

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4782-01  
Bill No.: HB 1957  
Subject: Economic Development; Business and Commerce; Cities, Towns and Villages  
Type: Original  
Date: February 18, 2008

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Bill Summary: This proposal establishes the Duty Free Zone Act.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<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 FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Local Government</b>	<b>\$0</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** state many joint resolutions are considered by the General Assembly that would require the Secretary of State's office to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

In response to a similar proposal from this year (SB 1012), officials from the **Department of Revenue (DOR)** stated if an area within a municipality is designated a duty free zone, the businesses inside that zone would receive tax favored status, which mean a reduction or elimination of sales and/or use tax. Total state revenues would then see a reduction in revenues due to those zones. DOR did not anticipate an administrative fiscal impact due to this legislation.

Officials from the **Office of Administration - Budget and Planning** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Economic Development (DED) - Missouri Development Finance Board (MDFB)** assume there would be a required review and approval process of proposals that were passed by the municipalities and county and submitted. This review process would not take place unless a constitutional amendment were legislatively placed on the ballot and passed. DED/MDFB assume the vote would take place no earlier than November 2008 and no proposals would make it through municipal/county approval until after July 2009 (FY 2010). Any proposals submitted to DED/MDFB would have to be reviewed and approved or denied

ASSUMPTION (continued)

based on an analysis. The analysis would include reviewing the ordinance and proposal; including boundaries, businesses in the boundary, previous sales tax revenues verification would be coordinated with DOR, verify existence of an affidavit, and review any other information requested.

DED/MDFB assumes no impact would be incurred unless/until a constitutional amendment was passed. If the amendment passed, DED/MDFB assumes there would be no fiscal impact until FY 2010. At that time the impact would be unknown and dependent on how many approved proposals were submitted for review. DED/MDFB assumes the impact could require on FTE and related costs but has projected an unknown fiscal impact. DED assumes there would be impact on General Revenue but the amount would be an unknown negative. DED is unable to project any benefits to the state from implementation of Duty Free Zones.

**Oversight** assumes if the legislation passes and the ballot is approved by voters in the November, 2008 general election, this proposal could result in a reduction in both state and local sales tax revenues from the Duty Free Zones. Oversight agrees with the DED assessment that the earliest the potential reduction in sales tax revenue would begin is FY 2010. Oversight assumes DED would be able to administer the program with existing resources and therefore, have not reflected a potential administrative costs to DED in the fiscal note. Oversight will reflect the potential loss of sales tax revenue to the state and the local governments as \$0 to (Unknown). Oversight assumes there would be some positive benefit to the state resulting from this proposal; however, Oversight considers this to be an indirect benefit and have not reflected it on the fiscal note. Oversight has lumped the other state funds that receive sales tax revenue (School District Trust Fund (1%), Conservation Commission (.125%) and Parks and Soils (.100%)) into 'Various Other State Funds'.

Officials from the cities of **Kansas City, North Kansas City, St. Louis and Springfield** did not respond to our request for fiscal impact.

**This proposal, along with voter approval and local government action, could reduce Total State Revenues.**

FISCAL IMPACT - State Government

FY 2009  
(10 Mo.)

FY 2010

FY 2011

**GENERAL REVENUE**

Loss - Sales tax income from Duty Free  
Zone

\$0

\$0 or  
(Unknown)

\$0 or  
(Unknown)

**ESTIMATED NET EFFECT TO THE  
GENERAL REVENUE FUND**

\$0

\$0 or  
(UNKNOWN)

\$0 or  
(UNKNOWN)

**VARIOUS OTHER STATE FUNDS**

Loss - Sales tax income from Duty Free  
Zone

\$0

\$0 or  
(Unknown)

\$0 or  
(Unknown)

**ESTIMATED NET EFFECT TO THE  
VARIOUS OTHER STATE FUNDS**

\$0

\$0 or  
(UNKNOWN)

\$0 or  
(UNKNOWN)

FISCAL IMPACT - Local Government

FY 2009  
(10 Mo.)

FY 2010

FY 2011

**LOCAL POLITICAL SUBDIVISIONS**

Loss - Sales tax income from Duty Free  
Zone

\$0

\$0 or  
(Unknown)

\$0 or  
(Unknown)

**ESTIMATED NET EFFECT TO THE  
LOCAL POLITICAL SUBDIVISIONS**

\$0

\$0 or  
(UNKNOWN)

\$0 or  
(UNKNOWN)

FISCAL IMPACT - Small Business

Small businesses within the potential Duty Free Zone could be positively impacted as a result of this proposal and voter approval.

### FISCAL DESCRIPTION

This bill establishes the Duty Free Zones Act which will only go into effect upon voter approval of a constitutional amendment authorizing the creation of tax-free or reduced-tax zones.

The governing body of any city may designate a portion of the city as a duty-free zone and grant the district tax favored status for up to 23 years by adopting an ordinance. The ordinance must contain:

- (1) A statement that the proposed duty-free zone is a blighted area located within a qualified census tract;
- (2) The reduced tax rate or tax favored status granted to the zone;
- (3) The term and conditions of tax favored status;
- (4) The general boundaries of the proposed duty-free zone by street location; and
- (5) The name of the duty-free zone, which must represent the zone's historical significance to the city.

Prior to the adoption of the ordinance, the city must hold a public hearing. The bill specifies the requirements for the hearing including the public's notification.

The city cannot provide a duty-free zone with tax favored status unless the ordinance adopted by the city's governing body is approved by the Missouri Development Finance Board within the Department of Economic Development. Upon adoption of the ordinance, the city must submit an application to the department for review. The department will submit an analysis and recommendation to the board, which will determine whether or not the zone's designation should be approved. The bill specifies the requirements of the application, which must include an affidavit attesting to the fact that the proposed zone is a blighted area. The department must make all reasonable efforts to process applications within 60 days of receipt.

Upon approval of tax favored status for a duty-free zone, a certificate of approval will be issued by the department containing the reduced tax rate or tax favored status and the term. Any business located within the duty-free zone may receive tax favored status for up to 15 years.

No city may have more than one duty-free zone at any given time.

FISCAL DESCRIPTION (continued)

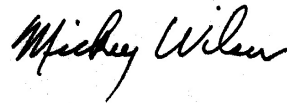
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Office of Administration - Budget and Planning  
Office of the Secretary of State

**NOT RESPONDING:**

**Kansas City, St. Louis, North Kansas City, Springfield**

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

Mickey Wilson, CPA  
Director  
February 18, 2008