Landon State Office Building
900 S.W. Jackson, Room 504
Topeka, KS 66612

Steven J. Anderson, CPA, MBA, Director

Kansas
Division of the Budget

phone: 785-296-2436
fax: 785-296-0231
steve.anderson@budget.ks.gov

Sam Brownback, Governor

February 27, 2013

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2344 by House Committee on Agriculture and Natural Resources

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2344 is respectfully submitted to your committee.

Under current law, the High Performance Incentive Program (HPIP) Program provides a 10.0 percent income tax credit on eligible capital investments made by qualified companies that pay above average wages in specific industry sectors, and allows qualified companies to receive a sales tax exemption for eligible capital investment project costs. HB 2344 would add the following industries, listed by their North American Industry Classification System (NAICS) code, to the list of eligible industries that can qualify for benefits under the HPIP Program: chicken egg production (1123), sheep and goat farming (1124), cattle feedlots (112112), dairy cattle and milk production (112120), and hog and pig farming (112210). The bill would allow companies from these industries to qualify for HPIP benefits retroactively to tax year 2012 and for each future tax year.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	($9,300,000)	($10,100,000)
Expenditure	--	--	$1,200	$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2344 would decrease state revenues by $10.1 million in FY 2014. Of that total, the State General Fund is estimated to decrease by $9.3 million in FY 2014, while the State Highway Fund is estimated to decrease by $800,000. This bill is also estimated to decrease local revenues by $870,000 in FY 2014. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	$ 39,000	$ --	$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	(4,500)	355,500
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	(4,800)	1,947,200
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	151,500	--	151,500
Total Taxes	$5,555,500	($ 9,300)	$5,546,200
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	($ 9,300)	$5,455,000

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

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	($2,200,000)	($2,200,000)	($2,400,000)	($2,500,000)
State Highway Fund	(400,000)	(400,000)	(400,000)	(400,000)
Local Governments	(700,000)	(700,000)	(700,000)	(700,000)
	($3,300,000)	($3,300,000)	($3,500,000)	($3,600,000)

To formulate these estimates, the Department of Revenue reviewed data on the HPIP Program that is administered by the Department of Commerce. The Department estimates that the amount of capital investment made for animal production projects average about $60.0 million per year. The Department estimates that eligible agriculture production companies would claim approximately $500,000 in HPIP tax credits in FY 2014 and each future fiscal year. However, the Department indicates that by allowing HPIP tax credits to be claimed retroactively to include tax year 2012, eligible companies would file refund claims based on an additional $4.0 million in HPIP tax credits that would be claimed under the income tax provisions that were in place for tax year 2012. Therefore, the bill is estimated to reduce corporate income tax receipts by a total of $4.5 million in FY 2014 and $500,000 in FY 2015.

The Department estimates that by allowing qualified companies to receive a sales tax exemption for eligible capital investment project costs, the bill would reduce state retail sales tax collections by a total of $5.6 million in FY 2014, including $4.8 million from the State General Fund and $800,000 from the State Highway Fund. This estimate assumes that companies will make retroactive retail sales tax refund claims that total $3.5 million in FY 2014, including $3.1 million from the State General Fund and $400,000 from the State Highway Fund. The bill is estimated to reduce retail sales tax collections by a total of $2.1 million in FY 2015, including $1.7 million from the State General Fund and $400,000 from the State Highway Fund. Additionally, sales tax revenue for local governments will also be reduced from retroactive retail sales tax refund claims and from newly exempted purchases by a total of $870,000 in FY 2014 and by $700,000 in FY 2015.

The Department of Revenue indicates that it would require $1,200 from the State General Fund in FY 2014 to update forms and instructions and to modify the automated tax system. The required programming for this bill by itself (40 hours of in-house programming and implementation) 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 currently manages the HPIP Program and is responsible for determining if a company is qualified to receive HPIP benefits. The Department indicates that the proposed changes to the HPIP Program could be implemented within the agency's existing resources and staff levels. Any fiscal effect associated with HB 2344 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Dan Lara, Commerce