

March 8, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2338 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2338 is respectfully submitted to your committee.

HB 2338 would provide a sales tax exemption to commercial data centers for the sale or rental of computers and equipment necessary for the maintenance and operation of a data center, sales of backup power generation fuel, and sales of electricity. The bill defines a data center as a building rehabilitated or constructed to house a group of networked server computers in one physical location in order to centralize the storage, management, and dissemination of data and information. The data center business would be required to operate and maintain a location in Kansas, consisting of at least 5,000 square feet and the business would be required to make a minimum investment \$25.0 million within the first six years of operation. If the business fails to invest a minimum of at least \$20.0 million within the first six years of operation, then the business would be responsible for repaying the sales tax that had been exempted along with any applicable penalty and interest.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	(\$177,480)	(\$200,000)
Expenditure	--	--	\$5,000	\$5,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2338 would decrease state revenues by \$200,000 in FY 2012 for each new data center that would locate to Kansas. Of that total, the State General Fund is estimated to decrease by \$177,480, while the State Highway Fund is estimated to decrease by \$22,520 in FY 2012. This bill would also decrease local revenues by an estimated \$50,000 in FY 2012 for each new data center.

The Honorable Richard Carlson, Chairperson

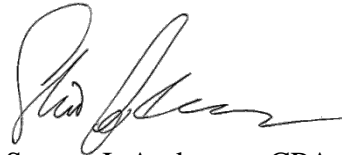
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The Department of Revenue does not have data on the number of new data centers that would locate to Kansas or if any existing data centers located in Kansas would be able to qualify for this new sales tax exemption. To formulate these estimates, the Department of Revenue reviewed information on commercial data centers and assumes that one new commercial data center would locate to Kansas to qualify for the sales tax exemption. The data center would be required to invest \$25.0 million over a six-year period and the estimate assumes that 75.0 percent of the investment (\$18,750,000) would be spent on taxable purchases and that the investment would spread out evenly over the first six years of operation. This would exempt approximately \$3,125,000 in annual sales made by data centers, which would reduce retail sales tax revenue by approximately \$200,000 per year (\$3,125,000 x 6.3 percent).

According to the Department of Revenue, updating sales tax publications and to develop a new exemption certificate as part of the automated exemption certificate process would cost \$5,000 from the State General Fund in FY 2012. Any fiscal effect associated with HB 2338 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue