

February 24, 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 317 by Senator Faust-Goudeau

In accordance with KSA 75-3715a, the following fiscal note concerning SB 317 is respectfully submitted to your committee.

SB 317 would create the Kansas Reinvestment Act to promote job creation and economic development by small businesses in impoverished areas of the state. The bill defines impoverished area as a zip code area where the median income does not exceed 70.0 percent of the current state median income in the current year according to the U.S. Census Bureau or official Kansas data. The Kansas Reinvestment Program would be established as a new program of the Department of Commerce.

The Kansas Reinvestment Program would provide loans to eligible small businesses, new small businesses, religious organizations, and nonprofit organizations. The amount of funding awarded to each business would depend on the type of business; however, no business would be allowed to receive loans totaling more than \$100,000. The bill would allow loans to be provided for business renovation, acquisition of business equipment, new structures attached to or on the same property of an existing structure of the business, relocation expenses to an impoverished area up to \$25,000, and business marketing expenses up to \$20,000. Awards could not be used for employee salaries, personal vehicles, or payments for debt incurred prior to receipt of an award. The bill would require that this program be funded with an annual \$1,250,000 appropriation starting in FY 2016 and continuing through FY 2020. The bill would allow up to 10.0 percent of the appropriation to be used for administrative costs of the Department of Commerce.

The bill would require that to be eligible for a loan, a small business must gross less than \$5.0 million in revenue and employ 100 or fewer employees; must not be delinquent in federal or state taxes; and must be located in or relocating to an impoverished area. A new small business that has been in operation between 12 months and 18 months would be required to submit a business plan that has been accepted or approved by the Kansas Small Business Development Center and a financial institution approved by the Secretary of Commerce. Religious or nonprofit organizations must have annual gross revenues of less than \$3.0 million and employ

100 or fewer employees; must be located in or relocating to an impoverished area; and be in compliance with all required filings with the Internal Revenue Service and the State of Kansas. The bill would not allow sexually oriented businesses, liquor stores, tobacco and cigarette stores, title loan companies, and check cashing services to qualify for funding from this program.

Eligible small businesses would be required to enter into an agreement with the Department of Commerce before any grant could be awarded and the Secretary of Commerce could terminate the agreement and require that the grant award be returned if the eligible applicant fails to comply with the agreement terms, engages in any fraudulent activity, or files for bankruptcy. The agreement would also prohibit the sale of a business that receives an award of funds for a period of five years from the date the funds are awarded, unless the award amount is paid back by the business prior to or as a requirement of the sale. The loan would have a fixed interest rate of 1.99 percent and include a repayment agreement with a six-month grace period in which payments are not due, but interest accrues. The loan agreement would allow the remaining interest and principal payments to be forgiven if the award recipient pays 50.0 percent of the principal, makes timely payments, and reaches business goals or other conditions that were mutually agreed to at the time the loan was awarded. The Department of Commerce would have the authority to adopt rules and regulations to implement and administer the provisions of the Kansas Reinvestment Act.

The Department of Revenue indicates SB 317 has the potential to provide small businesses and other organizations with access to low interest loans, which may help promote local economic development in impoverished areas of the state. However, the Department does not have data on the amount of new economic activity that would result in order to provide an estimate of the fiscal effect on state revenues.

The Department of Commerce indicates that funding for this program would be subject to appropriation. The Department indicates that the bill would allow up 10.0 percent of the appropriation to be used for administrative costs, which would be sufficient to implement this program, hire staff, and recover operating costs. The Department would be required to develop rules and regulations, develop application forms and award agreements, review and track applications, and conduct required audits. Any fiscal effect associated with SB 317 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", written over a horizontal line.

Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Jack Smith, Department of Revenue