

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3123-06
Bill No.: SB 1012
Subject: Business and Commerce; Cities, Towns and Villages; Taxation and Revenue
Type: Original
Date: February 18, 2008

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

FISCAL SUMMARY

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

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

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 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
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 2009	FY 2010	FY 2011
Local Government	\$0	\$0 or (Unknown)	\$0 or (Unknown)

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.

Officials from the **Department of Revenue (DOR)** state 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 does 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 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

ASSUMPTION (continued)

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, St. Louis** and **Joplin** did not respond to our request for fiscal impact.

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

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Loss</u> - Sales tax income from Duty Free Zone	<u>\$0</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or (UNKNOWN)</u>	<u>\$0 or (UNKNOWN)</u>

VARIOUS OTHER STATE FUNDS

<u>Loss</u> - Sales tax income from Duty Free Zone	<u>\$0</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE VARIOUS OTHER STATE FUNDS	<u>\$0</u>	<u>\$0 or (UNKNOWN)</u>	<u>\$0 or (UNKNOWN)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> - Sales tax income from Duty Free Zone	<u>\$0</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 or (UNKNOWN)</u>	<u>\$0 or (UNKNOWN)</u>

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 proposal allows the governing bodies of any city in this state to designate duty free zones within such city and grant such areas tax favored status for a term not to exceed twenty-three years. Tax favored status is defined as a reduction to or elimination of the rate of tax on transactions imposed under Missouri's sales and use tax laws. Duty free zones may only be established in blighted areas located within qualified census tracts. The act requires the governing body of a municipality to hold public hearings prior to the adoption of an ordinance designating an area of such municipality as a duty free zone. The act requires the governing body to provide notice of such hearings to affected taxing districts and the public. Upon receiving municipal approval, the designation must be approved, at the same rate of tax and term, by the county in which the city is located and by the Missouri Development Finance Board.

Upon the issuance of a certificate of approval from the Missouri Development Finance Board, any business located within a duty free zone may receive tax favored status for a term not to exceed fifteen years. In order to receive tax favored status, a business owner must report the amount of taxes deferred, on an availability basis, for the duration of the time in which it receives tax favored status. Municipalities are prohibited from having more than one duty free zone in existence, within such municipality, at any given time. The act contains a contingent effective date. The provisions of the act will become effective upon voter approval of a constitutional amendment authorizing tax free or reduced tax zones for the purpose of promoting economic development.

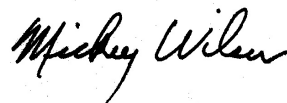
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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, Joplin



L.R. No. 3123-06
Bill No. SB 1012
Page 7 of 7
February 18, 2008

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