

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 1003-01
BILL NO.: HB 434
SUBJECT: Economic Development; Political Subdivisions.
TYPE: Original
DATE: February 15, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$47,952)	(\$95,904)	(\$143,856)
Total Estimated Net Effect on <u>All</u> State Funds	(\$47,952)	(\$95,904)	(\$143,856)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 3 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal would increase the allowable size of the population in enterprise zones in non-metropolitan statistical areas from 20,000 to 25,000. The DED assumes this increase in population allowable will increase the number of credits and income modifications for enterprise zones. The number of enterprise zones is capped by law, so additional zones would not be generated from this legislation, however, the DED estimates that one zone per year would expand beyond 20,000 inhabitants and this proposal would generate additional credits being taken by businesses within those zones.

The DED estimated the fiscal impact of this legislation as \$47,952 for each year on a cumulative basis. Therefore, the proposed legislation is estimated to cost \$47,952 in FY 2002, \$95,904 in FY 2003, and \$143,856 in FY 2004. The DED assumes they will not need additional resources to implement this proposed legislation.

The DED stated there is an average of 8.41 businesses per zone (530 businesses / 63 zones) receiving benefits. The DED assumes that 20% of these, or 1.68 new businesses per zone will now qualify for the credit and that only one zone per year would expand when that one zone per year would increase beyond 20,000 inhabitants. Multiplying the new 1.68 businesses per year by the average of \$28,500 of benefits received by each business, the proposal is estimated to result in an additional \$47,952 in tax credits per year.

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant increase in the number of new credits filed. Therefore, they will not request additional FTE at this time.

However, if the DOR is incorrect in this assumption, they state 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

Oversight assumes the proposed legislation will not result in additional enterprise zones since the number is capped at 63. However, the proposal will result in additional businesses qualifying for the tax credits in non-metropolitan areas in areas that are expanded beyond 20,000 inhabitants.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government FY 2002 FY 2003 FY 2004

(10 Mo.)

GENERAL REVENUE FUND

Loss - Tax credits for new businesses
within an enterprise zone (10 Mo.)

	(\$47,952)	(\$95,904)	(\$143,856)
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FISCAL IMPACT - Local Government

	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

A direct fiscal impact could be expected to those small businesses that would now qualify as part of an enterprise zone.

DESCRIPTION

This proposal increases the maximum population of enterprise zones not located in a metropolitan area from 20,000 inhabitants to 25,000.

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



Jeanne Jarrett, CPA
Director
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