

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3622-01
Bill No.: Truly Agreed to and Finally Passed SB 856
Subject: Taxation and Revenue - General; Economic Development.
Type: Original
Date: May 20, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	\$0	(\$276,000)	(\$276,000)
Total Estimated Net Effect on <u>All</u> State Funds*	\$0	(\$276,000)	(\$276,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
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.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** states the bill authorizes a new enterprise zone in Wright County and one for Carl Junction. 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 enterprise zone in a rural area (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) has been revised based on a more detailed review of information available. The cost of an enterprise zone in a rural area is now estimated to be \$138,000.00 per year. This bill provides for 2 full enterprise zones in rural areas. The cost of an enterprise zone includes the costs of EZ tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped.

DED assumes the loss of tax revenue to be \$276,000 per year, starting in FY 2004.

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant increase in the number of new credits filed. Therefore, DOR will not request additional FTE at this time. However, if DOR is incorrect in this assumption, they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

In response to similar legislation from this year, officials from the **Department of Insurance (INS)** stated the designation of additional enterprise zones will increase the areas that receive enterprise zone tax credits. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Premium taxes are split between GR and the County Foreign Insurance fund which is later distributed to school districts. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Officials from **Wright County** state this proposal would have no fiscal impact on their county. However, in response to a similar proposal from last year, Wright County officials stated that if they receive an Enterprise Zone designation, tax incentives are provided to businesses based on the number of new jobs and amount of new investment created at the qualifying facility. There is a possible income

ASSUMPTION (continued)

exemption, partial tax credit refund, and property tax abatement on improvements to real property provided certain requirements are met. These incentives will only apply to new or expanding businesses. The property taxes currently paid by existing businesses and industry will not be affected. Thus property tax revenue will not be negatively impacted but will increase after the enterprise zone expires.

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.

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

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			
<u>Loss</u> - Enterprise Zone in Wright Co.	\$0	(\$138,000)	(\$138,000)
<u>Loss</u> - Enterprise Zone in Carl Junction	\$0	(\$138,000)	(\$138,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$276,000)</u>	<u>(\$276,000)</u>

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<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.

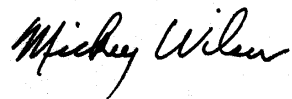
DESCRIPTION

The Department of Economic Development is authorized to designate an enterprise zone in Wright County as well as one in the city of Carl Junction in Jasper County. The designated areas must meet certain requirements to qualify as an enterprise zone (Section 135.205).

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
Wright County



Mickey Wilson, CPA
Acting Director
May 20, 2002