COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3484-01
Bill No.: HB 1254
Subject: Economic Development
Type: Original
Date: February 25, 2010

Bill Summary: This proposal allows rural empowerment zones to exist in any county with 20,000 or fewer residents and prohibits more than one rural empowerment zone in any county.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$0 to (Unknown - could exceed $3,600,000)	$0 to (Unknown - could exceed $3,600,000)	$0 to (Unknown - could exceed $3,600,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to (Unknown - could exceed $3,600,000)**	**$0 to (Unknown - could exceed $3,600,000)**	**$0 to (Unknown - could exceed $3,600,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal raises the county population threshold from 8,925 to 20,000 or fewer inhabitants in which an area may be designated as a rural empowerment zone (REZ). The creation of any new REZs could lower general and total state revenues by an unknown amount. New REZs may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED)** state income tax exemptions are authorized for businesses located in designated rural empowerment zones that hire specific numbers of new employees. This exemption could reduce Total State Revenues but the reduction could be offset by individual income tax paid by new employees hired. The 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

DED states 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. In summary, DED assumes an unknown cost to process additional applications for rural empowerment zones.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the following counties did not respond to our request for fiscal impact: **Hickory**, **Andrew**, **Bates**, **Carroll**, **Knox** and **Monroe**.

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 has since 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 61 counties with a population of 20,000 or fewer. Therefore, taking out Hickory

ASSUMPTION (continued)

county because it already qualified for the program under current law, this totals $3.6 million to Unknown lost revenue for the state (60 counties x 1 zone 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.

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 $3.6 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.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Cost - Department of Economic Development - to administer expanded program	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - exempted income tax from potential new rural empowerment zones	$0 to (Unknown - could exceed $3,600,000)	($0 to (Unknown - could exceed $3,600,000)	$0 to (Unknown - could exceed $3,600,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**$0 to (Unknown - could exceed $3,600,000)**	**$0 to (Unknown - could exceed $3,600,000)**	**$0 to (Unknown - could exceed $3,600,000)**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses within the rural empowerment zones could experience an abatement of their state income taxes.

FISCAL DESCRIPTION

Currently, up to two rural empowerment zones are allowed to exist in Hickory County, which has a population of 8,940 residents. This bill allows a rural empowerment zone to exist in any county with 20,000 or fewer residents, which includes 61 counties, but prohibits more than one zone 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
Department of Revenue
Office of Administration - Budget and Planning

NOT RESPONDING:
Hickory County
Andrew County
Bates County
Carroll County
Knox County
Monroe County

Mickey Wilson

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Director
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