

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0228H.02I
Bill No.: HB 379
Subject: Economic Development; Economic Development, Department of; Political Subdivisions
Type: Original
Date: March 10, 2021

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 or (\$5,000,000)
Total Estimated Net Effect on General Revenue	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)

*Twenty-five percent (25%) of state tax withholdings from new jobs created within established TIME Zones may be deposited into the TIME Zone Fund to be disbursed back to the Time Zone (less up to 10% for state administrative costs). The program cap (across all TIME Zones) is \$5 million per year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
TIME Zone Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Distribution of revenues and expenses net to zero.
Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
TIME Zone Fund	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 \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government*	\$0	\$0	\$0

*Distribution of revenues and expenses net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this 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, rather than the general revenue fund.

The total amount of withholding taxes retained by all TIME zones shall not exceed \$5M per fiscal year. B&P will show an impact of up to \$5M deposited into the TIME zone fund and (up to \$5M) from general revenue.

This proposal may encourage other economic activity, but B&P does not have data to estimate induced revenues.

Officials from the **Department of Economic Development (DED)** assume for every new job created in the TIME zone, 25% of state tax withholdings imposed by 143.191-143.265 shall not be remitted to the general fund but shall 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, along with reviewing annual budgets and annual reports. Therefore, they would need one (1) FTE to implement the program.

In summary, DED assumes a cost of \$81,044 in FY 2022, \$86,114 in FY 2023 and \$86,940 in FY 2024 to provide for the implementation of the changes in this proposal.

Officials from the **Department of Revenue (DOR)** assume §620.2250.7 allows for the diversion of 25% to 50% 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. The percentage of the withholding tax is based on qualifications outlined in this proposal. DOR notes this 25%- 50% is on new jobs created in a TIME Zone and is not currently being collected by the DOR from the TIME Zone area. This proposal limits the cumulative amount of withholding tax to \$5 million annually for all TIME Zones created in the State.

DOR is unable to estimate the number of new jobs that may be created and the new withholding tax those new jobs would generate. DED may be able to provide an estimate of the number of expected jobs. This could be expected to generate between \$0 (no TIME Zones created) and \$5,000,000 annually for the TIME Zones (based on limits of the proposal).

The DOR is unsure if this would result in additional or lost revenue to the State. Should the created jobs be truly new jobs in the State and not just jobs in the Time Zone area then the State would gain some withholding tax it is not already collecting. Should the TIME Zone just be hiring employees that previously worked elsewhere then the State may actually lose withholding tax it previously collected. The DOR will show an Unknown impact to the general revenue.

Officials from the **City of Kansas City** assume this legislation may have a positive fiscal impact on Kansas City 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.

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. The total amount of withholding taxes retained by all TIME Zones will not exceed \$5,000,000 per fiscal year. In addition, no TIME Zone may be established after August 28, 2024, and already established TIME zones created prior to that date shall continue to exist. 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 \$5,000,000. 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 in the TIME Zone Fund. Oversight notes the state is allowed to retain 10% of the proceeds for administrative costs.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State** notes many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they also recognize 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 our office can sustain with our core budget. Therefore, they reserve 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 from the **Office of the State Treasurer** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Officials from the **City of Ballwin**, the **City of Bland**, the **City of Claycomo**, the **City of Hale**, the **City of O'Fallon** and the **City of Springfield** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to similar legislation from this year, SB 174, officials from the **City of Corder** and the **City of Hughesville** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in 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.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
<u>Revenue Reduction</u> – loss of withholding tax	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>

TIME ZONE FUND			
<u>Revenue</u> – withholding tax collected from new jobs	\$0 to \$5,000,000	\$0 to \$5,000,000	\$0 to \$5,000,000
<u>Cost</u> – DED (must not exceed 10%)	\$0 or ...	\$0 or...	\$0 or...
Personal Service	(\$42,218)	(\$51,168)	(\$51,679)
Fringe Benefits	(\$24,199)	(\$29,209)	(\$29,382)
Equipment & Expense	(\$14,627)	(\$5,737)	(\$5,879)
Total Cost – DED	(\$81,044)	(\$86,114)	(\$86,940)
FTE Change – DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
<u>Transfer Out</u> – to local political subdivisions	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>
ESTIMATED NET EFFECT ON THE TIME ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change on Time Zone	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> – from the TIME Zone Fund	\$0 to \$5,000,000	\$0 to \$5,000,000	\$0 to \$5,000,000
<u>Cost</u> – administration of TIME Zone developments	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>	<u>\$0 to (\$5,000,000)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This bill establishes the "Targeted Industrial Manufacturing Enhancement Zones Act".

The bill allows any two or more contiguous or overlapping political subdivisions, as defined in the bill, to create Targeted Industrial Manufacturing Enhancement (TIME) zones for the purpose of completing infrastructure projects to promote economic development. 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 the Department of Economic Development. The agreement must include 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, the estimated costs of improvements, and the estimated amount of withholding tax to be retained over the period of the agreement. The Department will not approve an agreement unless the Zone Board commits to the creation of a certain number of new jobs, as described in the bill.

The term of such agreement will 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 will consider the number of new jobs created and the average wage and net fiscal impact of such new jobs, and the outstanding improvements to be made within the TIME zone, the funding necessary to complete such improvements, and any other factor the department requires. The Department may approve the renewal of an agreement for a period not to exceed 10 years. If a Zone Board has not met the new job creation requirements by the end of the agreement, the Department will recapture the withholding taxes retained by the Zone Board.

The Zone Board must 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.

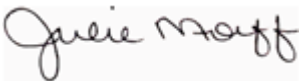
The total amount of withholding taxes retained by TIME zones under this bill must not exceed \$5 million per year.

No new TIME zone will be created after August 28, 2024.

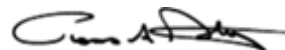
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Economic Development
City of Kansas City
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Revenue
Office of the State Treasurer
City of Ballwin
City of Bland
City of Claycomo
City of Corder
City of Hale
City of O'Fallon
City of Springfield
City of Hughesville



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March 10, 2021



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