

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2712-01
Bill No.: SB 797
Subject: Business and Commerce; Economic Development; Revenue Department;
Taxation and Revenue; Kansas City.
Type: Original
Date: February 4, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$27,588 to Unknown)	(\$33,766 to Unknown)	(\$34,779 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	(\$27,588 to Unknown)	(\$33,766 to Unknown)	(\$34,779 to Unknown)

* Could exceed \$100,000 in any given year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
School District Trust Fund	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	(Unknown)	(Unknown)	(Unknown)

* Could exceed \$100,000 in any given year.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation authorizes a two-year tax free zone in Kansas City, from January 1, 2005 to January 1, 2007. DOR states programming will be needed, creating a fiscal impact on the Division of Taxation.

DOR states their Information Technology section will need make program changes to the MINTS system to create and maintain a “shape” file to outline the boundaries of the tax free zone. The MITS programming will require 692 hours of programming at a total cost of \$23,085. The State Data Center costs to implement the proposed legislation will be \$4,503.

Officials from the **Department of Economic Development (DED)** state they would be provided the proposed boundaries of the area(s) to be designated as a tax free zone(s) in Kansas City and DED would designate the tax free zone. Sales made by businesses in the zone on or after January 1, 2005 and before January 1, 2007 will be sales tax exempt. DED is to assess the economic impact and report to the Governor and the General Assembly in year 2006 and 2007.

DED states that only administrative fiscal impact can be projected. DED projects a cost of \$33,766 in FY 2006 and \$34,779 in FY 2007 for a consultant to assess the economic impact of

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ASSUMPTION (continued)

the change in the law. The consultant would be used once per year to prepare the report for the governor and general assembly.

Officials from the **Office of Administration - Budget and Planning (BAP)** did not respond to our request for fiscal impact. However, in response to a similar proposal from 2003, BAP stated the proposal did not fiscally impact their agency.

Officials from the **City of Kansas City (CKC)** did not respond to our request for fiscal impact either. However, in response to similar legislation from a previous year, CKC officials stated the proposed legislation will accomplish three distinct items:

1. Creates an economically depressed tax-free zone pilot project
2. All retail purchases made at any commercial establishment located within the boundaries of the economically depressed tax-free zone, where such purchases are made will be tax exempt.
3. The director of the Department of Economic Development shall report to the governor and to the general assembly during the regular session of the general assembly on the economic impact to the depressed tax-free zone, which can be attributed to the sales tax exemption.

Officials from CKC assumed this proposal may reduce revenue collection for the City's portion of the sales tax.

Oversight assumes there would be an unknown loss of revenue to the General Revenue Fund from the loss of sales tax revenue as well as the loss of sales tax collection fees from the local sales tax exempted in this provision. Oversight also assumes there would be a loss in sales tax revenue to the state's School District Trust Fund, since its 1 percent sales tax is included in section 144.701, which would be exempted with this proposal.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Costs</u> - Department of Revenue			
Programming Costs	(\$27,588)	\$0	\$0

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2005 (10 Mo.)	FY 2006	FY 2007
<u>Costs</u> - Dept. of Economic Development Consultant Costs	\$0	(\$33,766)	(\$34,779)
<u>Loss</u> - Sales tax revenue from the creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> - Collection fee revenue from local sales taxes exempted by the creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	(\$27,588 to <u>Unknown</u>)	(\$33,766 to <u>Unknown</u>)	(\$34,779 to <u>Unknown</u>)

* Losses could exceed \$100,000 in a given fiscal year.

SCHOOL DISTRICT TRUST FUND

<u>Loss</u> - Sales tax revenue from the creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE SCHOOL DISTRICT TRUST FUND *	(<u>Unknown</u>)	(<u>Unknown</u>)	(<u>Unknown</u>)

* Loss could exceed \$100,000 in a given fiscal year.

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
LOCAL GOVERNMENTS			
<u>Loss</u> - Sales tax revenue from the creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(<u>Unknown</u>)	(<u>Unknown</u>)	(<u>Unknown</u>)

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent there would be less administrative reporting of sales and use tax and increased business from consumers wishing to benefit from the tax free zone. Small businesses just outside of the tax-free zone could be negatively impacted if consumers chose to shop at other stores that are within the zone.

DESCRIPTION

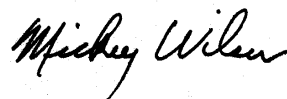
This proposal creates a pilot project which will require the Director of the Department of Economic Development to designate a tax free zone within a portion of Kansas City. The area to be designated shall be within a distressed community as defined by law. The city shall identify qualified areas and shall recommend one such area for designation as the economically depressed tax free zone. All retail purchases made during the years 2004 through 2006 within the economically depressed tax- free zone will be exempt from all state and local sales tax.

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

Department of Economic Development
Department of Revenue

NOT RESPONDING: Office of Administration - Budget and Planning, City of Kansas City



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Director
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