

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3272-03
Bill No.: HCS for HB 843
Subject: Economic Development; Enterprise Zones.
Type: Original
Date: March 12, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$72,244)	(\$1,495,792 to Unknown)	(\$1,735,058 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	(\$72,244)	(\$1,495,782 to Unknown)	(\$1,735,058 to Unknown)

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</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 6 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 five 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 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.

In response to a similar proposal from this year that created nine enterprise zones and one satellite zone, officials from the **Department of Economic Development (DED)** stated the bill creates one new urban enterprise zone (\$892,178), one satellite zone (\$60,000 to unknown), and several rural enterprise zones at a cost of \$118,745 each. These costs are projected but would be offset by some positive but undeterminable economic benefits to the state.

DED stated they would be required to administer the new enterprise zones created, and therefore assumed the need for one Economic Development Incentive Specialist II (at \$38,088 annually) plus E&E to administer the one new urban enterprise zone, one satellite zone, and several rural enterprise zones. DED assumed the total cost of the FTE would be roughly \$70,000 per year.

Oversight assumes DED will not pay for additional office space for this single FTE.

In response to a previous version of this proposal, officials from **Linn County** as well as **Laclede County** each assume the proposal would not fiscally impact their respective counties.

Officials from the **City of Ozark** assume that future revenues resulting from the enterprise zone would be greater than any future loss of revenue from the enterprise zone benefits.

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.

Oversight also assumes Section 135.214.2 extends the enterprise zone status for Linn and Macon counties through 2015. According to DED, the Linn County enterprise zone was established on February 2, 1984 and the Macon enterprise zone was established on August 31,

1983. According to DED, the enterprise zone status is effective for a total of 22 years.

ASSUMPTION (continued)

Therefore, the Linn enterprise zone is scheduled to expire in February, 2006 (22 years later) and the Macon enterprise zone is scheduled to expire in August, 2005. Therefore, Oversight will assume a continuance of the average cost of a rural enterprise zone for both Linn and Macon counties.

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>Costs - DED</u>			
Personal Service (1 FTE)	(\$39,040)	(\$40,016)	(\$41,017)
Fringe Benefits	(\$16,163)	(\$16,567)	(\$16,981)
Expense and Equipment	<u>(\$17,041)</u>	<u>(\$12,051)</u>	<u>(\$12,412)</u>
Total Costs - DED	<u>(\$72,244)</u>	<u>(\$68,634)</u>	<u>(\$70,410)</u>
<u>Loss</u> - Enterprise Zone in Jackson Co.	\$0	(\$892,178)	(\$892,178)
<u>Loss</u> - Satellite Zone in Jackson Co.	\$0	(\$60,000 to Unknown)	(\$60,000 to Unknown)
<u>Loss</u> - Enterprise Zone in Nixa/Ozark	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Shelby Co.	\$0	(\$118,745)	(\$118,745)
Loss - Enterprise Zone in Linn Co.	\$0	\$0	(\$118,745)
Loss - Enterprise Zone in Macon Co.	\$0	\$0	(\$118,745)
<u>Loss</u> - Enterprise Zone in Webster Co.	\$0	(\$118,745)	(\$118,745)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2005 (10 Mo.)	FY 2006	FY 2007
<u>Loss - Enterprise Zone in Laclede Co.</u>	<u>\$0</u>	<u>(\$118,745)</u>	<u>(\$118,745)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>(\$72,244)</u>	<u>(\$1,495,792 to Unknown)</u>	<u>(\$1,735,058 to Unknown)</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 or satellite zone.

DESCRIPTION

This substitute requires the Department of Economic Development to designate enterprise zones in the City of Sugar Creek and in Laclede, Shelby and Webster counties; to designate a single enterprise zone located partially in the City of Nixa and partially in the City of Ozark; and to extend the expiration date for the enterprise zones in Linn and Macon counties.

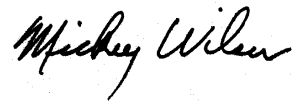
The proposal also designates a satellite zone in Sugar Creek

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

RAS:LR:OD (12/02)

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance
Office of Administration - Budget and Planning
Laclede County
Linn County
City of Ozark

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 12, 2004