

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4335-03  
Bill No.: HB 1409  
Subject: Economic Development; Enterprise Zones.  
Type: Original  
Date: February 18, 2004

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0 to (Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0 to (UNKNOWN)</b>	<b>(UNKNOWN)</b>	<b>(UNKNOWN)</b>

**\*Unknown loss could exceed \$100,000**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\* 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.

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\* 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 an enterprise zone. 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.

In response to other proposals establishing enterprise zones this year, DED stated the average cost for each enterprise zone in a rural area (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) is estimated to be \$118,745 per year and the average cost for an enterprise zone in an urban area is \$892,178.

DED stated the cost of an enterprise zone includes the cost of the program 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 assumed the state's Total State Revenue will be reduced by the tax credits and income modifications. This would be offset by some positive but indeterminable amount of economic benefit realized by the designation of enterprise zones.

**Oversight** has no way to determine how many areas would be designated as enterprise zones as a result of this proposal, so we will assume an unknown loss to General Revenue, over \$100,000 starting in year 2006. Oversight will also assume that DED may incur an additional amount of expense in administering the enterprise zone program if numerous additional enterprise zones are created. Therefore, Oversight will also include a \$0 to Unknown cost to DED to administer the additions to the enterprise zone program.

ASSUMPTION (continued)

**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
<b>GENERAL REVENUE</b>			
<u>Costs</u> - Department of Economic Development (DED)			
To administer additions to enterprise zone program	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - Enterprise Zone	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE*</b>	<u><b>\$0 to (UNKNOWN)</b></u>	<u><b>(UNKNOWN)</b></u>	<u><b>(UNKNOWN)</b></u>

\*Could exceed \$100,000

**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><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></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

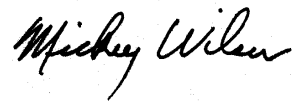
This proposal requires that any area that meets all the requirements of an enterprise zone be designated as one by the Department of Economic Development.

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  
Department of Insurance  
Office of Administration - Budget and Planning

**NOT RESPONDING: Department of Economic Development**



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Director  
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