

March 18, 2013

The Honorable Julia Lynn, Chairperson  
Senate Committee on Commerce  
Statehouse, Room 445-S  
Topeka, Kansas 66612

Dear Senator Lynn:

**SUBJECT:** Fiscal Note for SB 231 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 231 is respectfully submitted to your committee.

SB 231 would add an additional 22 counties to the list of counties that are 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 2015. The additional counties designated in the bill include: Allen, Anderson, Bourbon, Brown, Chase, Clay, Coffey, Doniphan, Ellsworth, Grant, Gray, Haskell, Jackson, Linn, Marshall, Meade, Morris, Nemaha, Ottawa, Rice, Stevens, and Wabaunsee. The bill would take effect upon its publication in the *Kansas Register*.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$900,000)	(\$900,000)
Expenditure	--	--	\$75,000	\$75,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 231 would decrease State General Fund revenues by \$900,000 in FY 2014 and by \$1.8 million in FY 2015. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates  
*(Dollars in Thousands)*

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	(900)	2,384,100
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 900)	\$5,554,600
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 900)	\$5,463,400

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service and the United State Census Bureau. The Department indicates 3,336 individual taxpayers from out-of-state moved to the additional counties designated as a Rural Opportunity Zone. Those taxpayers reported federal adjusted gross income of approximately \$48.4 million. Assuming an average tax rate of 3.75 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 2014 would be approximately \$900,000 (\$48.4 million x 3.75% x 50%), and \$1.8 million in FY 2015.

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 that 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 the first year. However, the amount may be significantly higher or significantly lower depending

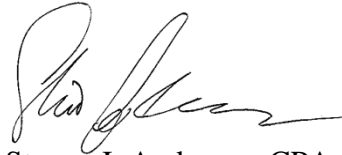
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on the level of participation by each county that has been designated as a Rural Opportunity Zone. The Department indicates that the administrative costs associated with reviewing additional applications from individuals that are proposing to move 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 SB 231 is not reflected in *The FY 2014 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: Dan Lara, Commerce  
Steve Neske, Revenue