66,021
Marketing Expense & Equipment	123,452	89,889	33,563	961,672	733,476	228,196
Sales Personal Service	661,384	609,148	52,236	784,496	646,153	138,343
Sales Expense & Equipment	231,827	218,486	13,341	251,395	216,941	34,454
Finance Personal Service	0	0	0	561,027	548,001	13,026
Finance Expense & Equipment	0	0	0	92,358	83,691	8,667
Compliance Personal Service	66,655	59,699	6,956	118,257	95,310	22,947
Compliance Expense & Equipment	23,604	22,857	747	59,794	34,428	25,366
DED State Owned *	201,256	201,256	0	92,548	92,548	0
Missouri Community Service Commission Personal Service	33,019	28,563	4,456	34,868	30,375	4,493
Missouri Economic Research and Information Center Personal Service	134,736	95,761	38,975	161,339	124,217	37,122
Missouri Economic Research and Information Center Expense & Equipment	21,985	18,517	3,468	23,485	17,804	5,681
Delta Regional Authority	6,839	4,544	2,295	80,784	80,784	0
Delta Regional Authority Personal Service	69,462	12,552	56,910	0	0	0
Delta Regional Authority Expense & Equipment	200	83	117	0	0	0
Total General Revenue Fund	<u>1,787,053</u>	<u>1,564,629</u>	<u>222,424</u>	<u>3,535,103</u>	<u>2,950,787</u>	<u>584,316</u>
<b>DED COMMUNITY DEVELOPMENT BLOCK GRANT (PASS THROUGH) FUND</b>						
Community Development Block Grant	64,000,000	58,246,129	5,753,871	38,200,000	38,184,558	15,442
Total DED Community Development Block Grant (Pass Through) Fund	<u>64,000,000</u>	<u>58,246,129</u>	<u>5,753,871</u>	<u>38,200,000</u>	<u>38,184,558</u>	<u>15,442</u>
<b>DED COMMUNITY DEVELOPMENT BLOCK GRANT (ADMINISTRATION) FUND</b>						
Marketing Personal Service	84,331	63,585	20,746	84,331	64,936	19,395
Marketing Expense & Equipment	52,229	687	51,542	52,229	1,143	51,086
Sales Personal Service	73,014	61,249	11,765	73,014	60,217	12,797
Sales Expense & Equipment	33,484	7,066	26,418	33,484	1,716	31,768
Finance Personal Service	194,232	172,887	21,345	194,232	173,814	20,418
Finance Expense & Equipment	127,170	9,798	117,372	127,170	1,497	125,673
Compliance Personal Service	562,541	429,470	133,071	562,541	331,342	231,199
Compliance Expense & Equipment	216,555	78,955	137,600	216,555	68,616	147,939
Total DED Community Development Block Grant (Administration) Fund	<u>1,343,556</u>	<u>823,697</u>	<u>519,859</u>	<u>1,343,556</u>	<u>703,281</u>	<u>640,275</u>
<b>DEPARTMENT OF ECONOMIC DEVELOPMENT- FEDERAL AND OTHER FUND</b>						
Small Business Credit Personal Service	1,000	833	167	0	0	0
Total Department of Economic Development- Federal and Other Fund	<u>\$ 1,000</u>	<u>833</u>	<u>167</u>	<u>0</u>	<u>0</u>	<u>0</u>

Appendix B

Department of Economic Development  
 Division of Business and Community Services  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>JOB DEVELOPMENT AND TRAINING FUND</b>						
Marketing Personal Service	\$ 48,278	8,689	39,589	48,278	0	48,278
DED State Owned *	33,697	33,697	0	35,150	35,150	0
Missouri Economic Research and Information Center Personal Service	1,441,230	907,503	533,727	1,441,230	1,089,297	351,933
Missouri Economic Research and Information Center Expense & Equipment	302,933	105,560	197,373	302,933	125,143	177,790
Total Job Development and Training Fund	<u>1,826,138</u>	<u>1,055,449</u>	<u>770,689</u>	<u>1,827,591</u>	<u>1,249,590</u>	<u>578,001</u>
<b>MISSOURI TECHNOLOGY INVESTMENT FUND</b>						
Kirksville Innovation Center	0	0	0	175,000	100,640	74,360
Joplin Innovation Center	0	0	0	275,000	158,148	116,852
Columbia Innovation Center	0	0	0	250,750	144,203	106,547
Kansas City Innovation Center	0	0	0	150,000	86,263	63,737
St. Joseph Innovation Center	0	0	0	150,000	86,263	63,737
Springfield Innovation Center	0	0	0	150,000	86,263	63,737
Missouri Manufacturing Extension Partnership	0	0	0	2,052,089	403,914	1,648,175
Missouri Technology Corporation-Research Alliance of Missouri Expense & Equipment	1,700,000	1,649,000	51,000	0	0	0
Warrensburg Innovation Center	0	0	0	150,000	86,263	63,737
Rolla Innovation Center	0	0	0	225,056	129,426	95,630
Southeast Missouri Innovation Center	0	0	0	225,000	129,394	95,606
St. Louis Innovation Center	0	0	0	500,000	287,541	212,459
Total Missouri Technology Investment Fund	<u>1,700,000</u>	<u>1,649,000</u>	<u>51,000</u>	<u>4,302,895</u>	<u>1,698,318</u>	<u>2,604,577</u>
<b>COMMUNITY SERVICE COMMISSION-FEDERAL/OTHER FUND</b>						
Missouri Community Service Commission	3,627,562	3,618,305	9,257	3,093,562	2,916,683	176,879
Missouri Community Service Commission Personal Service	188,163	165,962	22,201	188,163	146,892	41,271
Total Community Service Commission-Federal/Other Fund	<u>3,815,725</u>	<u>3,784,267</u>	<u>31,458</u>	<u>3,281,725</u>	<u>3,063,575</u>	<u>218,150</u>
<b>MISSOURI SMALL BUSINESS DEVELOPMENT CENTERS FUND</b>						
Missouri Federal and State Technology Partnership Program	0	0	0	500,000	352,500	147,500
Total Missouri Small Business Development Centers Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>352,500</u>	<u>147,500</u>
<b>DEPARTMENT OF ECONOMIC DEVELOPMENT ADMINISTRATIVE FUND</b>						
Administrative Services Expense & Equipment *	82,273	82,273	0	0	0	0
Total Department of Economic Development Administrative Fund	<u>82,273</u>	<u>82,273</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>INTERNATIONAL TRADE SHOW REVOLVING FUND</b>						
Marketing Expense & Equipment	72,238	27,727	44,511	72,238	2,317	69,921
Total International Trade Show Revolving Fund	<u>\$ 72,238</u>	<u>27,727</u>	<u>44,511</u>	<u>72,238</u>	<u>2,317</u>	<u>69,921</u>

Appendix B

Department of Economic Development  
 Division of Business and Community Services  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>MISSOURI MAIN STREET PROGRAM FUND</b>						
Main Street Program	\$ 43,204	42,614	590	45,590	43,322	2,268
Total Missouri Main Street Program Fund	43,204	42,614	590	45,590	43,322	2,268
<b>LIFE SCIENCES RESEARCH TRUST FUND</b>						
Administration	0	0	0	266,000	261,200	4,800
Program Distributions	0	0	0	13,034,000	4,800	13,029,200
Total Life Sciences Research Trust Fund	0	0	0	13,300,000	266,000	13,034,000
<b>STATE SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND</b>						
Missouri Downtown Economic Stimulus Act	1,240,450	820,625	419,825	3,240,450	831,285	2,409,165
Total State Supplemental Downtown Development Fund	1,240,450	820,625	419,825	3,240,450	831,285	2,409,165
<b>ECONOMIC DEVELOPMENT ADVANCEMENT FUND</b>						
Marketing Expense & Equipment	404,720	53,765	350,955	2,789,720	2,524,680	265,040
Sales Personal Service	341,784	341,416	368	341,784	340,844	940
Sales Expense & Equipment	44,540	44,540	0	44,540	44,540	0
Finance Personal Service	750,189	732,802	17,387	188,859	186,579	2,280
Finance Expense & Equipment	87,189	73,161	14,028	30,910	5,555	25,355
Compliance Expense & Equipment	14,991	9,218	5,773	14,991	4,419	10,572
Compliance Personal Service	69,722	64,757	4,965	69,722	64,053	5,669
Economic Development Advancement Fund Refunds	1	0	1	17,919	17,918	1
Marketing Personal Service	50,001	48,610	1,391	50,001	46,584	3,417
Missouri Partnership Expense & Equipment	2,250,000	2,250,000	0	0	0	0
International Trade and Investment Offices Expense & Equipment	650,000	650,000	0	0	0	0
Entrepreneurship Training	500,000	500,000	0	0	0	0
Total Economic Development Advancement Fund	5,163,137	4,768,269	394,868	3,548,446	3,235,172	313,274
<b>MISSOURI SUPPLEMENTAL TAX INCREMENT FINANCING FUND</b>						
State Tax Increment Financing Program	8,724,027	8,022,409	701,618	13,158,455	8,500,000	4,658,455
Total Missouri Supplemental Tax Increment Financing Fund	8,724,027	8,022,409	701,618	13,158,455	8,500,000	4,658,455
<b>DOWNTOWN REVITALIZATION PRESERVATION FUND</b>						
Downtown Revitalization Preservation	184,184	176,910	7,274	134,805	0	134,805
Total Downtown Revitalization Preservation Fund	\$ 184,184	176,910	7,274	134,805	0	134,805

Appendix B

Department of Economic Development  
 Division of Business and Community Services  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>FEDERAL STIMULUS-DEPARTMENT OF ECONOMIC DEVELOPMENT FUND</b>						
Community Development Block Grant Non-Entitlement	\$ 1,898,755	1,327,373	571,382	1,047,136	1,042,292	4,844
Economic Development Assistance *	111,897	111,897	0	1,050,213	1,258	1,048,955
Missouri Community Service Commission	868,019	191,468	676,551	631,981	631,981	0
Community Development Block Grant Non-Entitlement Personal Service	91,067	91,067	0	64,350	64,350	0
Labor Market Information Grant Personal Service	227,348	200,969	26,379	72,652	72,652	0
Total Federal Stimulus-Department of Economic Development Fund	3,197,086	1,922,774	1,274,312	2,866,332	1,812,533	1,053,799
Total All Funds	\$ 93,180,071	82,987,605	10,192,466	89,357,186	62,893,238	26,463,948

\* Appropriations and expenditures included those of DED divisions other than Business and Community Services.

The lapsed balances include the following withholdings made at the Governor's request:

	Year Ended June 30,	
	2011	2010
General Revenue Fund	\$	
Personal Service	33,254	102,876
Expense and Equipment	47,450	3,082
Capital Improvements	5,453	3,604
Delta Regional Authority	2,295	0
Total General Revenue Fund	88,452	109,562
Missouri Technology Investment Fund		
Missouri Innovation Centers	0	956,402
Missouri Manufacturing Extension Partnership	0	1,648,175
Total Missouri Technology Investment Fund	0	2,604,577
Missouri Small Business Development Centers Fund		
Missouri Federal and State Technology Partnership Program	0	75,000
Total Missouri Small Business Development Centers Fund	0	75,000
Life Sciences Research Trust Fund		
Administration	0	4,800
Program Distributions	0	13,029,200
Total Life Sciences Research Trust Fund	0	13,034,000
State Supplemental Downtown Development Fund		
Missouri Downtown Economic Stimulus Act	0	1,999,765
Total State Supplemental Downtown Development Fund	0	1,999,765
Missouri Supplemental Tax Increment Financing Fund		
State Tax Increment Financing Program	0	4,630,408
Total Missouri Supplemental Tax Increment Financing Fund	0	4,630,408
Total All Funds	\$ 88,452	22,453,312

Appendix C

Department of Economic Development  
 Division of Business and Community Services  
 Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
Salaries and wages	\$ 4,298,796	4,332,674	4,373,965	4,626,213	2,926,585
Travel, in-state	187,178	231,313	219,445	243,932	192,891
Travel, out-of-state	55,393	74,669	102,007	105,266	102,515
Supplies	128,875	104,106	113,927	119,324	80,189
Professional development	138,177	211,751	260,753	375,650	364,267
Communication services and supplies	73,894	82,858	83,951	99,461	69,401
Services:					
Professional	3,689,432	3,828,847	3,087,002	3,160,933	1,147,977
Maintenance and repair	45,723	49,681	33,793	46,898	28,482
Equipment:					
Computer	6,392	0	0	509	14,105
Motorized	0	0	0	0	15,170
Office	1,391	18,270	3,186	8,343	36,866
Other	0	44	6,451	4,061	22,988
Real property rentals and leases	242,875	132,544	4,043	55,493	54,847
Equipment rental and leases	426	217	1,648	2,936	13,099
Miscellaneous expenses	24,619	50,875	47,559	82,792	47,852
Refunds	4,800	22,717	116,520	80	11,642
Program distributions:					
Aid to institutions/ individuals	0	261,200	20,875,026	6,661,525	25,177
Aid to local governments	57,897,342	37,758,521	23,204,389	23,420,884	26,870,620
Program reimbursements	16,192,292	15,732,951	14,669,656	29,521,126	24,801,084
Total Expenditures	\$ <u>82,987,605</u>	<u>62,893,238</u>	<u>67,203,321</u>	<u>68,535,426</u>	<u>56,825,757</u>

## Appendix D

### Department of Economic Development Division of Business and Community Services Tax Credit Redemptions

Program	Year Ended June 30,	
	2010	2011
Brownfield Jobs/Investment	\$ 1,650,222	1,620,384
Brownfield Redevelopment	17,590,273	11,432,109
Business Facility	2,883,729	5,682,965
Certified Capital Business	495,459	586,135
Community Development Corporation	5,915	22,703
Development	1,589,618	1,001,142
Distressed Areas Land Assemblage	6,731,635	13,534,347
Dry Fire Hydrant	2,634	7,715
Enhanced Enterprise Zone	2,916,392	4,000,689
Enterprise Zone	1,505,589	1,130,301
Family Development Account	3,000	25,000
Film Production	1,925,158	1,563,218
Historic Preservation	107,973,542	107,767,393
Missouri Quality Jobs	14,238,179	27,936,799
Neighborhood Assistance	10,065,993	8,513,472
Neighborhood Preservation	6,739,123	4,427,639
New Enterprise Creation	77,098	11,499
New Jobs Training	3,228,601	3,175,559
New Markets	0	1,199,285
Qualified Research Expense <sup>1</sup>	890,135	n/a
Rebuilding Communities	1,553,894	1,277,135
Retain Jobs	8,145,996	5,758,163
Small Business Incubator	219,014	107,549
Small Business Investment (Capital)	0	1,701
Transportation Development <sup>1</sup>	9,176	52,124
Wine and Grape Production	112,057	29,411
Youth Opportunities	4,405,158	3,589,991
<b>Totals</b>	<b>194,957,590</b>	<b>204,454,428</b>

n/a - Tax credit did not exist in this fiscal year.

<sup>1</sup> The tax credit has expired or has been repealed.