

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO. 0434-01
BILL NO. SB 171
SUBJECT: Economic Development; Kansas City
TYPE: Original
DATE: January 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$6,887 to Unknown)	(\$31,052 to Unknown)	(\$31,984 to Unknown)
Total Estimated Net Effect on <u>All State Funds</u> *	(\$6,887 to UNKNOWN)	(\$31,052 to UNKNOWN)	(\$31,984 to UNKNOWN)

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All Federal Funds</u>	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Governments	(Unknown)	(Unknown)	(Unknown)

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **City of Kansas City (CKC)** stated the proposed legislation will accomplish three distinct items:

1. Creates an economically depressed tax-free zone pilot project
2. All retail purchases made at any commercial establishment located within the boundaries of the economically depressed tax-free zone, where such purchases are made on or after January 1, 2002, and prior to January 1, 2004, will be tax exempt.
3. The director of the Department of Economic Development shall report to the governor and to the general assembly during the regular session of the general assembly in 2003 and 2004 on the economic impact to the depressed tax-free zone, which can be attributed to the sales tax exemption.

Officials from CKC assume this proposal may reduce revenue collection for the City's portion of the sales tax.

In response to similar legislation from last year, Officials from the **Department of Revenue (DOR)** stated 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)** stated that their agency would be responsible for providing the boundaries of the area(s) to be designated as a tax free zone(s) in Kansas City. The DED is also to assess the economic impact and report to the Governor and the general assembly in years 2003 and 2004.

The DED assumes that the local political subdivisions receiving tax revenue from the area designated as a tax-free zone would lose sales tax revenue from existing businesses as well as business who would subsequently relocate to the area. The DED assumed they are only able to project their department's administrative fiscal impact from the proposal. The DED anticipates costs for a consultant to assess the economic impact of the tax-free zone and prepare the report

ASSUMPTION (continued)

for the governor and the general assembly. The DED assumed costs of \$31,052 in FY 2003 and \$31,984 in FY 2004 for this contract consultant's services.

Officials from the **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

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 2002 (10 Mo.)	FY 2003	FY 2004
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	(\$31,052)	(\$31,984)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$6,887 to</u>	<u>(\$31,052 to</u>	<u>(\$31,984 to</u>
	<u>UNKNOWN)</u>	<u>UNKNOWN)</u>	<u>UNKNOWN)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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 administrative reporting of sales and sales/use tax and increased business from consumers wishing to benefit from the tax free zone. Small businesses just outside of the tax-free zone could be negatively impacted if consumers chose to shop at other stores that are within the zone.

DESCRIPTION

This proposal creates a pilot project which will require the Director of the Department of Economic Development to designate a tax free zone within a portion of Kansas City. The area to be designated shall be within a distressed community as defined by law. The city shall identify qualified areas and shall recommend one such area for designation as the economically depressed tax free zone. All retail purchases made during the years 2002 through 2004 within the economically depressed tax-free zone will 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 Revenue
Department of Economic Development
City of Kansas City

NOT RESPONDING: Office of Administration - Budget and Planning



Jeanne Jarrett, CPA
Director
January 10, 2001

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