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March 19, 2018

The Honorable Troy Waymaster, Chairperson
House Committee on Appropriations
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Waymaster:

SUBJECT: Fiscal Note for HB 2767 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2767 is respectfully submitted to your committee.

HB 2767 would reinstate the Enterprise Zone Program 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 January 1, 2019.

The bill would reinstate the Business and Job Development Tax Credit Program beginning in tax year 2019. The Business and Job Development Tax Credit provides tax credits that are dependent on the number of new employees, qualified investment amount, location of the qualified business, and the specific industry sector of the business. Tax credits would be up to $2,500 for each new qualified business facility employee hired and $1,000 for each $100,000 of qualified business facility investment. The Secretary of Commerce would be required to review and approve applications for the Enterprise Zone Program sales tax exemption and the Business and Job Development Tax Credit Program.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	($41,800,000)	($50,000,000)
Expenditure	--	--	$320,899	$320,899
FTE Pos.	--	--	--	0.50

The Department of Revenue estimates that HB 2767 would decrease state revenues by $50.0 million in FY 2019 and by $110.0 million in FY 2020. Of those totals, the State General Fund is estimated to decrease by $41.9 million in FY 2019 and by $93.8 million in FY 2020, while the State Highway Fund is estimated to decrease by $8.1 million in FY 2019 and by $16.2 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 previous Enterprise Zone Program sales tax exemption program and Business and Job Development Tax Credit Program that expired on December 31, 2011. The Department indicates that when this tax incentive program was still active in tax year 2011, taxpayers annually claimed an average of $5.0 million in Business and Job Development Tax Credits and exempted $100.0 million in state sales taxes. Reinstating the Business and Job Development Tax Credit is estimated to reduce State General Fund revenues by $10.0 million each year beginning in tax year 2019 or FY 2020. Reinstating the Enterprise Zone Program sales tax exemption is estimated to reduce state sales taxes by $100.0 million each year. The Department estimates that the fiscal effect for FY 2019 only includes the fiscal effect of six months of the sales tax exemption: $41.8 million from the State General Fund and $8.2 million from the State Highway Fund. For FY 2020, the fiscal effect is estimated to include $10.0 million from the State General Fund for the Business and Job Development Tax Credit, $83.8 million from the State General Fund for the sales tax exemption, and $16.2 million from the State Highway Fund for the sales tax exemption.

The Department indicates that the bill would require $283,774 from the State General Fund in FY 2019 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 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 $37,125 from the State General Fund in both FY 2019 and FY 2020 for administrative costs to reinstate this program. These estimates include the salaries and wages and operating costs for a 0.50 new 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 and Business and Job Development Tax Credit 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 2767 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation
Chardae Caine, League of Municipalities
Melissa Wangemann, Association of Counties
Bob North, Commerce