

February 6, 2017

The Honorable Les Mason, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Mason:

SUBJECT: Fiscal Note for HB 2051 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2051 is respectfully submitted to your committee.

HB 2051 would create the Kansas Innovation Zone Program and would partially reinstate the Business and Job Development Tax Credit. The Kansas Innovation Zone Program would provide start-up funding grants to business incubator programs operating at educational institutions to develop and support new business growth in targeted industries within the business incubator's innovation zone. The Department of Commerce would manage this new program and would be authorized to fund up to five business incubators in five separate innovation zones. Each grant would be for a period of three years and could be renewed. The Department of Commerce would receive 10.0 percent of any revenues that a business incubator may receive from the equity stake in a business obtained from its business development activities. The bill would create the new Kansas Economic Development Initiatives Fund in the Department of Commerce and transfer \$10.0 million from the State General Fund to this new fund on July 1st of each year. The Department of Commerce would have the authority to adopt rules and regulations to implement the bill. The Kansas Innovation Zone Program would sunset on July 1, 2021.

The bill would provide an income tax credit for a resident individual taxpayer that is employed by a qualified business which is headquartered or has been headquartered in a business incubator within the last five preceding years. The tax credit would be equivalent to the amount of the individual's tax liability specific to the employment from the qualified business. The new tax credit would sunset on June 30, 2035.

The bill would also partially reinstate the Business and Job Development Tax Credit Program beginning in tax year 2018. The Business and Job Development Tax Credit provides tax credits that are dependent on the amount of new employees, qualified investment, location of the qualified business, and the specific industry sector of the business. Tax credits would be up to \$2,500 for each qualified business facility employee and \$1,000 for each \$100,000 of qualified business facility investment.

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Page 2—HB 2051

The Department of Revenue indicates that HB 2168 would partly reinstate the Business and Job Development Tax Credit Program and has the potential to reduce State General Fund revenues by approximately \$12.0 million per year. However, if the intention is to fully reestablish the Business and Job Development Tax Credit Program and corresponding project exemption sales tax certificates, then the bill has the potential to reduce State General Fund revenues by approximately \$100.0 million per year. The Business and Job Development Tax Credit Program consists of two income tax credits and corresponding project exemption sales tax certificates. The bill does not reinstate the specific income tax credit for establishing a qualified business facility that allows a tax credit of \$100 per qualified business facility employee and \$100 for each \$100,000 of qualified business facility investment in a non-metro county. Reestablishing this tax credit would reduce State General Fund revenues by approximately \$3.0 million per year. Reestablishing the corresponding project exemption sales tax certificates would reduce State General Fund revenues by approximately \$85.0 million per year based on data from 2012, which was the last year that allowed project exemption certificates.

The bill would transfer \$10.0 million from the State General Fund to the new Kansas Economic Development Initiatives Fund at the Department of Commerce to provide funding for the Kansas Innovation Zone Program. The Department of Revenue has no information to make reliable estimates of the program's economic and fiscal impacts regarding the Kansas Innovation Zone Program aside from the requirement that \$10.0 million is transferred from the State General Fund each fiscal year to operate this program.

The Department of Revenue indicates that the bill would require \$213,002 from the State General Fund in FY 2018 to implement the bill and to modify the automated tax system. 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 the bill would require \$82,500 from the State General Fund in FY 2018 and \$72,500 in FY 2019 for administrative costs to implement this new program. These estimates include the salaries and wages and operating costs for 1.00 new FTE position. This new program would require the Department to write rules and regulations, develop grant application forms and agreements, and to review and track economic development activity related to business incubators. Any fiscal effect associated with HB 2051 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Jack Smith, Department of Revenue