

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4497-01
Bill No.: SB 1239
Subject: Taxation and Revenue; Enterprise Zones; Tax Credits; Kansas City.
Type: Original
Date: February 24, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$892,178)	(\$892,178)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$892,178)	(\$892,178)

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. 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 an additional enterprise zone 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 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)** did not respond to our request for fiscal impact.

However, in response to a similar proposal from this year, DED stated the addition of an enterprise zone could result in additional tax credits being issued. The volume of credits was 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 assumed, based on averages, that there will be \$892,178 in costs associated with a new urban enterprise zone. These costs will not be incurred until Fiscal Year 2006.

Officials from the cities of **Sugar Creek** and **Independence** did not respond to our request for fiscal impact.

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.

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			
Loss - Enterprise Zone in Jackson County	<u>\$0</u>	<u>(\$892,178)</u>	<u>(\$892,178)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>(\$892,178)</u>	<u>(\$892,178)</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 zone.

DESCRIPTION

This proposal enables the creation of a new enterprise zone in portions of Independence and Sugar Creek that are within the Kansas City school district.

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 Revenue
Office of Administration - Budget and Planning
Department of Insurance

NOT RESPONDING: Department of Economic Development, City of Independence; City of Sugar Creek



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Director
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