COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2927-12
Bill No.: SCS for HCS for HB 1143
Subject: Economic Development; Taxation and Revenue.
Type: Corrected
Date: May 14, 2002
Corrected with responses from the Department of Economic Development and the Office of Administration - Budget and Planning

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
#General Revenue	(Unknown)	($436,000) to (Unknown)	($436,000) to (Unknown)
#Total Estimated Net Effect on All State Funds	**(Unknown)**	**($436,000) to (Unknown)**	**($436,000) to (Unknown)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**($11,900)**	**($23,800)**	**($23,800)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

FISCAL ANALYSIS

ASSUMPTION

SPRINGFIELD COMMUNITY IMPROVEMENT DISTRICT; (Section 67.1442)

In response to similar legislation from this year (SB 669) officials of the **Department of Economic Development** assumed no fiscal impact.

In response to similar legislation from last session (635-01, SB-125) officials of the **City of Springfield** stated that this proposal is discretionary and would have no fiscal impact to the Community Improvement Districts.

Oversight assumes this proposal is permissive and would have no fiscal impact. To remove property or relocate property from a Community Improvement District would require a hearing by the City, and approval of the District Board. Before any action to remove or relocate property the district would have to be able to meet any financial obligation excluding the revenues generated by the property being removed.

RIVERFRONT DEVELOPMENT DISTRICT ACT; (Sections 68.200 - 68.240)

#Officials from the **Department of Economic Development (DED)** state this part of the proposal would result in no cost to their agency. DED states that only new revenues will be used, thus the benefit should be an unknown positive one from the generation of new tax revenues and definitely not a negative impact.

#Officials from the **Office of Administration - Budget and Planning** states this section allows a port authority to submit a riverfront development district project application, for the use of state net new revenues, to the Department of Economic Development. If the application is approved, DED must request an appropriation for expenditure. The appropriation can last no more than 25 years and annual appropriations cannot exceed $15 million per year. The number of projects, the amount of revenues generated, the amount appropriated by the general assembly, and the impact on general revenue is unknown.

Officials from the Department of Revenue did not have enough time to study this substitute and respond. **Oversight** assumes costs would be incurred by DOR (programming) as a result of this section and have estimated the amounts as “Unknown”.

ASSUMPTION (continued)

#**Oversight** assumes that the time needed to go through the process of establishing the riverfront development district, submitting plans to the municipality for approval, performing cost benefit analyses, holding public hearings, submitting application to DED for approval, complete construction within the riverfront development district and determining the annual "state net new revenues" would put the fiscal impact of this part of the proposal beyond FY 2005, or beyond the scope of this fiscal note.

ANNEXATION IN JACKSON OR CASS COUNTIES (Sections 72.080 & 72.130);

Officials from Jackson County, Cass County, City of Kansas City and the City of Belton have not responded to Oversight's request for fiscal impact regarding this provision.

Oversight assumes this part of the proposal would not fiscally impact the state or the local governments.

PUBLIC WORKS AND CONDEMNATION (Sections 88.010 - 88.1027);

In response to similar legislation from this year (SB 711), officials of the **Office of State Courts Administrator** stated that they would anticipate one or more cases to test the parameters of the law, and would not expect a significant increase in the workload of the Judiciary. Officials assumed no fiscal impact.

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Ridge** assume that this proposal would have no fiscal impact to their finances.

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Nor** assume that this proposal would have no fiscal impact to their finances.

In response to similar legislation from this year (SB 711), officials of the **Jefferson County Commission** assume fiscal impact is unknown.

Oversight assumes this proposal is enabling legislation that would give authority to towns and villages to use the power of eminent domain when establishing or improving roads, and other related infrastructure projects. Oversight assumes no state fiscal impact. Certain cities would have no fiscal impact, unless their governing body would elect to use the authority granted by this proposal.

MAKE-UP OF COMMISSION (Sections 99.050 - 99.134);

In response to similar legislation from this year (SB 1039), officials of the **Department of Economic Development- Mo. Housing Commission** assumed no state fiscal impact.

In response to similar legislation from this year (SB 1039), officials of the **Kansas City Manager's Office** assumed no fiscal impact to City Funds, however, officials stated that the cost of paying the Housing Commissioners $200 per month plus expenses that could not exceed $1,000 annually would come from funds of the Kansas City Housing Authority.

Oversight assumes that the cost to the Kansas City Housing Authority would be 7 Commissioners x $2,400 ($200 x 12 months = $2,400) or $16,800 annually plus a maximum of $1,000 annually per commissioner for expenses would equal $7,000. The total annual cost if the maximum expense allowed were used would be $16,800 + $7,000 = $23, 800. Fiscal impact for the Kansas City Housing Authority wouldbegin on January1, 2003 or for 6 months of FY 2003

ENTERPRISE ZONE IN SPRINGFIELD, WRIGHT COUNTY AND PULSAKI COUNTY (Sections 135.207 & 135.259);

#Officials from the **Department of Economic Development (DED)** stated this proposal authorizes a satellite zone in Springfield. DED states the average cost for each satellite zone varies greatly, but is estimated to be a minimum of $60,000 per year.

In response to other legislation this year that established enterprise zones, officials from the **Department of Economic Development** stated that 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. 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 new zones in Wright County and Pulaski County would cost $138,000 each.

#Officials from the **Office of Administration - Budget and Planning** defers to DED regarding the fiscal impact of the proposed satellite zone and enterprise zones.

ASSUMPTION (continued)

EXPANSION OF ENTERPRISE ZONES (Section 135.230);

Officials from the **Department of Economic Development (DED)** state there are 13 enterprise zones that would be included in this description, with a possibility of 84 enterprise zone expansions.

#DED states this part of the proposal would result in an unknown fiscal impact to the state.

#Officials from the **Office of Administration - Budget and Planning** defers to DED for the impact on General Revenue.

Oversight assumes this part of the proposal could result in an unknown loss of revenue, greater than $100,000 per year if each county within an enterprise zone could expand 3 times, as opposed to current law where the entire enterprise zone, no matter how many counties it is in, could only expand three times.

COMMUNITY DEVELOPMENT CORPORATIONS AND SMALL BUSINESS TAX CREDITS (Sections 135.400 - 135.423);

In response to a similar proposal (SB 1117) from this year, officials from the **Department of Economic Development (DED)** state the proposal makes the following changes with the corresponding fiscal impacts to state revenues;

135.400 – (3) Redefines ""Community Development Corporation"" and (10) Redefines ""Principal Owners"" . No Impact.

135.408 – Ownership of "small business" changes from a 50% level to a maximum of 65% for investors. No Impact.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 3 years. The DED is given authority to revoke and pro-rate collection of credits. Sale of a business does not automatically trigger a revocation if the business continues. No Impact.

ASSUMPTION (continued)

TAX CREDIT FOR REHABILITATION AND CONSTRUCTION OF RESIDENCES IN DISTRESSED COMMUNITIES (Sections 135.478 - 135.530);

#Officials from the **Department of Economic Development (DED)** state this part of the proposal (regarding Neighborhood Preservation language as well as change in definition of distressed communities) appears to have no fiscal impact on DED. It only redistributes credits that already exist.

#Officials from the **Office of Administration - Budget and Planning (BAP)** state this part of the proposal expands various definitions. This will increase the universe of eligibles for rebuilding communities and the neighborhood preservation tax credits. Expanding tax credit eligibility could increase the amount of these tax credits redeemed. Consensus revenue estimates include projected redemption of tax credits.

#BAP states that Section 135.481 increases the tax credit from 15% to 20% of costs incurred. This expands the cost of the program and could increase the amount of tax credits redeemed.

#BAP also states that Section 135.484 allows 70% of the cap for the neighborhood preservation tax credit to be reallocated if one cap is not met before October 1 of the calendar year. This could increase the tax credits use and could increase the amount of tax credits redeemed.

#BAP also states that Section 135.530 expands the definition of distressed community. This could increase the use of tax credits with distressed community requirements, increasing the amount of tax credits redeemed.

In response to a previous version of this proposal;

...officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in the number of new credits filed as a result of this proposal. Therefore, DOR did not request additional
FTE at this time. However, if DOR is incorrect in this assumption, they assume 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. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

...officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

ASSUMPTION (continued)

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of $16 million, or $8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of $8 million in credits for eligible areas was
claimed while only $2.6 million of the $8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of $0 to ($16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the $16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

Oversight assumes the proposal also changes the definition of "distressed communities" in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate.

With DED's assumption from a previous version of this bill that changing the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this part of the proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this part of the proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

VARIOUS TAX CREDIT PROGRAMS (Sections 135.535, 348.300 - 348.302);

#Officials from the **Department of Economic Development (DED)** state this part of the proposal makes changes in the Rebuilding Communities Tax Credit Program (unused cap in any year shall be available in subsequent year). DED assumes the fiscal impact would be $0 to ($10,000,000) as a result of this part of the proposal.

<u>ASSUMPTION</u> (continued)

#DED states sections 348.300 – 302 (Seed Capital Tax Credit Program) changes would result in no costs to their agency. DED states this part of the proposal raises the credit percent from 50% to 75%
for contributions and would not change the cap.

#Officials from the **Office of Administration - Budget and Planning (BAP)** state Section 135.535 expands the uses of the rebuilding communities tax credit. This could increase the amount of tax credits redeemed. Further, this section allows the unused portion of the rebuilding communities tax credit cap to be carried to the next fiscal year and be used by the seed capital tax credit program. This will increase the amount of credits issued and could increase the amount of tax credits redeemed. Currently, the cap of the seed capital tax credit program is exhausted.

#BAP states that Section 348.300 expands the definition of "follow up capital" for the seed capital program. This could increase the amount of redeeming tax credits. Based on changes in Section 135.535, this tax credit now has a cap of the unused portion of the rebuilding communities tax credit program.

#BAP also states that Section 348.302 increases the percentage of the qualified contribution for the seed capital tax credit program. This could increase the amount of redeeming tax credits.

#**Oversight** assumes this part of the proposal allows unused tax credits within one program (Rebuilding Communities Tax Credit Program, which has an annual cap of $10,000,000) to be allocated to another program - the Seed Capital Tax Credit program. While this may result in an increased usage of the $10,000,000 annual allocation of tax credits for the Rebuilding Communities program, the proposal would not result in any additional statutory tax credits. The $10 million in tax credits have been accounted for by Oversight in our fiscal note for the enabling legislation (HB 1656 in 1998) as cost to the state, therefore, Oversight will not reflect additional cost to the state as a result of these changes, even though the changes may result in increased utilization of the $10 million of tax credits.

Interest payments for use of carryback of tax credits (Section 143.811);

There are no changes to this section of RSMo, therefore, **Oversight** assumes no fiscal impact from this part of the proposal.

ASSUMPTION (continued)

#Officials from the **Office of Administration - Budget and Planning** provided the following summary of DED tax credit programs

Tax Credit Program	Current Annual Cap	FY 2003 Proj. Red.
Business Facility	None	$ 7,700,000
Development	$ 4,000,000	$ 2,880,000
Rebuilding Communities	$10,000,000	$ 4,000,000
Community Bank	$ 500,000	$ 1,500,000
Neighborhood Assistance	$18,000,000	$11,475,000
Transportation Development	$10,000,000	$ 5,586,000
Affordable Housing	$11,000,000	$11,000,000
Neighborhood Preservation	$16,000,000	$11,250,000
Total	$69,500,000	$55,391,000

Oversight has not reflected the possible positive benefits from the various economic development proposals and changes contained in this bill.

This proposal may impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Costs - Department of Revenue Programming charges for Riverfront District Development Act	(Unknown)	$0	$0
#Loss - Satellite Zone in Springfield	$0	($60,000)	($60,000)
Loss - Expansion of enterprise zones allowed 3 times in each county	$0	(Unknown greater than $100,000)	(Unknown greater than $100,000)
Loss - Enterprise Zone in Wright Co.	$0	($138,000)	($138,000)
Loss - Enterprise Zone in Pulaski Co.	$0	($138,000)	($138,000)
Loss - Expansion of definition of "distressed community"	(Minimal)	(Minimal)	(Minimal)
#ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Unknown)**	**($436,000) to (Unknown)**	**($436,000) to (Unknown)**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
KANSAS CITY HOUSING AUTHORITY			
Cost to Kansas Housing Authority Commission Member's Salary	**($11,900)**	**($23,800)**	**($23,800)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits may be fiscally impacted by this legislation.

DESCRIPTION

This proposal authorizes removal of property from the Springfield Community Improvement District (CID), or relocation of property from a certain zone of designation in the CID to a different zone. A public hearing must be conducted and approval by the board. The district must be able to meet its financial obligations without the revenues from the proposed portion to be removed.

The proposal also creates a Riverfront Development District Act. In this proposal a port authority may, by resolution, establish a riverfront development district to improve blighted areas within the city or county.

DESCRIPTION (continued)

This proposal also gives the power of eminent domain to towns and villages with two hundred or more inhabitants.

Under current law, all seven members of the Kansas City Housing Authority Commission are appointed by the mayor, with one member from each of the six city council districts and the seventh member a tenant of a housing authority project. All commissioners must have resided in Kansas City for at least one year.

Under this substitute, six commissioners will be nominated by a nominating committee and appointed by the mayor, and one commissioner will be elected by the tenants of the housing authority. All must be residents of Kansas City for at least one year. One of the appointed commissioners must be receiving Section 8 housing assistance and one member must own rental property in Kansas City, but not any property containing public housing. Each commissioner will receive a stipend of $200 per month, plus reimbursement for up to $1,000 annually for travel expenses

The proposal creates enterprise zones in Springfield, Pulaski County and Wright County.

The proposal also allows enterprise zones to expand up to three times in each county that they are in, where currently, an entire enterprise zone can only expand three times, no matter how many counties it may be in.

This proposal makes several changes to the Neighborhood Preservation tax credit program within the Department of Economic Development. The proposal expands the definitions of "eligible residence", "new residence", “qualifying residence” and "project" used in the tax credit for rehabilitation and construction of residences in distressed communities and census block. The proposal also increases the eligible tax credit from 15 to 20 percent of costs incurred for a new residence.

Under current law, of the $16 million in community improvement tax credits allowed, $8 million are to
be allocated for "eligible residence" programs and $8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic

Development has issued all $8 million of the credits allowed for one of these programs and not the entire $8 million allowance for the other program, the director is required to reallocate 70% of any
unused tax credits from the program which has not reached its $8 million cap to the one which has.

The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been

<u>DESCRIPTION</u> (continued)

met for that same year. The maximum reallocated tax credit for any project cannot exceed $500,000.

The proposal also adds that projects involving the new construction, rehabilitation or substantial rehabilitation of more than one residence qualifying for the tax credit for rehabilitation and construction of residences in distressed communities may be submitted with one application. Also tax certificates may be approved upon completion for each individual residence rather than delaying until substantial completion of the entire project.

The proposal also changes the definition of a "distressed community".

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

<u>SOURCES OF INFORMATION</u>

Department of Economic Development
Department of Revenue
Department of Agriculture
Department of Insurance

Office of Administration - Budget and Planning
Wright County
Missouri Housing Development Commission
Office of the State Courts Administrator
City of Springfield
City of Kansas City
Village of Bel-Ridge
Village of Bel-Nor
Jefferson County Commission

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May 14, 2002