

March 14, 2016

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

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 493 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 493 is respectfully submitted to your committee.

SB 493 would allow the Department of Commerce to assess an application fee of up to \$750 on applications for the Kansas Industrial Training (KIT) Program, Kansas Industrial Retraining (KIR) Program, High Performance Incentive Program (HPIP), Promoting Employment Across Kansas (PEAK) Program, and the Job Creation Program Fund. The bill allows the Department of Commerce to assess the following administrative fees:

1. 1.0 percent of the amount of the special obligation bonds payable from revenues for issued or reissued STAR bond projects;
2. Up to 5.0 percent of the amount requested for private activity bond issuance;
3. Up to 2.0 of moneys transferred to the State Affordable Airfare Fund; and
4. Up to 2.0 percent of the amount transferred to the Kan-grow Engineering Fund as part of the University Engineering Initiative for the University of Kansas, Kansas State University, and Wichita State University.

The bill would create the Economic Development Incentive Program Application Fee Fund, STAR Bond Administrative Fee Fund, Private Activity Bond Administration Fee Fund, State Affordable Airfare Administrative Fee Fund, and Kan-grow Engineering Administrative Fee Fund. Application and administrative fees that are collected and deposited into the funds would be used to administer each of these economic development programs. The Department of Commerce would have the authority to write rules and regulations to implement the bill.

SB 493 correlates to the Commerce and Economic Development Recommendation #2 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal (A&M). In this report, A&M estimates that the Department of Commerce can generate \$3,018,000 in FY 2017 by requiring an administrative fee for its major economic development incentive programs or any of the community finance incentive projects. The fees would be used to recover the Department's direct and indirect costs to administer these programs. A&M indicates that application fees for economic development projects could be viewed as a hindrance for promoting new development.

However, significant time and resources are spent by the Department's staff in the research, analysis, and negotiation of the development projects, which often does not move forward.

The Department of Commerce estimates that the bill would increase their revenues by \$1,007,400 in FY 2017, which would be used to recover the Department's direct and indirect costs to administer economic development programs. Of the additional revenue collected, \$62,400 would be deposited in the Economic Development Incentive Program Application Fee Fund, \$500,000 in the STAR Bond Administrative Fee Fund, \$235,000 in the Private Activity Bond Administration Fee Fund, and \$210,000 in the Kan-grow Engineering Administrative Fee Fund. No money is expected to be deposited in the State Affordable Airfare Administrative Fee Fund because this program is set to end in FY 2016. The Department's estimate of revenue generated from the new application fee and administrative fee are substantially lower than the estimates provided by A&M, primarily from a lower estimate of the dollar amount of future STAR bond projects and related fees.

The University of Kansas, Kansas State University, and Wichita State University each receive \$3.5 million annually from the Kan-grow Engineering Fund as part of the University Engineering Initiative. Placing a 2.0 percent administrative fee on this fund would reduce the amount that would be transferred to each of these schools by \$70,000 each year. Each university indicates that this funding reduction to pay the administrative fee would eliminate positions in their engineering programs and could impact the ability to achieve enrollment targets established under the University Engineering Initiative Act.

The League of Kansas Municipalities and the Kansas Association of Counties indicates the bill would increase the cost for financing or refinancing STAR bonds. Placing a 1.0 percent administrative fee on the amount of STAR bonds that are issued could increase the total amount of STAR bonds that are issued, extend the payback time, and increase interest costs. However, the League of Kansas Municipalities and the Kansas Association of Counties do not have data on the amount of future STAR bond projects that would be financed or existing STAR bond projects that would be refinanced to provide a precise estimate of the additional costs for local governments. Any fiscal effect associated with SB 493 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Jack Smith, Department of Revenue
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties
Ethan Erickson, Kansas State University
Theresa Gordzica, University of Kansas
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