

February 25, 2013

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 183 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 183 is respectfully submitted to your committee.

SB 183 would provide a sales tax exemption for indirect purchases associated with construction, renovation, and repairing of state properties and facilities. The bill would allow contractors to obtain a project exemption certificate and would exempt any materials or services purchased for projects that involve the State of Kansas.

SB 183 would reduce both state revenues and state expenditures. The Department of Revenue indicates that the bill would allow contractors to avoid paying \$34.0 million in state and local sales taxes for state projects that involve construction, renovation, and repairing of state properties and facilities. The Department estimates that most of the savings would be from the State Highway Fund for the costs associated with highway projects. However, the savings would also be from the State General Fund, federal funds, and other state funds that are currently used to make capital improvement expenditures to contractors for sales tax expenses. Existing long-term contracts with contractors would have to be renegotiated for the State of Kansas to capture any sales tax savings. However, future project costs would include the sales tax savings in the bidding process.

The bill would reduce state sales tax collections by an estimated \$27.0 million and local sales tax collections by \$7.7 million in FY 2014. Of the \$27.0 million in state sales tax collections, approximately \$22.0 million would be from the State General Fund and \$5.0 million would be from the State Highway Fund. Therefore, the net savings to the state would be the \$7.7 million in local sales taxes that would no longer be required to be paid by contractors for state projects.

The Department of Revenue indicates the implementation of SB 183 would require \$525 from the State General Fund to update various sales tax publications. The Department indicates

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the costs associated with issuing project exemption certificates would be negligible and could be absorbed within existing resources. Any fiscal effect associated with SB 183 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

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

cc: Steve Neske, Revenue
Pam Fink, DofA