

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4683-01
Bill No.: HB 1961
Subject: Economic Development; Enterprise Zones.
Type: Original
Date: March 7, 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 State Funds</u> *	\$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 Federal Funds</u>	\$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)** state the bill authorizes a new enterprise zone in Pulaski County and one for Richland. 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 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 estimates a loss to General Revenue of \$276,000 each 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 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. 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 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 **Pulaski County** and the **City of Richland** each assume 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.

ASSUMPTION (continued)

Oversight has not reflected the potential positive benefit to the state or local governments resulting from this proposal.

This proposal may impact Total State Revenues.

<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	<u>\$0</u>	<u>(\$138,000)</u>	<u>(\$138,000)</u>
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 have a direct fiscal impact on those small businesses in newly created enterprise zones in Pulaski County and the City of Richland.

DESCRIPTION

This proposal designates Pulaski County and the City of Richland as enterprise zones.

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
County of Palaski
City of Richland



Mickey Wilson, CPA
Acting Director
March 7, 2002