COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0775-04
Bill No.: Perfected HS for HB 197
Subject: Cities, Towns and Villages. Economic Development.
Type: Original
Date: March 12, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	(Unknown)	($1,410,747 to Unknown)	($1,410,747 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	**(Unknown)**	**($1,410,747 to Unknown)**	**($1,410,747 to Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds *	**$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 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
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.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill authorizes new enterprise zones and satellite enterprise zones. 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 of the three enterprise zones in rural areas (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) is estimated to be $122,849 per year. DED estimates the cost for each of the three new satellite zones is $60,000 to unknown each year. DED estimates the cost for the new urban enterprise zone is $862,200. The cost of the enterprise zones is anticipated to begin in FY 2005 and include the cost 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.

ASSUMPTION (continued)

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 state's Total State Revenue will be reduced by the tax credits and income modifications. This will be offset by some positive but indeterminable amount of economic benefit realized by the designation of enterprise zones.

Officials from the **Department of Insurance (INS)** state the designation of additional enterprise zones will increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zone, they will be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later distributed to school districts. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

In response to a similar proposal from this year, officials from the **City of Richland** and **Pulaski County** each assumed the proposal would not fiscally impact their respective agencies within the three fiscal years reflected in this fiscal note due to the amount of time it would take to design and make application for enterprise zone status.

Officials from **Springfield** assume this bill would have no fiscal impact on the city.

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 Tax Processing Tech I for every 5,000 personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

DOR defers to the Department of Economic Development or the Office of Administration - Budget and Planning for a revenue impact estimate.

Officials from the **Department of Economic Development (DED)** state the following programs may be impacted by the changes in the proposal;

NEIGHBORHOOD PRESERVATION TAX CREDIT PROGRAM: (Sections 135.478, 135.481, 135.484, 135.487:
The only significant change to the program proposed in this bill that could have a fiscal impact that is not
based on the changing designation of a distressed community is the authorization of a rollover of unused credits for eligible areas to qualifying areas. Currently, $8 million in credits is set aside for each type of area. In 2001 and 2002 calendar years, all $8 million for qualifying areas was authorized, but of the $8 million for eligible areas, approximately $4 million and $7 million were authorized respectively. In the initial fiscal note response when this program was enacted, DED responded that the program would cost up to an estimated $16 million per year – based on the cap. If that is the "baseline", then the changes proposed to the Neighborhood Preservation Program by this bill are no impact. If the "baseline" is actual amounts projected to be issued and redeemed, it is notable that at this time, DED projects the authorization of the full $16 million in Neighborhood Preservation tax credits for Calendar Year 2003 and thereafter (corresponding to FY 2004 and thereafter). Based upon this methodology, DED's response of "no impact" remains the same because we are already projecting full authorization of the $16 million of the annual cap for this program.

DISTRESSED COMMUNITIES DESIGNATION: 135.530:
Compared to the earlier version of this bill, this version, by increasing the qualifying median income percentage floor (from 70% to 75%) could increase the number of census block groups in metropolitan statistical areas that would be designated as "distressed communities." This would be in addition to the earlier statement that the decrease in population requirement could increase the number of such areas. This version makes these same changes for nonmetropolitan areas, which could even further increase the number of distressed communities in the state. As in earlier versions, it would also allow certain portions of metropolitan enterprise zones to also be designated as "distressed communities." Several active programs are affected by the "distressed communities" designation as follows:

<u>Rebuilding Communities Tax Credit Program (135.535, RSMo)</u> – only businesses in distressed communities qualify for this credit. In DED's fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of $10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued $10 million in credits in any year. In FY 2002 DED authorized approximately $5.5 million in credits, and approximately $3.4 million in credits were redeemed. For FY 2004, DED projects $6.25 million issued and $5 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from $0 to $3.75 million with an increase in projected credits redeemed of $0 to $3 million. <u>ASSUMPTION</u> (continued)

Transportation Development Tax Credit Program (135.545, RSMo) – only transportation projects in distressed communities qualify for this credit. In DED's fiscal note response to this bill when enacted (HB 1656, 1999), DED projected a cost of $10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued $10 million in credits in any year. In FY 2002 DED authorized approximately $15,000 in credits, and approximately $850,000 in credits were redeemed. For FY 2004, DED projects $7.7 million issued and $5.87 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from $0 to $2.3 million with a corresponding increase in projected credits redeemed of $0 to $2.185 million.

Skills Development Tax Credit (a.k.a. individual training account 620.1400 – 620.1460, RSMo) - only projects in distressed communities qualify for this credit. In DED's fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of $6 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued any credits in any year. For FY 2004, DED projects $10,000 issued and $5,000 redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from $0 to $5.9 million with a corresponding increase in projected credits redeemed of $0 to $2.95 million. Because of the lack of participation in this program, DED would not expect the addition of geographic areas to turn the program around such that the costs would more likely be minimal rather than the larger $2.95 million.

Neighborhood Preservation Program (135.475 - 135.487, RSMo) - The "qualifying areas" include areas designated as distressed communities. Regardless of whether the baseline is the original fiscal note or actual use, the change in designation would have no fiscal impact on this program because DED have always authorized the full $8 million in credits set aside for qualifying areas.

New/Expanding Business Facility Tax Credit Program (135.100 – 135.150, RSMo) - Businesses in distressed communities under this program can receive a slightly larger tax credit amount for jobs and investment. This program is non-discretionary and is not capped. DED did not detect an increase attributable to this provision for distressed communities since the bill was effective in 1999. DED does not anticipate that the existence of more distressed communities in metro areas will correspond with a notable increase in the cost of this program and therefore project a zero fiscal impact as regards this program. However, DED cannot yet ascertain how many rural areas may be added by the distressed communities definition changes and cannot assess what impact the definition changes might have on the

ASSUMPTION (continued)

program in that regards.

Other programs affected by the Distressed Community designation are either inactive or are discretionary programs where the cost is predictable and the change in designation should have no fiscal impact.

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. 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.

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 statement that they cannot yet ascertain how many rural areas may be added by the changes to the definition of distressed communities (from House Amendment 1), Oversight assumes an negative unknown fiscal impact on the General Revenue Fund.

Oversight assumes this 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.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			

Loss - Expansion of definition of "distressed community"	(Unknown)	(Unknown)	(Unknown)
Loss - Satellite Enterprise zone in Springfield	$0	($60,000)	($60,000)
Loss - Satellite Enterprise zone in Sugar Creek	$0	($60,000)	($60,000)
Loss - Satellite Enterprise zone in St. Joseph	$0	($60,000)	($60,000)
Loss - Enterprise Zone in Bourbon	$0	($122,849)	($122,849)
Loss - Enterprise Zone in Pulaski Co. / City of Richland	$0	($122,849)	($122,849)
Loss - Enterprise Zone in Columbia	$0	($122,849)	($122,849)
Loss - Enterprise Zone in Raytown (Urban)	$0	($862,200)	($862,200)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Unknown)**	**($1,410,747 to Unknown)**	**($1,410,747 to Unknown)**

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 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal establishes enterprise satellite zones in Springfield, Sugar Creek and St. Joseph.

The proposal establishes enterprise zones in the City of Bourbon, Pulaski County / City of Richland, Columbia as well as in Raytown.

This proposal also makes various changes to the law concerning economic development of distressed communities.

The proposal expands the definition of a "distressed community" in the law relating to tax credits for investment in or relocating a business to a distressed community. A distressed community will include areas within metropolitan statistical areas that are designated as either a federal empowerment zone, a federal enhanced enterprise community, or state enterprise zones designated prior to January 1, 1986, but will not include the expansion of those zones done after March 16, 1988. The proposal also changes population and income requirements for distressed communities.

The proposal also modifies provisions of the Rebuilding Communities and Neighborhood Preservation Act, in that it: (1) Expands the definition of "eligible residence" to include certain condominiums, entire apartment buildings, or single apartments within an apartment building; (2) Expands the definition of "new residence" to include separate adjacent single-family units; (3) Expands the definition of "project" to include the new construction, rehabilitation, or substantial rehabilitation of multiple residences, whether comprised of one structure containing multiple single-family residences (e.g., an apartment building) or multiple individual structures (e.g., townhouses or individual homes), in addition to single residences; (4) Corrects the definition of "qualifying residence" so that it accurately references census blocks groups within metropolitan statistical areas; (5) Clarifies the term "nonmetropolitan statistical area" as any county not located in a metropolitan statistical area; (6) Limits the tax credits available for the rehabilitation and construction of residences in distressed communities and census blocks to $1.5 million for projects commenced after August 28, 2002.

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

DESCRIPTION (continued)

proposal provides 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 has not issued 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 met for that same year; the maximum reallocated tax credit for any project may not exceed $500,000; (7) Increases the value of the "eligible residence" tax credit maximum per project up from $25,000 to $40,000 but does not raise the annual cap for this tax credit; and (8) Allows one application for tax credits to be submitted to the department for preliminary approval in the case of projects involving the new construction, rehabilitation, or substantial rehabilitation of more than one residence; tax credits will be awarded upon final approval of an application and presentation of acceptable proof that substantial construction of each individual residence has been completed, rather than delaying issuance of the tax credits until the entire project is substantially complete.

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
Pulaski County
City of Richland
City of Springfield

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MICKEY WILSON, CPA
DIRECTOR
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