

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5570S.01I  
 Bill No.: SB 1141  
 Subject: Tax Credits; Economic Development  
 Type: Original  
 Date: April 3, 2022

Bill Summary: This proposal modifies provisions relating to the new business facilities tax credit.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	\$0 or could exceed (\$6,342,772) to (\$12,000,000)	\$0 or could exceed (\$6,342,772) to (\$12,000,000)	\$0 or could exceed (\$6,342,772) to (\$12,000,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or could exceed (\$6,342,772) to (\$12,000,000)</b>	<b>\$0 or could exceed (\$6,342,772) to (\$12,000,000)</b>	<b>\$0 or could exceed (\$6,342,772) to (\$12,000,000)</b>

\*Oversight notes the proposal extends the time frame for how long companies may receive benefits under the new business facilities tax credit for an additional 10 years. Oversight does not know when the current recipient(s) of the credits will exhaust their current 20 year window. Therefore, Oversight will range the fiscal impact from \$0 (current 20 year window may not run out within the 3 year scope of the fiscal note) to the average annual redemption amount for the program to the current appropriation limit. Oversight uses the “could exceed” as future General Assemblies may increase the appropriation limit above \$12 million.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<b>Total Estimated Net Effect on <u>Other State Funds</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Economic Development (DED)** note:

135.110.1. Allows an additional 10 year period after the expiration of the first additional 10 year period. This could be a potential impact of \$15M over the 10 year period (\$1.5M per year). No new FTE needed.

Officials from the **Department of Revenue (DOR)** assume the new business facility tax credit program allows a company to receive a tax credit if they expand or create a new facility. The program was created in 1980 and allowed a company that creates a new facility or adds on to an existing facility to receive a tax credit. The minimum investment by the facility is the hiring of at least 2 FTE and expenditures of \$100,000. There has only been one company that has qualified for this credit.

The original bill only allowed the credit for 10 years and the facility creation or expansion had to be approved by January 1, 2005. The credit was already expanded to give a second 10 years and this proposal is expanding it for another 10 years. Additionally, the facility has until January 1, 2035 to create a new facility of expand an existing one.

For informational purposes the Department is showing what has been issued and redeemed the last few years. It should be noted that while this tax credit does not have an annual cap, the House Budget Committee has voted to cap the credit at \$12 million annually for FY 2020, FY 2021 and FY 2022.

Year	Issued	Total Redeemed
FY 2021	\$24,959,370.00	\$12,345,744.00
FY 2020	\$0.00	\$7,555,278.00
FY 2019	\$9,213,825.00	\$8,217,556.00
FY 2018	\$8,762,244.00	\$6,329,689.00
FY 2017	\$8,044,858.00	\$4,046,742.00
FY 2016	\$4,778,641.00	\$4,593,362.00
FY 2015	\$4,160,818.00	\$4,493,611.28
FY 2014	\$6,563,164.00	\$6,618,443.21
FY 2013	\$5,704,373.00	\$4,431,017.94
FY 2012	\$4,840,502.00	\$4,796,279.38
<b>TOTALS</b>	<b>\$77,027,795.00</b>	<b>\$63,427,722.81</b>

This proposal has the potential to allow additional companies to apply for this credit or the existing company to apply for additional credits. This program has no cap and therefore could exceed the \$12 million annually that it has been limited to.

This will require changes to our forms and computer programs which are expected to cost \$3,956.

**Oversight** notes the officials from the **DOR** assume the proposal will have no fiscal impact on their organization except the cost for computer programming changes. **Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** notes, for informational purposes, that DOR indicated that there is currently only one company receiving this tax credit.

**Oversight** notes that **DED**, in response to the SB 68 (2019), assumed this legislation modified the Business Facility Tax Credit by amending the definition of New Business Facility Investment under 135.100 to remove the requirement that it be "real and depreciable tangible personal property" and adds that it can be the purchase, lease, or license of software and hardware. It allowed the company to get eight times the amount of the license. Currently, the statute sunsets in 2025 and the company will get 10 years of benefits after the last year the project is approved.

**Oversight** notes the DED officials, through additional correspondence with Oversight via e-mail, confirmed the Burns & McDonnell Company is the sole company receiving this tax credit. Additionally, the DED provided projected expenditure in FY 2023 – 2029 for additional projects as follows:

FY 2023 - \$11.2 M

FY 2024 - \$9.9 M

FY 2025 - \$9.4 M

FY 2026 - \$5.9 M

FY 2027 - \$5.1M

FY 2028 - \$4.7M

FY 2029 - \$4.3M

**Oversight** notes that DED was not able to project any additional projects or expenditure beyond FY 2029 at this time.

**Oversight** notes, for informational purposes, that according to the Kansas City Business Journal article, the Burns & McDonnell Company is a 100% employee owned company offering various architectural services. (Source: [Kansas City Business Journal](#)).

**Oversight** notes that the New and Expanded Business Facility Credit program awards credits from \$75 to \$125 per job (for a new company) and per \$100,000 of new investment each year for 10 years. The program has no annual cap. Oversight also notes that if a company meets the requirements and receives the credits, the state could receive positive benefits; however, Oversight assumes these benefits (additional workers hired and business capital expenditures) to be indirect benefits and will not reflect them in the fiscal note.

**Oversight** does not have any information to the contrary of DED. The House Budget Committee on May 16, 2019, voted to not allow the authorization of more than \$12 million in tax credits under the New Business Facility Tax Credit Program. Therefore, **Oversight** will show the impact will report impact to the general fund as continuation of the tax credit and note reduction in revenue from low \$6.3M (average redemption amount total shown below) to the allowable cap of \$12M.

FY	Issued	Redeemed
FY 2021	\$24,959,370.00	\$12,345,744.00
FY 2020	\$0.00	\$7,555,278.00
FY 2019	\$9,213,825.00	\$8,217,556.00
FY 2018	\$8,762,244.00	\$6,329,689.00
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FY 2013	\$5,704,373.00	\$4,431,017.94
FY 2012	\$4,840,502.00	\$4,796,279.38
All FY	<b>Average</b>	<b>\$6,342,772.28</b>

In response to the similar proposal, SB 68 (2019), the officials of the **Department of Insurance, Financial Institutions and Professional Registration** assumed a potential unknown decrease of premium tax revenues may occur as a result of the changes to the Expanded Business Facility tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

**Oversight**, for simplicity, will not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance

Fund, which ultimately goes to local school districts.

Officials from the **City of Kansas City** and the **City of Springfield** both assume the proposal will have no fiscal impact on their organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these cities.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction</u> - DOR 135.110 - expansion of the New Business Facility tax credit (p.3,4) *	\$0 or Could exceed (\$6,342,772) to (\$12,000,000)	\$0 or Could exceed (\$6,342,772) to (\$12,000,000)	\$0 or Could exceed (\$6,342,772) to (\$12,000,000)
<b>ESTIMATED NET IMPACT TO THE GENERAL REVENUE FUND</b>	<b>\$0 or Could exceed (\$6,342,772) to (\$12,000,000)</b>	<b>\$0 or Could exceed (\$6,342,772) to (\$12,000,000)</b>	<b>\$0 or Could exceed (\$6,342,772) to (\$12,000,000)</b>

\*Oversight notes the proposal extends the time frame for how long companies may receive benefits under the new business facilities tax credit for an additional 10 years. Oversight does not know when the current recipient(s) of the credits will exhaust their current 20 year window. Therefore, Oversight will range the fiscal impact from \$0 (current 20 year window may not run out within the 3 year scope of the fiscal note) to the average annual redemption amount for the program to the current appropriation limit. Oversight uses the “could exceed” as future General Assemblies may increase the appropriation limit above \$12 million.

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Current law authorizes a tax credit for a 10-year period for businesses that establish a headquarters in the state, with an additional possible 10-year period if certain conditions are met.

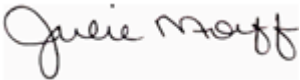
This act allows for a further additional 10-year period conditional on such conditions being met.  
(Section 135.110)

Current law also provides that such tax credit shall only be available for headquarters that commence operations on or before December 31, 2024. This act extends such date to December 31, 2034.


This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning  
Department of Economic Development  
Department of Revenue  
City of Claycomo  
City of Kansas City  
City of Springfield



Julie Morff  
Director  
April 3, 2022



Ross Strobe  
Assistant Director  
April 3, 2022