

March 9, 2015

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2367 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2367 is respectfully submitted to your committee.

HB 2367 would add Miami County to the list of 77 counties that are currently designated as Rural Opportunity Zones. The Rural Opportunity Zones Program helps attract financial investment, business development, and job growth in rural areas of the state. The program offers 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 2016.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$57,000)	(\$57,000)
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2367 would decrease State General Fund revenues by \$57,000 in FY 2016 and by \$114,000 in FY 2017. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	(57)	2,299,943
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 57)	\$5,970,543
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 57)	\$5,811,343

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service and the United State Census Bureau. The Department indicates 295 individual taxpayers from out-of-state moved to Miami County that would be newly designated as a Rural Opportunity Zone. Those taxpayers reported federal adjusted gross income of approximately \$14.3 million. Assuming an average tax rate of 4.0 percent and also assuming only 10.0 percent of these individuals would meet the requirement of residing in Kansas the entire year in order to qualify for the tax credit, the estimated fiscal effect in FY 2016 would be approximately \$57,000 (\$14.3 million x 4.0% x 10.0%), and \$114,000 in FY 2017, assuming future migration patterns mirror recent experience.

The Department of Commerce indicates that it is currently responsible for administering the Rural Opportunity Zones Program. No information exists to accurately estimate the number of individuals who would qualify for the student loan forgiveness program. Assuming that 8 individuals would qualify for the student loan forgiveness program; the Department of Commerce would require approximately \$11,000 from the State General Fund in FY 2017 for

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the state obligations of this program for the first year. However, the amount may be significantly higher or significantly lower depending on the level of participation by Miami County that would be responsible for the local match for this program. The Department indicates that the administrative costs associated with reviewing additional applications from individuals that are proposing to move to a new Rural Opportunity Zone proposed in the bill would be negligible and could be absorbed within existing staff levels and resources. Any fiscal effect associated with HB 2367 is not reflected in *The FY 2016 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: Jack Smith, KDOR
Dan Lara, Commerce
Melissa Wangemann, KAC