

March 9, 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 177 by Senator Hensley, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 177 is respectfully submitted to your committee.

SB 177 would require that any contractor entering into a state contract employ a sufficient number of Kansas workers. "Kansas workers" would be defined as any individual having a residence in Kansas as determined by the individual's employment records. The bill would require that at least 70.0 percent of the workers assigned to the contract be Kansas workers. All state agencies would provide a copy of any state contract to the Division of Purchasing in the Department of Administration for verification that the contractor is in compliance with the employment requirements of SB 177. An employee who performs work under a state contract and who is not a Kansas worker may be permitted if the employee provides expertise in a field necessary to fulfill the contractor's contractual obligations. The contractor would be required to submit an application to the Division of Purchasing detailing why the employee is an expert in a specified field and the Division of Purchasing would determine whether the employee would be exempt from the provisions of the bill. The bill would affect contracts from state agencies with expenditures totaling \$100,000 or more, excluding lease agreements, lease-purchase agreements, and agreements entered solely for the acquisition of goods or commodities by a state agency effective on and after January 1, 2018.

At least 70.0 percent of a contractor's workforce assigned to a STAR bond project would have to be Kansas workers beginning on January 1, 2018. All contractors subject to the provisions in SB 177 would provide personnel information to the Department of Commerce to ensure that the contractor is in compliance with the provisions in the bill. The Department would notify the city or county proposing the STAR bond project of any contractor that is not in compliance with the provisions in the bill. The city or county would then either provide the

contractor an opportunity to correct the noncompliance within a reasonable time or terminate the contract.

Beginning on January 1, 2018, 70.0 percent of a qualified firm's workforce would have to be Kansas workers when applying for the HPIP Training and Education Credit. The same requirement would also apply to qualified companies who apply for Promoting Employment Across Kansas (PEAK) benefits and qualified business facilities applying for the Business and Job Development Credit beginning on January 1, 2018. The bill would also require taxpayers claiming these tax credits to provide personnel information as required by the Secretary of Revenue for the purpose of verifying the number of Kansas workers.

The Department of Transportation estimates that the bill would result in the loss of federal revenue to the State Highway Fund of approximately \$175.8 million in FY 2018 and \$362.7 million in FY 2019. KDOT would be in conflict with federal legislation stating that no requirements can be imposed to discriminate against the employment of labor from any other state. The bill would also be in conflict with federal legislation that requires qualification-based selection of consultant engineering contracts. This federal provision assures that in-state and out-of-state consultants are given a fair opportunity to be considered for an award. Being in conflict with federal legislation would result in the loss of federal funding. The reductions to revenues from federal sources would cause reductions, cancellations and delays of expenditures for Transportation Works for Kansas (T-WORKS) projects. The loss in federal revenue could require the reevaluation of the entire T-WORKS program.

The Department of Administration indicates that there would be approximately 2,000 contracts per year that could qualify for review under the provisions of SB 177. The increased workload would require additional personnel to sufficiently collect information and review and monitor all vendors for compliance. The Department estimates \$491,320 from the State General Fund in FY 2018 and 7.00 new FTE positions would be needed, including three procurement officers, three administrative support personnel and one supervisor. Of the total amount, \$400,000 would be for salaries and wages expenditures for the new positions; \$25,000 would be one-time costs for setup of workstations; \$43,320 would be for additional office space; \$8,000 would be for copier leases; \$3,000 would be for communication expenses; \$2,000 would be for office supplies and \$10,000 would be for estimated expenses for additional administrative hearings. For FY 2019, \$466,320 would be needed from the State General Fund plus 7.00 FTE positions.

According to the Department of Commerce, \$75,000 from the State General Fund would be needed in FY 2018 and FY 2019 to implement the new program. The additional funds would be used to hire 1.00 new FTE position at a cost of \$68,500 for salary and wages. The position would be responsible for ensuring the Department is meeting the reporting, auditing and compliance requirements in the bill. The total amount also includes ancillary expenses of \$6,500 for workstation setup, travel costs, and training expenses. Additionally, existing staff would need to prepare and promulgate regulations for the reporting and compliance requirement in the bill.

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The Department of Revenue indicates it is unable to estimate a fiscal effect because the number of Kansas workers who would be employed by firms or contractors is unknown. Any fiscal effect associated with SB 177 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: Colleen Becker, Department of Administration
Bob North, Commerce
Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation