

**COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION**

FISCAL NOTE

L.R. No.: 1391-03
Bill No.: SCS for SB 504
Subject: Taxation and Revenue - Income; Cities, Towns and Villages; Tax Credits;
Economic Development; Economic Development Department.
Type: Original
Date: March 14, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	\$0	(\$120,000)	(\$120,000)
Total Estimated Net Effect on General Revenue Fund *	\$0	(\$120,000)	(\$120,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds *	\$0	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	\$0	\$0	\$0

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant number of taxpayers that would/could use this credit. Therefore, DOR will not request additional FTE at this time.

However, if the number of additional credits is larger than expected, DOR states they will need one Tax

Processing Tech I for every 5,000 additional personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

In response to a similar proposal from this year, officials from the **Department of Insurance (INS)** stated the designation of additional satellite enterprise zones would increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zones, they would be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later

distributed to

ASSUMPTION (continued)

school districts. INS was unable to project how much in additional tax credits may be generated and what effect it would have on premium tax collections. Fiscal impact would be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Officials from the **Department of Economic Development (DED)** state the bill authorizes one new satellite enterprise zone in Springfield and one new satellite zone in St. Joseph. DED does not feel the bill has enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each satellite enterprise zone is \$60,000 to unknown. However, the costs can vary greatly based on the number of qualifying businesses within the satellite zone.

Officials from the **City of Springfield** assume the application and approval would probably not occur until at least late calendar year 2003, with no applications for enterprise zone credits until FY 2005. Credits are only authorized when a business has made a significant capital investment or has hired additional employees. The net result of the credited investment and hiring is an increase in the state wealth.

Officials from the **City of St. Joseph** did not respond to our request for fiscal impact.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued. Oversight has utilized DED's estimated average of \$60,000, however, actual credits earned and utilized could vary greatly.

This proposal may result in a loss of Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Loss</u> - Satellite Zone in Springfield	\$0	(\$60,000)	(\$60,000)
<u>Loss</u> - Satellite Zone in St. Joseph	<u>\$0</u>	<u>(\$60,000)</u>	<u>(\$60,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	<u>\$0</u>	<u>(\$120,000)</u>	<u>(\$120,000)</u>

*** Note: the fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could fiscally impact new or expanding businesses within the new enterprise zones.

DESCRIPTION

This proposal authorizes the City of Springfield and the City of St. Joseph, with approval of their governing authorities and the Department of Economic Development, to each designate a satellite enterprise zone.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.


SOURCES OF INFORMATION

RAS:LR:OD (12/02)

L.R. No. 1391-03
Bill No. SCS for SB 504
Page 5 of 5
March 14, 2003

Department of Economic Development
Department of Revenue
Department of Insurance
City of Springfield

NOT RESPONDING: City of St. Joseph

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

MICKEY WILSON, CPA
DIRECTOR
MARCH 14, 2003