

May 14, 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 2406 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2406 is respectfully submitted to your committee.

Under current law, corporate taxpayers are allowed to claim a refundable tax credit for contributions to an Individual Development Account. HB 2406 would allow individual income taxpayers to claim this tax credit beginning in tax year 2015. The bill would change the Kansas Rural Housing Incentive District Act to the Kansas Rural Housing and Urban Core Incentive District Act to allow the following zip codes to qualify for housing incentives to encourage the development and renovation of housing in the urban core of Kansas:

1. 66101—Located in Kansas City and Wyandotte County;
2. 66102—Located in Kansas City and Wyandotte County;
3. 66104—Located in Kansas City and Wyandotte County;
4. 67210—Located in Wichita and Sedgwick County; and
5. 66603—Located in Topeka and Shawnee County.

The five zip codes would also be defined as an Urban Core Opportunity Zone and would allow a county with an Urban Core Opportunity Zone to participate in the student loan forgiveness program that is currently offered in the Rural Opportunity Zones Program at the Department of Commerce. If the county chooses to participate, the county would be required to pass a resolution agreeing to pay in equal shares with the State of Kansas, the outstanding student loan balance of up to \$15,000 of any resident individual over a five-year period. The amount of the repayment would be equal to 20.0 percent of the outstanding student loan balance over the five-year period. In order to qualify for this program, the resident individual would be required to have earned an associate, bachelor, or post-graduate degree. Benefits under this program are not guaranteed and state funding would be subject to appropriation acts. The county would be allowed to continue funding the program even if the state does not provide funding.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$300,000)	(\$300,000)
Expenditure	--	--	\$40,800	\$40,800
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2406 would decrease State General Fund revenues by \$300,000 in FY 2016. The decrease in revenues and how the April 20, 2015 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 20, 2015)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 11,000	\$ --	\$ 11,000
Income Taxes:			
Individual	2,300,000	(300)	2,299,700
Corporate	440,000	--	440,000
Financial Institutions	44,000	--	44,000
Excise Taxes:			
Retail Sales	2,240,000	--	2,240,000
Compensating Use	370,000	--	370,000
Cigarette	88,000	--	88,000
Severance	73,800	--	73,800
All Other Excise Taxes	113,700	--	113,700
Other Taxes	190,500	--	190,500
Total Taxes	\$5,871,000	(\$ 300)	\$5,870,700
Other Revenues:			
Interest	\$ 17,800	\$ --	\$ 17,500
Transfers	(232,680)	--	(232,680)
Agency Earnings	57,100	--	57,100
Total Other Revenues	(\$ 157,780)	\$ --	(\$ 157,780)
Total Receipts	\$5,713,220	(\$ 300)	\$5,712,920

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$300,000)	(\$300,000)	(\$300,000)	(\$300,000)

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To formulate these estimates, the Department of Revenue reviewed data on the amount of Individual Development Account Tax Credits that were claimed by individual income taxpayers in tax year 2012, which was the last tax year that individual income taxpayers could claim this tax credit. The Department indicates that approximately \$294,000 in tax credits were claimed by individual taxpayers in tax year 2012. Assuming that approximately the same amount of tax credits would be claimed by individual taxpayers in tax year 2015, the Department of Revenue estimates that a total of \$300,000 in tax credits would be claimed in FY 2016 and each future fiscal year.

The Department of Revenue indicates the bill it would require \$40,800 from the State General Fund to update forms and instructions and to modify the automated tax system. 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 of Commerce indicates that it is currently responsible for administering the student loan forgiveness component of the Rural Opportunity Zones Program. The Department indicates that the administrative costs and program expenses for expanding the student loan forgiveness program to include the five zip codes that are designated as an Urban Core Opportunity Zone could be absorbed within existing staff levels and resources. The Department of Commerce also administers the Kansas Rural Housing Incentive District Act., The Department indicated that allowing the five zip codes to qualify for housing incentives under the new Kansas Rural Housing and Urban Core Incentive District Act would only affect local revenues where the housing districts are established and would have no fiscal effect on state revenues. The fiscal effect associated with HB 2406 is reflected in *The FY 2016 Governor's Budget Report*.

The Kansas Association of Counties indicates that the bill would increase expenditures for counties that choose to participate in the student loan forgiveness program of an Urban Core Opportunity Zone. However, the expenditures would vary by county and level of participation in this program.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Dan Lara, Commerce
Jack Smith, Department of Revenue
Melissa Wangemann, Association of Counties