

February 12, 2019

The Honorable Don Hineman, Chairperson
House Committee on Rural Revitalization
Statehouse, Room 186-N
Topeka, Kansas 66612

Dear Representative Hineman:

SUBJECT: Fiscal Note for HB 2131 by House Committee on Rural Revitalization

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2131 is respectfully submitted to your committee.

HB 2131 would reinstate the Enterprise Zone sales tax exemption 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 2,500 or less or in a county with a population of 10,000 or less. The sales tax exemption would take effect beginning on July 1, 2019.

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	(\$99,000,000)	(\$118,000,000)
Expenditure	--	--	\$67,075	\$67,075
FTE Pos.	--	--	0.50	0.50

The Department of Revenue estimates that HB 2131 would decrease state revenues by \$118.0 million in FY 2020. Of that total, the State General Fund is estimated to decrease by \$99.0 million in FY 2020, while the State Highway Fund is estimated to decrease by \$19.0 million in FY 2020. 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 Enterprise Zone sales tax exemption from calendar years 2009, 2010, and 2011. Adjusting for rate changes

and inflation since 2011, the bill is estimated to reduce state sales tax collections by an average of \$118.0 million each year. However, the actual amount of sales taxes that are exempted could vary widely from year-to-year as different businesses utilize this program.

The Department of Revenue indicates that it would require a total of \$24,950 from the State General Fund in FY 2020 to implement the bill and to modify its computer system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. In addition, 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 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 Department of Commerce indicates that the bill would require \$42,125 from the State General Fund in FY 2020 for administrative costs to reinstate this program. These estimates include the salaries and wages and operating costs for a new 0.50 FTE position to administer this program. This new program would require the Department to develop application forms and agreements, review and track economic development activity related to reinstating the Enterprise Zone Program sales tax exemption program.

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. The Kansas Association of Counties also indicates the bill has the potential to create jobs and encourage investment in new business projects. Any fiscal effect associated with HB 2131 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell", written in a cursive style.

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Ben Cleaves, Transportation
Chardae Caine, League of Municipalities
Jay Hall, Association of Counties
Sherry Rentfro, Commerce