

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4267-01
Bill No.: HB 1695
Subject: Economic Development; Department of Economic Development
Type: Original
Date: January 24, 2020

Bill Summary: This proposal establishes the Targeted Industrial Manufacturing Enhancement Zones Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0 to (Could exceed \$80,804)	\$0 to (Could exceed \$80,804)	\$0 to (Could exceed \$80,804)
Total Estimated Net Effect on General Revenue	\$0 to (Could exceed \$80,804)	\$0 to (Could exceed \$80,804)	\$0 to (Could exceed \$80,804)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
TIME Zone Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Net distribution of revenues and expenses net to zero.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Total Estimated Net Effect on FTE	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government*	\$0	\$0	\$0

*Net distribution of revenues and expenses net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume this legislation would not have an administrative impact on the DOR. Section 620.2250.7 allows for the diversion of 25% of the state tax withholding on new jobs to not be remitted to General Revenue and instead go to a designated TIME Zone as outlined in this proposal. DOR notes this 25% is on new jobs created and is not currently being collected by the Department. DOR is unable to estimate the number of new jobs that may be created and the new withholding tax those new jobs would generate. The Department of Economic Development may be able to provide an estimate of the number of expected jobs and the General Revenue impact of this proposal.

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume an unknown negative impact on the General Revenue Fund. The proposal allows for 25% of the state tax withholdings on new jobs within a TIME zone to be deposited into the TIME zone fund, newly created in the state treasury, rather than the general revenue fund. This may encourage other economic activity, but B&P does not have data to estimate induced revenues.

Officials at the **Department of Economic Development (DED)** assume for every new job created in a TIME zone, 25% of state tax withholdings imposed by sections 143.191 to 143.265 shall not be remitted to the general revenue fund but shall instead be put into the TIME Zone Fund to be used by the zone board for managerial, engineering, legal, research, promotion, planning, and any other expenses.

DED is only mentioned as the agency to which the annual budget is submitted. DED has no mechanism to calculate the estimated impact of this section on the general revenue.

DED is responsible for approving any agreement renewals, reviewing annual budgets and annual reports. DED assumes they will need one (1) FTE Economic Development Incentive Specialist III (at \$43,173 annually) to implement this program at a total cost of:

FY21 (\$80,804)
FY22 (\$86,901)
FY23 (\$87,738)

ASSUMPTION (continued)

Oversight notes §620.2250 of this proposal creates the Targeted Industrial Manufacturing Enhancement Zones Act. This also creates the TIME Zone Fund. Once an ordinance or resolution is passed/adopted by at least two political subdivisions, this proposal requires “twenty-five percent of the state tax withholdings” to go directly to the new fund created. Oversight will assume a loss to General Revenue of the withholding tax and a gain to the TIME Zone Fund of the withholding tax. Since there is no way to determine if additional jobs will come to these regions, Oversight will reflect the impact as \$0 (no new jobs created) to Unknown. Also, depending upon the number of TIME Zones established and new jobs created, Oversight assumes DED may be able to absorb some additional responsibilities created by this bill. Therefore, Oversight will range DED’s administrative needs from zero impact to one additional FTE.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year’s legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** each assume no fiscal impact to their respective agencies from this proposal.

Officials at the **City of Kansas City** assume this proposal may have a positive fiscal impact in an indeterminate amount if the creation of a TIME Zone leads to additional development and to new jobs in the TIME zones within the City limits. However, this may be offset by staffing resources needed to administer TIME Zones.

Officials at the **City of O’Fallon** assume no fiscal impact from this proposal.

ASSUMPTION (continued)

In response to similar legislation from this year, SB 594, officials at the **City of Springfield** assumed no fiscal impact from this proposal.

Oversight notes the Office of the State Treasurer, the Joint Committee on Administrative Rules, the City of O’Fallon and the City of Springfield each have stated the proposal would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation, but did not. A general listing of political subdivisions included in our database is available upon request.

Oversight notes this proposal could induce economic development in the state. However, Oversight considers the positive economic benefits that may result from this proposal to be indirect fiscal impacts, and will not reflect them in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE			
<u>Revenue Reduction</u> - §620.2250 - loss of withholding tax	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost</u> - DED - administration of §620.2250	0 or...	0 or....	0 or....
Personal Service	(\$43,173)	(\$52,326)	(\$52,849)
Fringe Benefits	(\$23,938)	(\$28,897)	(\$29,071)
Equipment and Expense	<u>(\$13,693)</u>	<u>(\$5,678)</u>	<u>(\$5,818)</u>
Total Cost - DED	<u>(\$80,804)</u>	<u>(\$86,901)</u>	<u>(\$87,738)</u>
FTE Change - DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or (Could exceed \$80,804)</u>	<u>\$0 or (Could exceed \$80,804)</u>	<u>\$0 or (Could exceed \$80,804)</u>
Estimated Net FTE Change on General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT - State Government</u> (continued.)	FY 2021 (10 Mo.)	FY 2022	FY 2023
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TIME ZONE FUND

<u>Revenue</u> - withholding tax collected from new jobs §620.2250	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
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<u>Transfer Out</u> - to local political subdivisions	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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ESTIMATED NET EFFECT ON THE TIME ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
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LOCAL POLITICAL SUBDIVISIONS

<u>Transfer In</u> - from the TIME Zone Fund	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
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<u>Cost</u> - administration of TIME Zone developments	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses that qualify for the programs in the bill would be impacted.

FISCAL DESCRIPTION

This bill allows any two or more political subdivisions to create targeted industrial manufacturing enhancement (TIME) zones for the purpose of developing or redeveloping areas within the zone to attract the creation of new jobs. Prior to the creation of a TIME zone, each political subdivision must propose an ordinance or resolution that sets forth the names of the political subdivisions which will form the zone, the general nature of the proposed improvements, the estimated cost of such improvements, the boundaries of the proposed TIME zone, and the estimated number of new jobs to be created in the TIME zone. The political subdivisions must hold a public hearing prior to approving the ordinance or resolution creating the TIME zone.

This bill allows the zone board governing the TIME zone to retain 25% of withholding taxes on new jobs created within the TIME zone to fund improvements made in the TIME zone. Prior to retaining such withholding taxes, the zone board must enter into an agreement with each taxpayer creating new jobs within the TIME zone. Such agreement must specify the estimated number of new jobs to be created, the estimated average wage of new jobs to be created, the estimated net fiscal impact of the new jobs, and the estimated amount of withholding tax to be retained over the period of the agreement. The term of such agreement shall not exceed 10 years. A zone board may apply to the Department of Economic Development for approval to renew any agreement. In determining whether to approve the renewal of an agreement, the department must consider whether the estimated numbers of new jobs, average wage, and net fiscal impact have been met, the outstanding improvements to be made within the TIME zone and the funding necessary to complete such improvements, and the amount of withholding tax being retained by the zone board through agreements with other taxpayers. The department may approve the renewal of an agreement for a period not to exceed 10 years.

The zone board will submit an annual report to the department and to the General Assembly, as described in the bill.

No political subdivision will establish a TIME zone with boundaries that overlap the boundaries of an advanced industrial manufacturing (AIM) zone.

This bill will sunset six years after the effective date.

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
Office of Administration
 Division of Budget & Planning
Department of Economic Development
Office of the Secretary of State
Office of the State Treasurer
Joint Committee on Administrative Rules
City of Kansas City
City of O'Fallon
City of Springfield



Julie Morff
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January 24, 2020



Ross Strobe
Assistant Director
January 24, 2020