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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 13, 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 2402 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2402 is respectfully submitted to your committee.

HB 2402 would make a number of changes to the Sales Tax and Revenue (STAR) Bond Financing Act. The bill would change the definition of STAR bond projects to include blighted areas in Metropolitan Statistical Areas (MSAs) with at least $25.0 million in capital investment and $25.0 million in projected annual gross sales. The STAR bond project would be required to be of regional or statewide importance. The Secretary of Commerce would be required to review and determine the eligibility of the project.

Under current law, local governments that issue a special obligation bond to finance a STAR bond project are required to use all state retail sales and compensating use taxes collected in the STAR bond project district to make principal and interest payments on the bonds. The bill allows for all or partial state retail sales and compensating use taxes collections to be pledged for principal and interest payments on the bonds. The bill would allow STAR bond projects to be eligible for property tax abatements. The bill would create the Department of Commerce STAR Bond Administration Fund and the Department of Revenue STAR Bond Administration Fund. Each of these new funds would receive 0.05 percent of the state sales tax collected from a STAR bond project district to finance administration costs.

The Department of Revenue indicates that HB 2402 would allow additional projects to qualify as a STAR bond project and would not have a direct fiscal effect on state revenues. The bill would allow local governments, with the approval of the Secretary of Commerce, to issue bonds to finance STAR bond projects that include certain blighted areas. The state does not lose any revenue when these projects are created because the revenue would not be generated if the project did not exist. The bill has the potential to increase state revenues if a STAR bond project is approved that uses only part of the state retail sales and compensating use tax collections from STAR bond project district to be pledged for principal and interest payments on the bonds.

The bill has the potential to decrease property tax revenues by allowing STAR bond projects to be eligible for property tax abatements. The state would receive less property tax revenues to the two state building funds, the Educational Building Fund and the State Institutions Building Fund. The bill would also decrease the amount of property tax revenues that school districts would receive through the state's uniform mill levy. The bill would also decrease revenues to any local government that levies a property tax. However, the Department of Revenue does not have data on amount of the property that would receive this property tax abatement under the provisions of the bill; therefore, a precise estimate of the amount of decreased property tax revenues and its effect on local and state revenues cannot be estimated.

The Department of Revenue estimates that the bill would increase state revenues by $52,250 in FY 2016. Of that total, the Department of Commerce STAR Bond Administration Fund is estimated to receive $26,125 and the Department of Revenue STAR Bond Administration Fund is estimated to receive $26,125. To formulate these estimates, the Department of Revenue reviewed data on retail sales and compensating use taxes collected from STAR bond project districts. The Department indicated that STAR bond project districts generated approximately $52,250,000 in FY 2014 from state retail sales and compensating use taxes that were used pay principal and interest on STAR bonds. The bill would allow a total of 0.10 percent of state retail sales and compensating use taxes collected from STAR bond project districts to finance administration costs of the Department of Commerce and the Department of Revenue, which would allow approximately $26,125 being deposited into each administration fund in FY 2016. The state revenue would no longer be retained in the STAR bond project to help pay off principal and interest costs on STAR bond projects, which has the potential to increase the time to complete paying off a STAR bond project.

The Department of Revenue indicates that the bill would require $10,605 from the State General Fund in FY 2016 to implement the bill and to modify the sales tax processing system to allow funds to be transferred to the Department of Commerce STAR Bond Administration Fund and the Department of Revenue STAR Bond Administration Fund. 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, expenditures for outside contract programmer services beyond the Department's current budget may be required. The Department indicates that Department of Revenue STAR Bond Administration Fund and dedicated funding stream would be sufficient to pay for its administrative costs to administer the STAR Bond Financing Act.

The Department of Commerce indicates that it is currently responsible for reviewing and approving STAR bond applications. The Department indicates that Department of Commerce

STAR Bond Administration Fund and dedicated funding stream would be sufficient to pay for its administrative costs associated with reviewing STAR bond applications. Any fiscal effect associated with HB 2402 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Dan Lara, Commerce
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties