

May 1, 2023

The Honorable Renee Erickson, Chairperson
Senate Committee on Commerce
300 SW 10th Avenue, Room 546-S
Topeka, Kansas 66612

Dear Senator Erickson:

SUBJECT: Fiscal Note for SB 159 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 159 is respectfully submitted to your committee.

SB 159 would enact the Kansas Rural Grocery Store Development Incentive Act. The purpose of the Act is to promote, stimulate, and develop the general and economic welfare of the State of Kansas and its communities and to assist in the development and redevelopment of grocery and other food stores within and without a city. Grocery business projects could qualify for this incentive program in cities with a population of less than 2,000 and counties with a population of less than 8,000. The Act would provide a \$3,000 income tax credit to the project developer for each employee employed by the developed grocery store. The Act would allow the grocery business project developer to retain up to 10.0 percent of the developer's Kansas withholding taxes to fund the project.

Building materials purchased by a contractor to construct, equip, reconstruct, maintain, repair, enlarge, furnish, or remodel a grocery business would be exempt from state and local sales tax. The Act would establish the Kansas Rural Grocery Business Grant Fund in the Department of Commerce. Rural grocery store project developers would be eligible for grants of up to \$2,000 for each new employee position created by the grocery store. The grants would be funded by an annual transfer of \$500,000 of sports wagering revenues from the Lottery Operating Fund to the Kansas Rural Grocery Business Grant Fund. The Act would also allow local governments to provide property tax rebates to project developers within the first five years of operation.

The Department of Commerce would be required to submit an annual report to the Governor, the House Committee on Commerce, Labor and Economic Development, and the Senate Committee on Commerce. The annual report would include the number and scope of grocery business projects that have been approved, an estimate of the jobs created or preserved as a result of the approved grocery business projects, and an estimate of the multiplier effect on the Kansas economy of the approved grocery business projects. The Department of Commerce would be required to adopt rules and regulations to implement the bill by January 1, 2024. The Secretary of Commerce would be required to conduct an annual review of the activities undertaken by project developers to ensure that benefits provided follow the Act or rules and regulations adopted by the Secretary. The bill would become effective on July 1, 2023.

The Department of Revenue estimates that the enactment of SB 159 has the potential to decrease individual income tax, state and local sales tax, and state and local property tax revenues in FY 2024; however, a fiscal effect cannot be estimated. The state funds directly affected by this bill are the State General Fund, State Highway Fund, Educational Building Fund, and the State Institutions Building Fund. The bill would also decrease the amount of property tax revenues that school districts would receive through the state's uniform mill levy. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. However, the Department does not have sufficient information on the number of grocery business projects that would be approved to make a precise estimate of the amount of reduced state and local tax revenues.

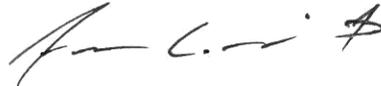
The Department of Revenue indicates that the enactment of the bill would require \$339,353 from the State General Fund in FY 2024 to implement the bill and to modify the automated tax system. Of this amount, \$123,894 would be ongoing expenditures to fund 2.00 FTE customer relations specialist positions. In addition, 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 enactment of the bill would require \$189,000 of additional State General Fund expenditures in FY 2024 and subsequent fiscal years to fund 2.00 FTE program manager positions responsible for issuing credits, certifying store employees, and administering grants. The Kansas Lottery indicates that the transfers from the Lottery Operating Fund to the Kansas Rural Grocery Business Grant Fund would decrease State General Fund revenues by \$500,000 per year.

The Kansas Department of Transportation indicates that the Act would have an unknown fiscal effect as noted above. The Kansas Association of Counties and the League of Kansas Municipalities indicates the bill would have an unknown fiscal effect on local governments. The Act could incentivize new grocery stores in rural areas of the state that could result in higher local

sales tax collections in communities with a new grocery business project. Any fiscal effect associated with SB 159 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Keith Kocher, Kansas Lottery
Sherry Rentfro, Department of Commerce
Brendan Yorkey, Department of Transportation
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
John Hedges, Office of the State Treasurer