Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

Phone: (785) 296-2436
Fax: (785) 296-0231
shawn.sullivan@ks.gov

Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

May 26, 2017

The Honorable Troy Waymaster, Chairperson
House Committee on Appropriations
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Waymaster:

SUBJECT: Fiscal Note for HB 2403 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2403 is respectfully submitted to your committee.

HB 2403 would amend the Enterprise Zone Act to allow qualified business facilities from counties designated as a Rural Opportunity Zones (ROZ) to qualify for the Business and Job Development Tax Credit and associated sales tax exemption beginning on January 1, 2018. The bill would require a qualifying county commission to opt in to participate in the Enterprise Zone Act for a binding five-year agreement. Counties would only be allowed to participate in either the ROZ Student Loan Forgiveness Program or the Enterprise Zone Act. If the county opts in to participate in the Enterprise Zone Act, then the state and county would continue to honor its previous obligations under the ROZ Student Loan Forgiveness Program. The bill would require the Secretary of Commerce to submit an annual report to the House Committee on Appropriations and the Senate Committee on Ways and Means on the effectiveness of the Enterprise Zone Act and the ROZ Program.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	($13,080,000)	($15,500,000)	($43,420,000)	($51,500,000)
Expenditure	$150,507	$150,507	$122,144	$122,144
FTE Pos.	--	2.00	--	2.00

The Department of Revenue estimates that HB 2403 would decrease state revenues by $15.5 million in FY 2018 and by $51.5 million in FY 2019. Of those totals, the State General Fund is estimated to decrease by $13,080,000 in FY 2018 and by $43,420,000 in FY 2019, while the State Highway Fund is estimated to decrease by $2,420,000 in FY 2018 and by $8,080,000 in FY 2019. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue.

To formulate these estimates, the Department of Revenue reviewed data on the Business and Job Development Tax Credit Program. The Business and Job Development Tax Credit Program consists of two income tax credits and corresponding project exemption sales tax certificates. The Department indicates that when this tax incentive program was still active in tax year 2012, taxpayers annually claimed an average of $5.0 million in Business and Job Development Tax Credits and exempted $100.0 million in state sales taxes. Reinstating this program to qualified businesses facilities, only in ROZ counties, is estimated to reduce State General Fund revenues by $1.5 million each year for qualified business facilities claiming the Business and Job Development Tax Credits and $50.0 million each year from the sales tax exemption. Because the tax credit program would be reinstated on January 1, 2018, there will be a lag time before taxpayers would be approved for this program. The Department estimates that the fiscal effect for FY 2018 includes $500,000 from the State General Fund associated with the Business and Job Development Tax Credits, $12,580,000 from the State General Fund for the sales tax exemption, and $2,420,000 from the State Highway Fund for the sales tax exemption. For FY 2019, the fiscal effect is estimated to include $1.5 million from the State General Fund for the Business and Job Development Tax Credits, $41,920,000 from the State General Fund for the sales tax exemption, and $8,080,000 from the State Highway Fund for the sales tax exemption.

The Department of Revenue indicates that the bill would require $150,507 from the State General Fund in FY 2018 and $122,144 in FY 2019 for administrative costs to implement the bill and make changes to the automated tax system. These estimates include the salaries and wages and operating costs for 2.00 new FTE positions to manage this tax credit program. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Commerce indicates that it would be responsible for reviewing and approving applications under the Enterprise Zone Act. The administrative costs associated with reviewing applications from qualified business facilities would be negligible and could be absorbed within existing staff levels and resources.

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.

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 2403 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Bob North, Commerce
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties