

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3406-01
Bill No.: HB 1371
Subject: Counties; Economic Development
Type: Original
Date: January 14, 2008

Bill Summary: This proposal allows rural empowerment zones to exist in any county with 16,000 or fewer residents.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0 to (Unknown - could exceed \$5,880,000)	\$0 to (Unknown - could exceed \$5,880,000)	\$0 to (Unknown - could exceed \$5,880,000)
Total Estimated Net Effect on General Revenue Fund	\$0 to (Unknown - could exceed \$5,880,000)	\$0 to (Unknown - could exceed \$5,880,000)	\$0 to (Unknown - could exceed \$5,880,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0 to Unknown	0 to Unknown	0 to Unknown
Total Estimated Net Effect on FTE	0 to Unknown	0 to Unknown	0 to Unknown

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill could create additional empowerment zones. Zone applications would have to be reviewed and approved or denied by DED. Staffing needs would be dependent upon the number of applications and how quickly they are received. DED may potentially need to pay existing staff to work overtime to approve the applications. An unknown amount is projected for overtime and any equipment or expense costs to accomplish review and approval/denial of the applications plus correspond with applicants.

Income tax exemptions are authorized for businesses located in designated rural empowerment zones that hire specific numbers of new employees. This exemption could reduce TSR but the reduction could be offset by individual income tax paid by new employees hired. Impact is unknown and unpredictable. It is also unknown how many new zones will be designated or the number of businesses in any newly created zones.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal changes the qualifications of rural empowerment zones, which could lead to more counties being eligible for the state income tax exemption provided under the Rural Empowerment Zone Program. This proposal could lower general and total state revenues by an unknown amount. BAP defers to the Department of Economic Development for an estimate of reduced revenues.

In a similar proposal from 2004 (HB 1597), the Department of Economic Development assumed that the new rural empowerment zones would be similar in cost to satellite enterprise zones. The estimated cost of each satellite enterprise zone at the time was \$60,000 to unknown. DED stated they are currently no longer able to provide **Oversight** an estimated cost of additional satellite enterprise zones in the state since the old program was replaced. Therefore, Oversight will assume a \$60,000 to unknown cost for each of the potential empowerment zones. There are 50 counties with a population of 16,000 or fewer. Therefore, taking out Hickory county because it already qualified for the program under current law, this totals \$5.88 million to Unknown lost revenue for the state (49 counties x 2 zones per county x \$60,000 to unknown cost). Obviously, there will be some positive financial benefit to the state for companies that create ten new full-time jobs within one year from the date the tax abatement begins. However, this potential positive benefit is considered an indirect benefit, and Oversight will only reflect the direct fiscal impact of the proposal.

ASSUMPTION (continued)

The counties of **Iron, Ozark, Carter** and **Dade** did not respond to our request for fiscal impact.

Oversight will reflect the fiscal impact of this proposal from as a range from \$0 (no qualifying counties will apply for the status or no businesses will qualify under the program) to a negative Unknown - could exceed \$5.88 million in costs. Oversight will also range DED's expenses to \$0 (few counties apply for status) to their estimated (unknown) amount.

Oversight assumes the proposal will not fiscally impact the counties, since it is permissive in nature.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
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GENERAL REVENUE

<u>Cost</u> - Department of Economic Development - to administer expanded program	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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<u>Loss</u> - exempted income tax from potential new rural empowerment zones	\$0 to (Unknown - could exceed <u>\$5,880,000</u>)	(\$0 to (Unknown - could exceed <u>\$5,880,000</u>)	\$0 to (Unknown - could exceed <u>\$5,880,000</u>)
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ESTIMATED NET EFFECT TO GENERAL REVENUE	\$0 to (Unknown - could exceed <u>\$5,880,000</u>)	\$0 to (Unknown - could exceed <u>\$5,880,000</u>)	\$0 to (Unknown - could exceed <u>\$5,880,000</u>)
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<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses within the rural empowerment zones could experience an abatement of their

state income taxes.

FISCAL DESCRIPTION

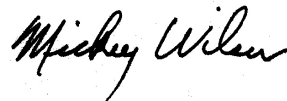
Currently, rural empowerment zones are only allowed to exist in Hickory County, which has a population of 8,940 residents. This bill allows these zones to exist in any county with 16,000 or fewer residents, which includes 50 counties. The bill also prohibits more than two rural empowerment zones in any county.

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
Office of Administration - Budget and Planning

Not Responding;
Counties of Iron, Ozark, Carter and Dade



Mickey Wilson, CPA
Director
January 14, 2008