

SESSION OF 2001

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2030**

As Amended by Senate Committee of the Whole

**Brief\***

HB 2030, as amended, would authorize the Kansas Development Finance Authority (KDFA) to issue bonds totaling up to \$10,000,000 for a qualified business contracting for such treatment with the Department of Commerce and Housing. To qualify for the bonds, a business would be required to meet the following criteria:

- Have annual gross payroll of at least \$100,000,000 paid to jobs located in Kansas for the previous three years, as documented in reports filed with the Department of Human Resources;
- Have annual average wage of at least \$40,000 paid per employee;
- Have at least \$200,000,000 in total investment in Kansas;
- Plan to invest an amount at least \$50,000,000 greater than the average amount invested by the business in the previous five years in modernization and retooling within five years of contracting with the Department of Commerce and Housing;
- Engage in tire manufacturing as defined by the North American Industrial Classification code number 326211 (tire manufacturers and retreaders).

The KDFA would issue bonds equal to \$1.00 for every \$5.00 pledged to be invested by the qualified business. The maximum maturity of the bonds would be 15 years. Once the Secretary of Commerce and Housing receives a signed contract with the qualified

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext.cgi>

business, the bonds would be issued within 60 days. The proceeds of the bond issuance would be used by the KDFA to acquire or improve real or personal property in Kansas for modernization and retooling of the contracting business. The bonds would be paid with up to 75 percent of moneys collected by the contracting business for withholding of employee individual income taxes. The bill would prohibit the use of withholding moneys to repay the bonds until July 1, 2003.

In the required contract, the business must agree to be responsible for the debt service on the bonds in the event that insufficient withholding revenue is collected. Also included in the contract would be a specified amount which the contracting business agrees to invest in the state. This would be the basis for determining the amount of bonds issued. In the event the contracting business invests less than the contract amount, the business would be required to repay any amount received at a ratio of \$1 for each \$5.00 of the difference between the amount pledged and the amount invested. The contract is also required to specify that if the Kansas income tax rate is abolished and insufficient revenue is collected to meet the debt service on the bonds, the contracting business would not be responsible for any shortfall attributable to the reduction.

Under the bill, the contracting business would not be eligible for Job Expansion and Investment Tax Credits for any amount of investment related to the bond issuance.

## **Background**

The original bill would have exempted all sales of gold, silver, and numismatic coins, regardless of the gross value, and would have exempted sales of platinum and gold or silver bullion having a gross value of \$1,000 or more.

The House Committee amendment, suggested by a conferee from Wichita, would add palladium and currency sales to the proposed exemption; lower the exemption threshold for sales of platinum and bullion from \$1,000 to \$100; and also make the \$100 exemption threshold apply to sales of gold, silver, and numismatic coins.

The Senate Committee amended the bill by removing its former contents and inserting the provisions providing incentives for tire

manufacturing businesses, and allowing the KDFA to issue bonds for this purpose. A proponent from the Goodyear Tire and Rubber Company supported these amendments.

The Senate Committee of the Whole amended the bill to modify several provisions, including the following:

- Reduce the total value of bonds which the KDFA is authorized to issue for this purpose from \$20,000,000 to \$10,000,000.
- Impose a requirement that the business invest at least \$50,000,000 greater than the average amount invested by the business in the previous five years in modernization and retooling.
- Change the ratio of bond to business investment from \$1.00 to \$6.25 to \$1.00 to \$5.00.
- Specify that the bond proceeds be used for modernization and retooling investments made in Kansas.
- Add a provision to prohibit the use of withholding moneys to repay the bonds until July 1, 2003.

The Department of Revenue reports that passage of HB 2030, as amended by the Senate Committee of the Whole, would result in a reduction in State General Fund revenues of \$949,000 per year for the 15-year life of the bonds. This impact would begin in fiscal year 2004.