

March 5, 2019

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

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 204 by Select Committee on Federal Tax Code Implementation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 204 is respectfully submitted to your committee.

SB 204 would establish the Economic Development Incentive Review Subcommittee of the Legislative Post Audit Committee. The Subcommittee would be composed of six members of the Legislative Post Audit Committee as follows:

1. The chairperson of the Legislative Post Audit Committee or designee;
2. The vice-chairperson of the Legislative Post Audit Committee or designee;
3. One member selected by the President of the Senate;
4. One member selected by the Speaker of the House of Representatives;
5. One member selected by the Minority Leader of the Senate; and
6. One member selected by the Minority Leader of the House of Representatives.

The Subcommittee would direct evaluations of economic development incentive programs and perform other duties as specified under the Legislative Post Audit Act and with the approval of the Legislative Post Audit Committee as specified in the bill.

On or before July 1, 2020, the Subcommittee would develop policy guidelines, eligibility requirements, and criteria for enacting sales tax exemptions requested by businesses, nonprofit, religious, or charitable organizations. The Subcommittee would submit its recommendations to various House and Senate committees as specified in the bill.

On or before January 1, 2021, the Subcommittee would develop an inventory of all Kansas economic development incentives. In determining whether a program is an economic development incentive, the Subcommittee may consider legislative intent, whether the program is promoted as an incentive by any state agency, and other factors deemed relevant by the Subcommittee. The Subcommittee would update this inventory annually. Upon completion of the inventory, the Subcommittee would develop a schedule ensuring that economic development incentives are evaluated at least once every five calendar years.

The Post Auditor would complete an initial one-time study to be completed by July 1, 2021, to determine the purpose of each incentive, the data available, and what additional information may be needed to facilitate future high-quality evaluations. The study results would be provided to the Subcommittee.

For each evaluation, the Subcommittee would determine whether to use the services of the Post Auditor, the services of a firm or firms, or the services of the Post Auditor and a firm or firms. The Subcommittee would accept the economic development incentive evaluation report of the Post Auditor or firm. The evaluation report would be provided to the agency or agencies responsible for administration of the economic development incentive under evaluation and the agency or agencies would be given an opportunity to respond. The Subcommittee would hold a public hearing on each evaluation report completed.

The Subcommittee would approve and submit the economic development incentive evaluation report to the Legislature for each evaluation following the completion of the public hearing. The Subcommittee could include recommendations or comments on the evaluation or the incentives under review in the report. The Subcommittee could require the Post Auditor or firm to conduct further investigations or inquiries based upon the initial evaluation report and to issue a supplemental evaluation report to the Subcommittee and if so, the Subcommittee could defer submitting the initial report to the Legislature. The Subcommittee would accept any supplemental evaluation report, conduct a public hearing on the supplemental report, and approve and submit the initial report and the supplemental report, including any recommendations or comments to the Legislature. SB 204 specifies what could be included in an evaluation.

The Legislative Division of Post Audit indicates the agency would not need any additional funding in either FY 2019 or FY 2020 if SB 204 were enacted; however, the agency estimates additional expenditures of between \$100,000 to \$240,000 from the State General Fund in FY 2021 and future fiscal years. Of those amounts, \$100,000 would be for contracting with experts using existing staff positions to conduct the evaluations. The agency estimates it would cost \$240,000 to contract with experts and hire an additional 2.00 FTE positions to conduct the evaluations. The agency states that it is up to the Legislative Post Audit Committee to select either option.

Legislative Administrative Services states there would be no fiscal effect to the Legislature resulting from the enactment of SB 204 because members of the Subcommittee would be paid compensation, travel expenses, and subsistence from the budget of the Legislative Division of Post Audit.

The Department of Commerce and the Department of Revenue both indicate enactment of SB 204 would have no fiscal effect on the operations of either agency. Any fiscal effect associated with SB 204 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell". The signature is fluid and cursive, with a large initial "L" and a long, sweeping underline.

Larry L. Campbell
Director of the Budget

cc: Chris Clarke, Post Audit
Sherry Rentfro, Commerce
Lynn Robinson, Department of Revenue
Karen Clowers, Legislative Services