

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3622-03
Bill No.: HCS for SB 856
Subject: Taxation and Revenue - General; Economic Development.
Type: Corrected
Date: May 7, 2002
Corrected to account for effective date of enterprise zone designation in the counties of Caldwell, Clinton and DeKalb.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	\$0	(\$1,440,204)	(\$1,440,204)
Total Estimated Net Effect on <u>All</u> State Funds*	\$0	(\$1,440,204)	(\$1,440,204)

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 6 pages.

FISCAL ANALYSIS

ASSUMPTION

ENTERPRISE ZONES;

Officials from the **Department of Economic Development (DED)** states the bill adds changes to 135.205 RSMo that changes the lower end of population requirement for EZ. It should have no impact on DED. The bill authorizes a new enterprise zone in Caldwell County, Clinton County, DeKalb County, Wright County, Carl Junction, Pulaski County, City of Richland, and the City of Bel Ridge. 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 rural enterprise zone is \$138,000.00 per year and the cost of a metropolitan EZ is \$888,204.00. This bill provides for 7 rural and one metropolitan (Bel-Ridge) enterprise zones. To calculate the cost of an enterprise zone, DED looks at 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 no additional personnel but could request some should work created dictate this course of action.

DED assumes the loss of tax revenue to be \$1,854,204 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.

Officials from the **Department of Insurance (INS)** state the designation of additional enterprise zones will increase the number of areas that receive enterprise zone tax credits. INS state they are 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. The fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

ASSUMPTION (continued)

Officials from the **City of Carl Junction** state the determination of an Enterprise Zone in Carl Junction would help the city to entice businesses to come into the city. They could not estimate the amount of tax abatement until they knew what businesses would consider relocating to the city.

Officials from the **City of Bel-Ridge** state the proposal would have no direct revenue, savings, cost or loss impact on the Village. They do, however, assume the proposal could provide substantial revenue advantages to the Village if investors take advantage of the designation and bring new economic growth to the community.

Officials from **Pulaski County** and the **City of Richland** each assumed that due to the time it will take to design and make application for enterprise zone status, they assume no fiscal impact for 2003, 2004 or 2005.

In response to a previous version of this proposal, officials from **Wright County** state this proposal has the possibility of creating more jobs which brings more money into the area which results in an increase in sales tax of \$10,000 to \$100,000.

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.

Officials from Caldwell County, Clinton County, DeKalb County did not respond to our request for fiscal impact.

#Oversight assumes that with the effective date of the designation of enterprise zones in Caldwell County, Clinton County and DeKalb County as "during the calendar year 2005", the fiscal impact of this section of the proposal would be beyond the scope of the fiscal note.

REHABILITATED PROPERTY, (Sections 447.620 - 447.640);

Officials from the **Department of Economic Development** state the bill also adds FN 2976-01 (SB 856) which changes the procedures for restoring and possession of rehabilitated property. This should have no impact on DED. (See 447.620 - 447.640 RSMo.)

ASSUMPTION (continued)

In response to similar legislation from this year (SB 856), officials from the **Department of Economic Development - Missouri Housing Development Commission (MHDC)** stated this

bill changes the procedures for owners of properties that constitute a public nuisance in Jackson County and Kansas City. It allows owners to regain possession of their property after a non-profit organization has gained temporary possession of the property for the purpose of rehabilitation. This legislation states that a court will determine whether to restore possession to the owner and the proper compensation due to the non-profit organization. The court does not have to restore possession to the owner, if it finds that he does not have the capacity or resources to complete the rehabilitation.

MHDC assumed this proposal will not fiscally impact their agency.

In response to similar legislation from this year (SB 856), officials from the **Office of the State Courts Administrator** assumed this proposal would not fiscally impact their agency.

Oversight assumes this proposal will not fiscally impact state agencies or local governments in the Kansas City area.

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 Pulaski Co.	\$0	(\$138,000)	(\$138,000)
<u>Loss</u> - Enterprise Zone in Richland	\$0	(\$138,000)	(\$138,000)
<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)
 <u>Loss</u> - Enterprise Zone in Bel-Ridge	 \$0	 (\$888,204)	 (\$888,204)
#ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$1,440,204)</u>	<u>(\$1,440,204)</u>

FISCAL IMPACT - State Government

FY 2003
(10 Mo.)

FY 2004

FY 2005

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.

FISCAL IMPACT - Local Government

FY 2003
(10 Mo.)

FY 2004

FY 2005

\$0

\$0

\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

The Department of Economic Development is authorized to designate enterprise zones in Pulaski County, City of Richland, Wright County, City of Carl Junction, Village of Bel-Ridge, Caldwell County, Clinton County and De Kalb County.

Current law requires that several conditions be met in order for an organization to petition the court for temporary possession of abandoned property. One of these requirements is that the organization must intend to rehabilitate the property and use it for low- or moderate-income housing. The proposal eliminates the requirement that the property being rehabilitated be used as low or moderate-income housing and does not require any particular use for the property.

Under current law, title to the property is conveyed to the organization one year following the entry of the order granting temporary possession to the organization. Under the proposal, title is conveyed to the organization when the rehabilitation is complete.

DESCRIPTION (continued)

The proposal allows the owner of the property to file a motion for restoration of possession prior to the completion of rehabilitation. If the rehabilitation has not already been completed by the organization, the court will determine whether or not the owner has the resources and capacity to complete the rehabilitation. If the court determines that the owner is not able to complete the rehabilitation, the court will not restore possession to the owner. However, if the court determines that the owner is able to complete the rehabilitation, possession of the property will

be restored to the owner and the court will
determine proper compensation due to the organization for its expenditures.

Current law requires that the organization file an annual report detailing its rehabilitation and use of the property, including a statement of all expenditures made by the organization. The proposal requires that these reports be submitted quarterly.

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
Department of Insurance
City of Bel-Ridge
Pulaski County
City of Richland
City of Carl Junction
Wright County

NOT RESPONDING: **Counties of Caldwell, Clinton and DeKalb**



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