

May 22, 2017

The Honorable Julia Lynn, Chairperson
Senate Committee on Commerce
Statehouse, Room 445-S
Topeka, Kansas 66612

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 231 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 231 is respectfully submitted to your committee.

SB 231 would prohibit the Secretary of Commerce from approving applications for benefits under the Promoting Employment Across Kansas (PEAK) Program from FY 2019 through FY 2021. The bill would not impact PEAK agreements that were approved prior to the moratorium taking effect.

The Department of Revenue estimates that SB 231 has the potential to prevent a State General Fund revenue decrease of approximately \$5.1 million in FY 2019. The potential fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$10,200,000	\$15,300,000	\$15,300,000	\$15,300,000

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 agreements accounting for a total withholding benefit amount of approximately \$28.5 million. That amounts to an average annual benefit of approximately \$117,000 per agreement. There were 44 new PEAK agreements that were approved in FY 2016 and the average PEAK benefit lasts approximately five years. Under current law, the Department of Commerce expects the same, or a slightly reduced, number of agreements will be signed each year from FY 2019 through FY 2021. For every 44 new PEAK agreements that are not signed in a fiscal year, it is estimated that it will prevent a State General Fund revenue decrease of approximately \$5.1 million in that fiscal year and the next four fiscal years. The prevention of State General Fund revenue decreases would be compounded in FY 2020 and FY 2021 before leveling off. The State General Fund amount of \$10.2 million for FY 2020 includes the continuation of the \$5.1

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million from no PEAK agreements signed in FY 2019 and a new \$5.1 million from no PEAK agreements signed in FY 2020. The State General Fund amount of \$15.3 million for FY 2021 includes the continuation of the \$5.1 million from no PEAK agreements signed in both FY 2019 and FY 2020 and a new \$5.1 million from no PEAK agreements signed in FY 2021.

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 relocate or start new operations in Kansas under the provisions of the bill. The Department of Revenue indicates the bill would require modifications to income tax withholding tables and instructions at a cost of \$1,800 from the State General Fund in FY 2018.

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 delayed or eliminated in part under the provisions of the bill. In addition, the Department indicates that it receives approximately 64 applications for PEAK benefits each year that generate approximately \$48,000 from the \$750 application fee that would not be generated each year during the prohibition of PEAK benefits. Any fiscal effect associated with SB 231 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
Lynn Robinson, Department of Revenue