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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

May 22, 2017

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 223 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 223 is respectfully submitted to your committee.

SB 223 would prohibit the Secretary of Commerce from approving any applications for location or expansion benefits under the Promoting Employment Across Kansas (PEAK) Program after July 1, 2017. The bill would also move up the sunset date from June 30, 2018, to June 30, 2017, that prohibits the Secretary of Commerce from approving PEAK benefits to retain existing businesses that are already located in Kansas. The bill would require businesses that relocate to Kansas to be from a distance of at least 250 miles to qualify for PEAK relocation benefits. The bill would also create a new PEAK program to allow businesses from outside the state to qualify for PEAK benefits if the expansion to a location in the state is at least 250 miles from the business' primary site of operation. The bill would not impact PEAK agreements that were approved prior to the effective date of the bill.

The Department of Revenue estimates that SB 223 has the potential to prevent a State General Fund revenue decrease of approximately $2.9 million in FY 2018 and $5.4 million in FY 2019. The potential fiscal effect to state revenues during subsequent years would be as follows:

	FY 2020	FY 2021	FY 2022	FY 2023
State General Fund	$7,900,000	$10,400,000	$12,900,000	$12,500,000

To formulate these estimates, the Department of Revenue reviewed data on the PEAK Program that is managed by the Department of Commerce. In FY 2016, there were 243 active PEAK relocation, location, and expansion agreements accounting for a total withholding benefit amount of approximately $28.5 million. It is estimated that approximately $12.5 million of this total is from new or existing businesses based in Kansas that would no longer qualify for PEAK benefits under the provisions of the bill. This amounts to approximately $2.5 million per fiscal year in new PEAK benefits for new or existing businesses based in Kansas since the average PEAK benefit lasts approximately five years ($12.5 million/5 years). The State General Fund revenue reduction would be compounded in future fiscal years. The prevention of State General

Fund revenues from new or existing businesses based in Kansas that would no longer qualify for PEAK benefits would increase to $5.0 million in FY 2019, $7.5 million in FY 2020, $10.0 million in FY 2021, and $12.5 million in FY 2022 and in future fiscal years.

PEAK projects tend to have fewer employees and withholdings benefits in the first years of the project with increased employee levels and withholdings benefits in future years. The fiscal note uses averages to estimate the total fiscal effect; however, the fiscal effect has the potential to be lower in the first years and higher in the last years of a PEAK project. It is unknown how many businesses that would no longer locate or expand operations in Kansas under the provisions of the bill.

The Department of Revenue indicates that the Department of Commerce allocates approximately $2.0 million for PEAK retention agreements and it will take five years to fully phase out these benefits. Moving up the sunset date by one year for PEAK retention agreements, has the potential to prevent a State General Fund revenue decrease of approximately $400,000 in FY 2018 and for the next four fiscal years. The Department of Revenue indicates the bill would require modifications to income tax withholding tables at a cost of $600 from the State General Fund in FY 2018.

The Department of Revenue does not have data to provide a precise fiscal effect of requiring businesses that relocate or expand in Kansas to be from a distance of at least 250 miles to qualify for PEAK benefits. The Department of Revenue indicates that this has the potential to have a significant impact on future PEAK benefits because businesses that are located on the Missouri border would not be able to relocate across the state line and receive PEAK benefits.

The Department of Commerce indicates that a December 2014 audit from the Legislative Division of Post Audit calculated that the PEAK Program has 57:1 return on investment and creates positive economic impact to the state of approximately $287.0 million per year. The Department indicates that this positive impact would be substantially eliminated under the provisions of the bill. In addition, the Department indicates that it receives approximately 48 applications for PEAK benefits each year from new or existing businesses based in Kansas that would no longer qualify for PEAK benefits. This would amount to a reduction in fee fund revenues of approximately $36,000 from the $750 application fee that would not be collected in FY 2018 and in future fiscal years. Any fiscal effect associated with SB 223 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Lynn Robinson, Department of Revenue