

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3170-07
Bill No.: SCS for SB 594
Subject: Economic Development; Political Subdivisions; Counties; Cities; Towns and Villages
Type: Original
Date: February 14, 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 9 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

*Distribution of revenues and expenses net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume this legislation will result in a new DOR form that will need to be created; for businesses to report the number of new jobs within the zone and the 25% of the withholding from the new jobs that should be placed in the “TIME Zone Fund” after the administration fee is kept out.

This will also require a Revenue Premier change to allow for MO-941's to be filed and the new DOR form to be created to show on the business account the amount of withholding which was issued to the “TIME Zone Fund”. DOR assumes a cost of \$2,000 for forms and programming changes in FY 21.

Oversight assumes that the DOR can absorb these cost in their budget and will reflect a \$0 fiscal impact for this proposal for DOR.

Officials at the **Office of Administration’s Division of 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 in the state treasury, rather than the general revenue fund.

As TIME zones do not currently exist, there is no data to estimate a fiscal impact. If new jobs are created in a TIME zone that would not otherwise be created but for the TIME zone, general revenue and the TIME zone fund could be impacted positively in a nominal amount.

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

In response to a previous version, officials at the **Department of Economic Development (DED)** assumed 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.

ASSUMPTION (continued)

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)

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.

ASSUMPTION (continued)

In response to a similar proposal (HB 1695), officials at the **City of Kansas City** assumed 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.

In response to a similar proposal (HB 1695), officials at the **City of O'Fallon** assumed no fiscal impact from this proposal.

Officials at the **City of Springfield** assume 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
TIME ZONE FUND			
<u>Revenue</u> - withholding tax collected from new jobs §620.2250	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Transfer Out</u> - to local political subdivisions	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON THE TIME ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - from the TIME Zone Fund	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Cost</u> - administration of TIME Zone developments	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are in TIME zones could benefit from infrastructure improvement projects in their zone.

FISCAL DESCRIPTION

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

This act allows any two or more contiguous or overlapping political subdivisions, as defined in the act, 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 shall 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 shall hold a public hearing prior to approving the ordinance or resolution creating the TIME zone.

This act allows the zone board governing the TIME zone to retain twenty-five percent 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 shall enter into an agreement with the Department of Economic Development. Such agreement shall 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, the estimated costs of improvements, and the estimated amount of withholding tax to be retained over the period of the agreement. The Department shall not approve an agreement unless the zone board commits to the creation of a

certain number of new jobs, as described in the act.

FISCAL DESCRIPTION (continued)

The term of such agreement shall not exceed ten years. A zone board may apply to the Department for approval to renew any agreement. In determining whether to approve the renewal of an agreement, the Department shall 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 ten years. If a zone board has not met the new job creation requirements by the end of the agreement, the Department shall recapture the withholding taxes retained by the zone board.

The zone board shall submit an annual report to the Department and to the General Assembly, as described in the act.

No political subdivision shall establish a TIME zone with boundaries that overlap the boundaries of an advanced industrial manufacturing (AIM) zone. (Section 620.2250)

This act shall sunset on August 28, 2026, unless reauthorized by the General Assembly.

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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February 14, 2020



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