

February 25, 2016

The Honorable Mark Hutton, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Hutton:

SUBJECT: Fiscal Note for HB 2574 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2574 is respectfully submitted to your committee.

HB 2574 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 of the Department of Administration for verification that the contractor is in compliance with the employment requirements of HB 2574. 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 must submit an application to the Division of Purchasing detailing why the employee is an expert in a specified field. The Division of Purchasing would determine whether the employee would be exempt from the provisions of the bill. This bill would affect contracts from state agencies with expenditures of \$100,000 or more, excluding lease agreements, lease-purchase agreements, and agreements entered solely for the acquisition of goods or commodities by the state agency effective on and after January 1, 2017.

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, 2017. All contractors subject to the provisions in HB 2574 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.

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Beginning on January 1, 2017, 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, 2017. 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 Revenue indicates the bill could promote the hiring of Kansas workers and increase employment in the Kansas, which would result in more income tax revenues to the State General Fund. However, in some cases the employment requirement in the bill may cause costs for certain contracts or firm activities to be higher than they would have been otherwise. In this scenario, the employment requirement could increase project costs in government contracts and reduce business efficiencies for the companies applying for certain tax benefits. The Department of Revenue is unable provide a fiscal effect for HB 2574.

According to the Department of Commerce, \$75,000 from the State General Fund would be needed to implement this new program in FY 2017. 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.

The Department of Administration estimates an increased workload from the bill that would require \$229,525 from the State General Fund in FY 2017 and 4.00 new FTE positions. Of the total amount, \$198,525 would be for salaries and wages expenditures for the new positions, \$26,000 would be one-time costs for setup of workstations and \$5,000 would be for estimated expenses for additional administrative hearings. Any fiscal effect associated with HB 2574 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
Colleen Becker, Department of Administration