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Laura Kelly, Governor

February 2, 2022

The Honorable Robert Olson, Chairperson
Senate Committee on Federal and State Affairs
Statehouse, Room 144-S
Topeka, Kansas 66612

Dear Senator Olson:

SUBJECT: Fiscal Note for SB 375 by Senate Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning SB 375 is respectfully submitted to your committee.

SB 375 would enact the Kansas Housing Investor Credit Act. The purpose of this new tax credit program would be to facilitate investment in suitable housing that will support the growth of communities that lack adequate housing by attracting new employees, residents, and families and would support the development and expansion of businesses that are job and wealth creating enterprises. The Act would allow a qualified investor to receive a 30.0 percent tax credit for a cash investment in a qualified housing project beginning in tax year 2022. The tax credits would be capped at $30,000 per residential unit. A qualified housing project would be limited to a total of 40 residential units that are single-family dwellings per year and to a total of 40 residential units for multi-family dwellings or buildings per year. A qualified housing project would be required to be located in a city with a population of less than 70,000 people and in county with a population of less than 75,000 people. The Secretary of Commerce would only be able to issue up to $18.0 million in tax credits per fiscal year; however, any unused tax credits could be awarded in future fiscal years. The tax credit would be transferable and non-refundable and could be carried forward for up to four tax years.

The housing project would be required to receive support of the community and the governing body of the city or county and could not be eligible for income or other tax credits designated for low-income housing under state or federal law. The Secretary of Commerce would award tax credits for qualified housing projects that are most likely to provide the greatest economic benefit to and best meet the needs of the community lacking adequate housing where the project is located. The Act allows the Department of Commerce to charge a reasonable application fee to implement the Act. The Department of Commerce would have the authority to write rules and regulations to implement the bill.

The Secretary of Commerce would be required to conduct an annual review to ensure that tax credits issued are in compliance with the provisions of the Act and rules and regulations adopted by the Secretary of Commerce. If the Secretary of Commerce determines that a project is not in substantial compliance with the requirements of the Act or the incentive agreement, the Secretary would inform the builder or developer of the project in writing that the project will lose designation as a qualified project in 120 days unless the builder or developer corrects the deficiencies and becomes compliant with the requirements. At the end of the 120-day period, if the project is still not in substantial compliance, the Secretary of Commerce would send a notice of loss of designation to the builder or developer and all known investors in the project. Upon loss of the designation as a qualified housing project, the project builder or developer would be required to repay tax credits in an amount determined by the Secretary of Commerce.

On or before January 31, 2023, and on or before January 31, of each future year, the Secretary of Commerce would be required to submit a report to the Governor, the Senate Committee on Commerce, and the House Committee on Commerce, Labor and Economic Development based on information received from each qualified housing project that was awarded tax credits during the preceding year.

Estimated State Fiscal Effect				
	FY 2022 SGF	FY 2022 All Funds	FY 2023 SGF	FY 2023 All Funds
Revenue	--	--	($18,000,000)	($18,000,000)
Expenditure	--	--	$232,342	$232,342
FTE Pos.	--	--	--	1.50

The Department of Revenue estimates that SB 375 would decrease State General Fund revenues by $18.0 million in FY 2023 and in each future fiscal year. To formulate these estimates, the Department of Revenue reviewed population data from the Kansas Division of the Budget. According to 2021 certified population data, housing projects in 98 counties would qualify for this new tax credit. The Department assumes that the maximum tax credit amount would be awarded each fiscal year. The Department notes that projects receiving the current 25.0 percent historic rehabilitation credit may also qualify for this new tax credit.

The Department of Revenue indicates that it would require a total $207,181 from the State General Fund in FY 2023 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers and to manage the Kansas Housing Investor Tax Credit. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, 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 bill would require $25,161 from the State General Fund in FY 2023 to implement the bill. The bill would require the Department hire a new 0.50 Administrative Assistant FTE position that would assist the program manager to manage this new housing program. Any fiscal effect associated with SB 375 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Department of Commerce
Bobbi Mariani, Insurance