

April 3, 2015

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2354 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2354 is respectfully submitted to your committee.

HB 2354 would reinstate the enterprise zone sales tax exemption program that expired on December 31, 2011. The program provides a sales tax exemption for materials, equipment, and services purchased in connection with a business expansion project. In order for businesses to receive the sales tax exemption, manufacturing businesses would be required to create at least two jobs, nonmanufacturing businesses would be required to create at least five jobs, and retail businesses would be required to create at least two jobs located in a city with a population of 6,500 or less or in a county with a population of 10,000 or less. The Secretary of Commerce would be required to review and approve applications for the sales tax exemption. The sales tax exemption would take effect beginning on July 1, 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$53,900,000)	(\$65,000,000)
Expenditure	--	--	\$2,400	\$2,400
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2354 would decrease state revenues by \$65.0 million in FY 2016. Of that total, the State General Fund is estimated to decrease by \$53.9 million in FY 2016, while the State Highway Fund is estimated to decrease by \$11.1 million in FY 2016. This bill also is estimated to decrease local revenues by approximately \$16,250,000 in

FY 2016. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	(53,900)	2,216,100
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 53,900)	\$5,916,700
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 53,900)	\$5,757,500

To formulate these estimates, the Department of Revenue reviewed data on the previous enterprise zone sales tax exemption program that expired on December 31, 2011. According to the Department of Revenue, reissuing sales tax publications would cost \$2,400 from the State General Fund in FY 2016.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS.

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The Department of Commerce indicates that the administrative costs associated with reviewing applications from businesses for the reinstated enterprise zone sales tax exemption program would be negligible and could be absorbed within existing staff levels and resources.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2354 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Dan Lara, Commerce
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties