

May 26, 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 2357 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2357 is respectfully submitted to your committee.

HB 2357 would create the Kansas Agribusiness Technology and Entrepreneurship District Act. The bill would allow the Secretary of Commerce to establish a district that would stimulate agribusiness growth, jobs, and economic development within and surrounding the District beginning on January 1, 2019. In order for a District to be established, local governments would be required to apply to the Department of Commerce. The bill would allow the Secretary of Commerce, Secretary of Agriculture, local governments, and local and regional economic professionals to implement a plan to maximize the impact of all available state and federal economic development programs along with the benefits of establishing a District under the provision of this bill.

Businesses that want to locate or expand in a District would apply to the Department of Commerce to be designated as a qualified business. Qualified businesses would be eligible to retain 75.0 percent of the withholding taxes paid for new employees hired for up to ten years. The bill would allow qualified businesses to receive a sales tax exemption for constructing, reconstructing, enlarging, or remodeling the qualified business facility, and for the sale and installation of machinery and equipment purchased for the qualified business. The sales tax exemption would only apply to projects above \$50,000. The bill would allow a 10.0 percent income tax credit for the investment in new or additional laboratory facilities located at the qualified business and the tax credit would be allowed to be carried forward for up to 16 years.

The bill would allow qualified businesses the opportunity to apply for priority consideration of economic development incentives offered by the Kansas Department of Transportation. The priority incentives would be beneficial to the District and would be

determined by point values for qualifying business features that are described in the bill. The bill lists qualifying industry sectors and their corresponding estimated economic multipliers, and provides other definitions that are used throughout the bill.

The Department of Revenue has reviewed HB 2357 and has determined that it does not have enough information to make a reliable estimate on the fiscal impact of the bill. Agribusiness is a broad term that is not specifically recognized in salary data from the Bureau of Labor Statistics that would be needed to determine the amount of withholding taxes from new employees at qualified businesses. The Department does not have data on the amount of estimated sales taxes that would be exempted from qualified businesses under the provisions of the bill or how many of these businesses would not qualify for the current HPIP sales tax exemption. The Department does not have a way to accurately estimate laboratory investment expenditures to determine the amount eligible for the 10.0 percent income tax credit.

The Department of Revenue indicates that the bill would require \$202,524 from the State General Fund in FY 2018 and \$130,135 in FY 2019 to implement the bill and to modify the automated tax system. The bill would require 2.00 new FTE positions to manage this new 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 the bill would require \$175,000 from the State General Fund in FY 2018 and \$150,000 in FY 2019 for administrative costs to implement this new program. These estimates include the salaries and wages and operating costs for 2.00 new FTE positions. This new program would require the Department to verify supporting documents, help develop rules and regulations, develop application forms and award agreements, and review and approve applications for benefits.

The Kansas Department of Transportation (KDOT) indicates that the bill would allow qualified businesses the opportunity to apply for priority consideration of economic development incentives offered by KDOT. KDOT currently operates the Economic Development Set Aside program as part of the comprehensive transportation plan, known as T-WORKS. However, the bill does not specifically refer to this program or the funding source that would be used to provide the economic development incentives for qualified businesses. KDOT indicates that the sales tax exemption provision of the bill would reduce state revenues to the State Highway Fund. 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 T-WORKS.

The Department of Agriculture indicates that the bill would require staff time devoted to coordinate efforts in a Kansas Agribusiness Technology and Entrepreneurship District; however, the costs are estimated to be negligible.

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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 2357 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Justin Law, Agriculture
Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties