

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4132-01
Bill No.: SB 1104
Subject: Taxation and Revenue; Economic Development; Enterprise Zones.
Type: Original
Date: February 9, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$237,490)	(\$237,490)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$237,490)	(\$237,490)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>Other</u> 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 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
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 **Office of Administration - Budget and Planning (BAP)** state the proposal should not result in additional costs or savings to their agency. However, this proposal may have a negative impact on Total State Revenue and General Revenue. This proposal authorizes the creation of enterprise zones in the cities of Richland and Crocker. BAP defers to the Department of Economic Development for the fiscal impact to the state.

Officials from the **Department of Revenue (DOR)** state their Division of Taxation does not anticipate a large number of taxpayers that would/could use this credit. Therefore, DOR will not request additional FTE at this time. However, if the number of additional credits is larger than expected, DOR would need one Tax Processing Tech I for every 4,000 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 BAP for the estimated impact to the General Revenue Fund.

ASSUMPTION (continued)

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 zones, 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 or deposited solely into the County Stock Fund depending on the type of company. The County Foreign Insurance Fund and County Stock Fund are 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 the three funds.

Officials from the **Department of Economic Development (DED)** state the bill would authorize two new rural Enterprise Zones - one for Richland and one for Crocker. The bill could result in additional tax credits being issued. At the present time, the volume of credits is not anticipated to be large enough to require additional personnel or E&E to administer. The volume of work will be monitored and at some point could require additional resources. These additional needs would be addressed in a budget request, if necessary.

DED assumes, based on averages, that there will be \$118,745 in costs associated with each new rural enterprise zone. These costs will not be incurred until Fiscal Year 2006. This bill provides for 2 full enterprise zones in rural areas. The cost of an enterprise zone includes the costs of enterprise zone 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 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 **Pulaski County** did not respond to our request for fiscal impact.

Officials from the **City of Crocker** as well as the **City of Richland** each state that due to the amount of time it will take to implement an enterprise zone, there will be no fiscal impact to them in the three years within the scope of the fiscal note.

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

ASSUMPTION (continued)

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 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
<u>Loss</u> - Enterprise Zone in Richland	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Crocker	<u>\$0</u>	<u>(\$118,745)</u>	<u>(\$118,745)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$237,490)</u>	<u>(\$237,490)</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 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses that are in the newly created enterprise zones.

DESCRIPTION

This proposal authorizes the creation of enterprise zones in Richland and Crocker.

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
Office of Administration - Budget and Planning
City of Richland
City of Crocker

NOT RESPONDING: Pulaski County



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Director
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