

L.R. NO. 2672-01
 BILL NO. SB 637
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 December 28, 1999

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2672-01
BILL NO.: SB 637
SUBJECT: Economic Development: Kansas City
TYPE: Original
DATE: December 28, 1999

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$6,887 to Unknown)	(\$26,250 to Unknown)	(\$27,563 to Unknown)
Total Estimated Net Effect on All State Funds	(\$6,887 to UNKNOWN)	(\$26,250 to UNKNOWN)	(\$27,563 to UNKNOWN)

*Losses could exceed \$100,000 in a given fiscal year

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(UNKNOWN)	(UNKNOWN)	(UNKNOWN)

Numbers within parentheses: () indicate costs or losses
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

City of Kansas City (KC) officials did not respond to our request for fiscal note information, but stated in a similar bill (SB 254 from 1999) no precise fiscal analysis can be made on the impact of this proposal since there are no established boundaries of the area to be covered. KC states that without knowing the boundaries of the area and therefore the number and types of businesses in the area, no determination can be made of the impact of foregoing the sales tax. KC also states that attempting to define the area through use of ZIP Codes could be done, though it would be preferable to use census tracts. Census data contains a wide variety of demographic and socio-economic information that could be used to define an economically depressed area. KC further states that regardless whether ZIP Codes or census tracts are used to define an area, adding the criteria that the area in one that has been "red-lined" by financial institutions calls for a subjective judgment that cannot be quantified.

Officials from the **Department of Revenue (DOR)** also did not respond to our request, but stated in the previous bill that this proposal would establish a sales tax free zone in economically depressed areas for a specified period of time.

ADMINISTRATIVE IMPACT:

DOR stated this proposal would require the department to create a program within its computer system to classify certain identified businesses as owing no sales or use tax on transactions for a certain period of time. After the period of time has expired DOR would need to change this program to again expect sales/use tax from such businesses. Program changes would cost \$4,524 for 363 hours of overtime. State Data Center charges would be \$2,363 for implementation and testing time.

Officials from the **Department of Economic Development (DED)** did not respond to our fiscal impact request. However, in responding to a similar proposal, DED stated that only the administrative fiscal impact can be projected. DED stated the administrative cost is for a consultant to assess the impact of the change in the law. The consultant would be used once per year to prepare the report for the governor and general assembly. DED estimated the administrative cost at \$26,250 annually.

Office of Administration, Jackson County and Clay County did not respond to our fiscal impact request.

ASSUMPTION (continued)

Oversight assumes there would be an unknown loss of sales tax revenue to the General Revenue

Fund

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss - General Revenue Fund</u>			
Creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)

<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$6,887)	\$0	\$0

<u>Cost - Department of Economic Development</u>			
Consultant costs	\$0	(\$26,250)	(\$27,563)

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$6,887 to</u>	<u>(\$26,250 to</u>	<u>(\$27,563 to</u>
	<u>UNKNOWN)</u>	<u>UNKNOWN)</u>	<u>UNKNOWN)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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LOCAL GOVERNMENTS

<u>Loss - Local Governments</u>			
Creation of tax-free pilot project	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
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FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent there would be less

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administrative reporting of sales and sales/use tax and increased business from consumers wishing to benefit from the tax free zone.

DESCRIPTION

This proposal would create a pilot project which would require the Director of the Department of Economic Development to designate, on or before January 1, 2001, an economically depressed tax-free zone within Kansas City. All retail purchases made during the calendar years 2001 and 2002 at any commercial establishment location within the economically depressed tax-free zone would be exempt from all state and local sales tax.

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
City of Kansas City

NOT RESPONDING: Office of Administration - Division of Budget and Planning, Jackson County and Clay County



Jeanne Jarrett, CPA
Director
December 28, 1999