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Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

February 11, 2014

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

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 340 by Senate Committee on Commerce

In accordance with KSA 75-3715a, the following fiscal note concerning SB 340 is respectfully submitted to your committee.

SB 340 would create the Kansas Reinvestment Act to promote job creation and economic development by small businesses in impoverished areas of the state. The bill defines impoverished area as a zip code area where the median income does not exceed 70.0 percent of the current state median income in the current year according to the U.S. Census Bureau or official Kansas data.

The Kansas Reinvestment Program would be established as a division of the Department of Revenue and would be administered by a Deputy Director appointed by the Governor. The Kansas Reinvestment Program would provide funds to eligible small businesses, new small businesses, exempt businesses, religious organizations, and nonprofit organizations. The amount of funds awarded to each business would depend on the type of business; however, no business would be allowed to receive awards totaling more than $100,000. The bill would allow awards to be provided for business renovation, acquisition of business equipment, new structures attached to or on the same property of an existing structure of the business, relocation expenses to an impoverished area up to $25,000, and business marketing expenses up to $20,000. Awards could not be used for employee salaries, personal vehicles, or payments for debt incurred prior to receipt of an award. Awards to businesses would begin on January 1, 2015, and would continue until December 31, 2019.

The bill would require that in order to be eligible for an award, a small business must be a Kansas business located within and incorporated in Kansas; may not be a franchise of a national business with franchisees or business locations in other states; must not be delinquent in federal or state taxes; must be located in or relocating to an impoverished area; and must submit to the Deputy Director a business plan that has been accepted or approved by a federal agency, state agency, or financial institution acceptable to the Deputy Director. The bill would not allow sexually oriented businesses, liquor stores, tobacco and cigarette stores, title loan companies, and check cashing services to qualify for funding from this program. Religious or nonprofit organizations must be in compliance with all required filings with the Internal Revenue Service and be in compliance with all required filings with the State of Kansas.

Eligible small businesses would be required to enter into an agreement with the Deputy Director before any grant could be awarded and the Deputy Director could terminate the agreement and require that the grant award be returned if the eligible applicant fails to comply with the agreement terms, engages in any fraudulent activity, or files for bankruptcy. The agreement would also prohibit the sale of a business that receives an award of funds for a period of five years from the date the funds are awarded, unless the award amount is paid back by the business prior to or as a requirement of the sale.

The bill would create the Kansas Reinvestment Act Fund, to be funded with an annual transfer of 3.0 percent of State General Fund revenues. The bill would require a minimum transfer of at least $30.0 million in each fiscal year. The Department of Revenue would be authorized to use up to 10.0 percent of the amount allocated to the Kansas Reinvestment Fund for administrative expenses. The Deputy Director and Department of Revenue would have the authority to adopt rules and regulations to implement and administer the provisions of the Kansas Reinvestment Act.

The Department of Revenue estimates that SB 340 would decrease State General Fund revenues by $177,513,000 in FY 2015, which would be transferred to the Kansas Reinvestment Act Fund of the Department of Revenue to be used to promote job creation and economic development by small businesses in impoverished areas of the state. This amount equals 3.0 percent of the estimated revenues to the State General Fund in FY 2015. The decrease in State General Fund revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	$ 24,000	$ --	$ 24,000
Income Taxes:			
Individual	2,525,000	--	2,525,000
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	--	2,160,000
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	161,700	--	161,700
Total Taxes	$5,975,200	$ --	$5,975,200

Other Revenues:			
Interest	$ 10,000	$ --	$ 10,000
Transfers	(118,000)	(177,513)	(295,513)
Agency Earnings	49,900	--	49,900
Total Other Revenues	($ 58,100)	($ 177,513)	($ 235,613)
Total Receipts	$5,917,100	($ 177,513)	$5,739,587

The bill would also transfer 3.0 percent of the amount of State General Fund revenues in FY 2016 through FY 2019 to the Kansas Reinvestment Act Fund; however, the amounts of the transfers for future fiscal years were not estimated.

The Department of Revenue indicates that the bill would require $369,140 for administrative costs to implement this new program, including the salaries and wages and operating costs for 5.00 new FTE positions. The Deputy Director would need to hire additional unclassified employees to help develop rules and regulations, develop application forms and award agreements, review and track applications, review tax clearance information, and conduct required audits. Any fiscal effect associated with SB 340 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Department of Revenue
Dan Lara, Commerce