

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2879-01
Bill No.: SB 1045
Subject: Business and Commerce; Economic Development; Taxation and Revenue;
 Kansas City.
Type: Original
Date: February 20, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$27,588 to Unknown)	(31,984 to Unknown)	(\$32,942 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds *	(\$27,588 to Unknown)	(\$31,984 to Unknown)	(\$32,942 to Unknown)

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation authorizes a two-year tax free zone in Kansas City, city limits from January 1, 2003 to January 1, 2005. Businesses in the city limits of Kansas City will need to be notified of the start and expiration of the exemption.

DOR states their MITS section will need to create and maintain a "shape" file to outline the boundaries of the tax free zone. The MITS programming will require 692 hours of programming at a total cost of \$23,085. The State Data Center costs to implement the proposed legislation will be \$4,503.

Officials from the **Department of Economic Development (DED)** state they would be provided the proposed boundaries of the area(s) to be designated as a tax free zone(s) in Kansas City and DED would designate the tax free zone. Sales made by businesses in the zone on or after Jan. 1, 2003 and before Jan. 1, 2005 will be sales tax exempt. DED is to assess the economic impact and report to the Governor and the General Assembly in year 2004 and 2005.

DED states that only administrative fiscal impact can be projected. The cost of \$31,984 in FY 2004 and \$32,943 in FY 2005 is for a consultant to assess the economic 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.

In response to similar legislation from last year, 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, 2003, and prior to January 1, 2005, 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 2004 and 2005 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.

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

ASSUMPTION (continued)

Oversight assumes there would be an unknown loss of revenue to the General Revenue Fund from the loss of sales tax revenue and the loss of sales tax collection fees from the local sales tax exempted in this provision.

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

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Costs - Department of Revenue</u> Programming Costs	(\$27,588)	\$0	\$0
<u>Costs - Dept. of Economic Development</u> Consultant Costs	\$0	(\$31,984)	(\$32,943)
<u>Loss - of revenue from the creation</u> of tax-free pilot project	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$27,588 to Unknown)</u>	<u>(\$31,984 to Unknown)</u>	<u>(\$32,942 to Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
LOCAL GOVERNMENTS			
<u>Loss - Sales tax revenue from the</u> creation of tax-free pilot project	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

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 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

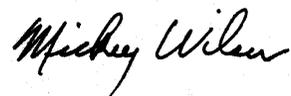
This proposal creates a pilot project which will require the Director of the Department of Economic Development to designate a tax free zone within a portion of Kansas City. The area to be designated shall be within a distressed community as defined by law. The city shall identify qualified areas and shall recommend one such area for designation as the economically depressed tax free zone. All retail purchases made during the years 2003 through 2005 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 - Division of Budget and Planning



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