

March 17, 2021

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Rural Development
Statehouse, Room 581A-W
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2431 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2431 is respectfully submitted to your committee.

HB 2431 would allow any county that meets the definition of a “rural opportunity zone,” may, in addition to the state income tax credit, participate in either the Rural Community Building Program or the Student Loan Forgiveness Program and/or have a portion of an individual’s down payment for the purchase of a new home paid. If the board of county commissioners submits a resolution electing to participate in the Rural Community Building Program, the State of Kansas and the county would agree to enter a five-year community building program to address rural migration.

The program would be developed and implemented with the assistance of the Secretary of Commerce. If a county fails to meet the program’s objectives, as determined by the Secretary, it would result in the cessation of program assistance or funding by the state. In considering whether objectives are met, the Secretary would consider the extent of resources available to a county, the county’s effort to apply the available resources, including resources provided by the Secretary or state, and the level of community support for the program. The Secretary may extend time deadlines if the Secretary finds the county has made a good faith effort to meet the objective within the timeframe and the purposes of the program would be furthered by extending the deadline. The bill would outline the requirements for the five-year program.

Under current law, a “rural opportunity zone” includes 77 specific counties. The bill would change the definition to a county with a population of less than 35,000 persons. Additionally, the bill would change the definition of “institutions of higher education” to not only include public or private colleges or universities, but would also include any community college; any technical

college; the Washburn Institute of Technology; and any two-year associate degree program or career and technical education program offered by a private postsecondary educational institution with its primarily location in Kansas and accredited by the Higher Learning Commission.

The bill would specify that the state would pay up to 1.5 percent of the down payment for the purchase of a residence within the county by a resident individual who qualifies and is a first-time homebuyer, if the state's payment is matched by a sponsor. The sponsor may be or include the county, the employer of the individual, any municipality or political subdivision within the county, or any other organization, businesses, group or individual, including the qualified individual, if so authorized by the county. The county would agree to commit at least \$10,000 towards matching funds for sponsorships. The state would not be obligated to pay a portion of the down payment of any resident individual who qualifies prior to the county submitting a resolution to the Secretary.

The bill specifies that the failure of a county to make certifications as required in the bill would cause the county to lose active status as a Rural Opportunity Zone and until active status is restored by the Secretary, no resident individual may be initially accepted for loan repayment or down payment assistance or for the tax credit. A county may participate in one or both programs, but an eligible resident individual may only receive benefits from one of such programs offered by the county.

The bill would extend the sunset for the Rural Opportunity Zones Program until June 30, 2026; however, the 100.0 percent state income tax credit associated with the Rural Opportunity Zones Program would expire at the end of tax year 2021, which is current law. The bill would also extend annual reporting requirements to the Senate Committee on Assessment and Taxation and the House Committee on Taxation that includes how many residents applied for this tax credit.

The Department of Revenue indicates there are currently 77 counties in the Rural Opportunity Zones Program and enactment of the bill would add an additional 16 counties for a total of 93 counties, according to the Department. The Department estimates that allowing 16 additional counties to be designated as Rural Opportunity Zones would decrease State General Fund revenues by \$1,892,800 in FY 2022 because of the state income tax credit. The Department of Revenue indicates that it would require a total of \$7,715 from the State General Fund in FY 2022 to implement the bill 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. 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.

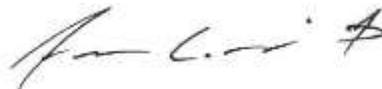
The Department of Commerce indicates additional expenditures of \$145,000 from the State General Fund, along with 2.50 FTE positions in FY 2022 would be needed for a Program Director, Program Manager, and a part-time Administrative Specialist to administer the program. The Department indicates additional funding would be needed for the additional counties that would choose to participate in the Student Loan Forgiveness Program. Also, the Department

indicates additional funding would be needed for the state's portion of the housing down payment assistance. The Department indicates the overall fiscal effect would depend on the level of participation and the track choice made by each county.

The Board of Regents indicates enactment of the bill would add community and technical college students to the Rural Opportunity Zone Program, which offers student loan repayments; however, there would not be a direct fiscal effect on higher education institutions within the Board of Regents system. Any fiscal effect associated with HB 2431 is not reflected in *The FY 2022 Governor's Budget Report*.

The Kansas Association of Counties states enactment of the bill could have some fiscal effect on counties if a county elects to participate in the Rural Community Building Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Sherry Rentfro, Department of Commerce
Lynn Robinson, Department of Revenue
Jay Hall, Association of Counties
Kelly Oliver, Board of Regents