



Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

January 28, 2014

The Honorable Kyle Hoffman, Chairperson
House Committee on Agriculture and Natural Resources Budget
Statehouse, Room 481-W
Topeka, Kansas 66612

Dear Representative Hoffman:

SUBJECT: Fiscal Note for HB 2417 by Representative Kelly, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2417 is respectfully submitted to your committee.

HB 2417 would add Cherokee, Labette, and Montgomery Counties to the list of 73 counties that are currently designated as Rural Opportunity Zones. The Rural Opportunity Zones Program helps attract financial investment, business development, and job growth in rural areas of the state. The program offers individuals who relocate from outside the state to a county that has been designated as a Rural Opportunity Zone the opportunity to participate in a student loan forgiveness program and receive a 100.0 percent state income tax credit through tax year 2016.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	(\$700,000)	(\$700,000)
Expenditure	--	--	\$75,000	\$75,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2417 would decrease State General Fund revenues by \$700,000 in FY 2015 and by \$2.1 million in FY 2016. The decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	\$ 24,000	\$ --	\$ 24,000
Income Taxes:			
Individual	2,525,000	(700)	2,524,300
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	--	2,160,000
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	<u>161,700</u>	<u>--</u>	<u>161,700</u>
Total Taxes	\$ 5,975,200	(\$ 700)	\$ 5,974,500
Other Revenues:			
Interest	\$ 10,000	\$ --	\$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	<u>49,900</u>	<u>--</u>	<u>49,900</u>
Total Other Revenues	(\$ 58,100)	\$ --	(\$ 58,100)
Total Receipts	\$5,917,100	(\$ 700)	\$5,916,400

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service and the United State Census Bureau. The Department indicates 1,076 individual taxpayers from out-of-state moved to the counties that would be newly designated as a Rural Opportunity Zone. Those taxpayers reported federal adjusted gross income of approximately \$29.8 million. Assuming an average tax rate of 4.0 percent and also assuming only 50.0 percent of these individuals would meet the requirement of residing in Kansas the entire year in order to qualify for the tax credit, the estimated fiscal effect in FY 2015 would be approximately \$700,000 (\$29.8 million x 4.0% x 50.0%), and \$2.1 million in FY 2016, assuming future migration patterns mirror recent experience.

The Department of Commerce indicates that it is currently responsible for administering the Rural Opportunity Zones Program. No information exists to accurately estimate the number of individuals who would qualify for the student loan forgiveness program. Assuming 50 taxpayers would qualify for the maximum amount, the Department of Commerce would require approximately \$75,000 from the State General Fund for the state obligations of this program for

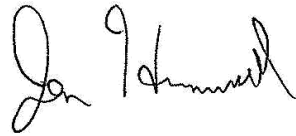
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the first year. However, the amount may be significantly higher or significantly lower depending on the level of participation by each county that has been designated as a Rural Opportunity Zone. The Department indicates that the administrative costs associated with reviewing additional applications from individuals that are proposing to move to a new Rural Opportunity Zone proposed in the bill would be negligible and could be absorbed within existing staff levels and resources. Any fiscal effect associated with HB 2417 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive style with a large initial "J" and "H".

Jon Hummell,
Interim Director of the Budget

cc: Dan Lara, Commerce
Steve Neske, Revenue
Melissa Wangemann, KAC
Larry Baer, LKM