

May 26, 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 252 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 252 is respectfully submitted to your committee.

SB 252 would create the Ad Astra Rural Jobs Act. The bill authorizes a 20.0 percent nonrefundable income tax credit beginning in tax year 2018 for certain investments in approved investment companies that will create wealth and job opportunities in rural areas of the state. The maximum amount of tax credits allowed is \$20.0 million per fiscal year and the tax credit could be claimed for up to five years. The Secretary of Commerce would not be allowed to approve more than \$166,666,666 in growth capital and not more than \$100,000,000 in credit-eligible contributions over the life of the program. The bill includes requirements for approved investment companies, including the requirement that at least 60.0 percent of the growth capital must be comprised of credit-eligible capital contributions. Rural areas would not be within a city with a population greater than 60,000, including urbanized areas that are contiguous and adjacent to that city. Businesses whose principal business operations are not located in Kansas that receive investment funding would be required to relocate at least 60.0 percent of its principal business operation to a rural area, have fewer than 500 employees or have a federal adjusted gross income of less than \$15.0 million, and engage in industries related to manufacturing, plant sciences, technology, or agricultural technology. The Secretary of Commerce would have the flexibility to determine if other industries would qualify for investment or if a location qualifies as rural area.

The Department of Commerce would manage the application process for investment companies and would be allowed to charge a nonrefundable application fee of up to \$5,000. Applications for approval of investment companies would be submitted to the Department of Commerce beginning on January 1, 2018. The bill includes requirements for investment companies and would allow the Secretary of Commerce to charge penalties or revoke tax credits if an investment company does not fulfill certain responsibilities. If a tax credit is revoked, the Secretary or Revenue would be required to make an assessment if the tax credit had already been

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utilized. The bill contains a sunset provision that would take effect six years after the bill is enacted. The Department of Commerce would have the authority to adopt rules and regulations to implement the bill.

The Department of Revenue indicates that SB 252 would create a new income tax credit program with a maximum amount of \$20.0 million per fiscal year beginning in FY 2020. The bill is expected to increase investment and economic development in rural areas throughout the state. However, the Department does not have any accurate information to determine how many companies would apply seeking venture capital investments in rural businesses. The Department indicates that the only other similar program is in the State of New Mexico, but its tax credit is awarded based off of wages paid for the new rural jobs. The State of Missouri introduced an identical bill, but no fiscal impact beyond the cap of allowed tax credits was provided.

The Department of Revenue indicates that the bill would require \$249,333 from the State General Fund in FY 2018 and \$122,144 in FY 2019 to implement the bill and to modify the automated tax system. The bill would require 2.00 new FTE positions to manage this new tax credit program. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Commerce indicates that the bill would require \$375,000 from the State General Fund in FY 2018 and \$325,000 in FY 2019 for administrative costs to implement this new program. These estimates include the salaries and wages and operating costs for 3.00 new FTE positions. This new program would require the Department to verify supporting documents, help develop rules and regulations, develop application forms and award agreements, and review and approve applications and business plans for investment companies. Any fiscal effect associated with SB 252 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Bob North, Commerce
Glenda Haverkamp, Insurance