

February 29, 2024

The Honorable Sean Tarwater, Chairperson
House Committee on Commerce, Labor and Economic Development
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Tarwater:

SUBJECT: Fiscal Note for HB 2744 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2744 is respectfully submitted to your committee.

HB 2744 would create the Transformation of Passenger and Freight Vehicle Industry Act. The Act would establish the Transformation of Passenger and Freight Vehicle Industry Program to be administered by the Department of Commerce. The program would attract businesses engaged in electric motor vehicle and hydrogen-powered vehicle production industries to build new business facilities and operations, research and development operations, or new national headquarters in Kansas and to encourage the development of a Kansas-based supply chain for those enterprises. Under the program, qualified companies would be eligible for various incentives including investment tax credits up to 10.0 percent of qualified investments, retention of up to 100.0 percent of withholding taxes, reimbursement of eligible employee training and education expenses up to \$5.0 million per qualifying project, and sales tax exemptions for construction costs of a business facility until construction of the facility is completed. To be eligible for these incentives a qualified company would be required to:

1. Submit an application describing the proposed project that achieves the purposes of the Act;
2. Complete the project within five years of the date specified in the agreement with the Secretary of Commerce;
3. Hire a minimum of 250 new employees within those five years;
4. Retain new employees for a period determined by the Secretary;

5. If the qualified company proposes to construct a qualified business facility for an electric motor vehicle and hydrogen-powered vehicle assembly operation project, make an investment of at least \$250.0 million to be completed within five years from the date specified in the agreement with the Secretary;
6. If requested by the Secretary, prior to making a commitment to invest in a qualified business facility, submit a certificate of intent to invest in the facility, if the application is approved by the Secretary;
7. Enter into a binding agreement with the Secretary with terms and conditions required by the Secretary by December 31, 2026; and
8. Commit to repay any benefits received with a term or condition of the agreement that has been breached.

The Secretary would be required to certify to the Secretary of Revenue that the company meets the criteria for designation as a qualified company and is eligible for those benefits. The bill would also authorize the Secretary to request the Department of Revenue to audit the qualified company for compliance with provisions of the Act. On or before January 31 of each year, the Secretary would also be required to file a report based on information received from the qualified company and other detailed information listed in the bill. The report would be presented to the Governor, Senate Committee on Assessment and Taxation, Senate Committee on Commerce, House Committee on Taxation, and House Committee on Commerce, Labor and Economic Development.

The Department of Revenue indicates that it would require \$106,634 from the State General Fund in FY 2025 to implement HB 2744 and to modify the automated tax system. 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.

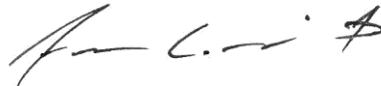
The Department of Revenue estimates HB 2744 would decrease sales tax revenues by \$2.0 million, including \$1.6 million from the State General Fund and \$400,000 from the State Highway Fund, for five years beginning in FY 2025. Regarding the investment credit offered, if \$250.0 million is invested, \$50.0 million a year over five years, the company would be entitled to five \$5.0 million credits claimed each year over a five-year period. In the first year, the company could claim \$1.0 million and in the second year \$2.0 million would be claimed. Each year State General Fund revenues would be reduced by a like amount. The Department indicates it could not estimate the fiscal effect of the withholding tax credit because the effect would depend on where the company was located and the terms of the agreement with the qualified company. The bill would also provide for reimbursement of training and education expenses for one year. The Department assumes the company would claim the maximum reimbursement of \$5.0 million which would be realized in FY 2027.

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. The Department of Commerce indicates HB 2744 would not have a fiscal effect on its operations. Any fiscal effect associated with HB 2744 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties indicates HB 2744 would have a fiscal effect on the county where a facility is located. However, the Association is unable to estimate the fiscal effect on the counties. The League of Kansas Municipalities indicates HB 2744 could reduce sales tax revenue in the city where the facility is located. The bill exempts construction materials from sales tax, which could be a significant loss in sales tax revenues for cities. The League is unable to estimate a precise fiscal effect HB 2744 would have on cities.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", with a stylized flourish at the end.

Adam C. Proffitt
Director of the Budget

cc: Sherry Rentfro, Department of Commerce
Lynn Robinson, Department of Revenue
Brendan Yorkey, Department of Transportation
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties