

May 18, 2017

The Honorable Steven Johnson, Chairperson
 House Committee on Taxation
 Statehouse, Room 185-N
 Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2396 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2396 is respectfully submitted to your committee.

Under current law, the Rural Opportunity Zones Program helps attract financial investment, business development, and job growth in rural areas of the state by offering individuals who relocate from outside the state to a county that has been designated as a Rural Opportunity Zone the opportunity to participate in the Student Loan Forgiveness Program and receive a 100.0 percent state income tax credit through tax year 2021. HB 2396 would allow primary care physicians and dentists to qualify for the Rural Opportunity Zones Program if they move to a county that has been designated as a Rural Opportunity Zone after previously establishing a domicile in a metropolitan county (Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, or Wyandotte).

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	(\$5,200,000)	(\$5,200,000)	(\$5,200,000)	(\$5,200,000)
Expenditure	\$2,400	\$2,400	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2396 would decrease State General Fund revenues by \$5.2 million in both FY 2018 and FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State General Fund	(\$5,200,000)	(\$5,200,000)	(\$5,200,000)

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To formulate these estimates, the Department of Revenue reviewed data from U.S Bureau of Labor Statistics, Kansas Board of Healing Arts, and Kansas Dental Board. There are currently approximately 5,000 doctors registered within the six Kansas metropolitan counties with an average salary of \$225,000 (depending on the type of doctor, this amount could increase or decrease). Assuming 10.0 percent of these doctors decided to relocate to a ROZ county with an effective tax rate of 4.0 percent at the average salary, the estimated fiscal impact is \$4.5 million each fiscal year ($\$225,000 \times 500 \times 4\%$). There are currently approximately 1,000 dentists registered within the six Kansas metropolitan counties with an average salary of \$175,000. Assuming 10.0 percent of these dentists decided to relocate to a ROZ county with an effective tax rate of 4.0 percent at the average salary, the estimated fiscal impact is \$700,000 each fiscal year ($\$175,000 \times 100 \times 4\%$). Therefore, the fiscal effect is estimated to be \$5.2 million in FY 2018 (\$4.5 million from doctors and \$700,000 from dentists).

The Department indicates that the bill would require \$2,400 from the State General Fund in FY 2018 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 Department of Commerce indicates that the administrative costs associated with reviewing additional applications from doctors and dentists that move to a Rural Opportunity Zone from a metropolitan county would be negligible and could be absorbed within existing staff levels and resources. Any fiscal effect associated with HB 2396 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: Lynn Robinson, Department of Revenue
Melissa Wangemann, Association of Counties
Bob North, Commerce