

March 28, 2016

The Honorable Ron Ryckman, Jr., Chairperson  
House Committee on Appropriations  
Statehouse, Room 111-N  
Topeka, Kansas 66612

Dear Representative Ryckman:

**SUBJECT:** Fiscal Note for HB 2675 by Representatives Helgeson and Trimmer

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2675 is respectfully submitted to your committee.

HB 2675 would establish the Kansas Efficiency Fund, the Kansas Rainy Day Fund and the Sales Tax on Food Rate Reduction Fund. The Kansas Efficiency Fund would be used for transfers to the Kansas Rainy Day Fund, funding K-12 expenditures and transfers to the Sales Tax on Food Rate Reduction Fund. The Kansas Efficiency Fund would be financed from savings from the efficiency recommendations. The Director of the Budget would be required to continuously monitor the implementation of the *Kansas Statewide Efficiency Review*. Beginning August 1, 2016, and on or before August 1 each following year, the Director of the Budget must certify to the Director of Accounts and Reports the actual or projected cost savings as a result of the implementation of the efficiency recommendations. The Director of Accounts and Reports would transfer the amount of the savings from the State General Fund to the Kansas Efficiency Fund. Transfers from the Kansas Efficiency Fund would occur in the following manner: the first \$50.0 million would be transferred to the Kansas Rainy Day Fund; of the remaining balance, the next \$300.0 million would be for K-12 expenditures; and of the remaining balance, up to \$450.0 million would be transferred to the Sales Tax on Food Rate Reduction Fund. The bill would require that funds used for K-12 expenditures would be used to supplement existing appropriations and must not be used to supplant State General Fund appropriations for K-12. Monies in the Kansas Efficiency Fund would be exempt from allotments.

The Kansas Rainy Day Fund would be used in any fiscal year when State General Fund or special revenue fund revenues are insufficient to cover expenditures as certified by the Director of the Budget and the Director of Legislative Research. Expenditures of the Kansas Rainy Day Fund could only be approved by the Legislature or the State Finance Council. The balance of the Kansas Rainy Day Fund would not be permitted to exceed \$500.0 million.

The Kansas Efficiency Fund and the Kansas Rainy Day Fund would be trust funds that are invested, managed and administered by the Kansas Public Employees Retirement System (KPERs). The funds would be part of the KPERs budget and KPERs would be permitted to use resources from each fund to offset any expenses associated with managing the funds.

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The Sales Tax on Food Rate Reduction Fund would be used for reducing the sales tax rate on food. Beginning in FY 2017, the Director of Legislative Research must certify the amount in the Sales Tax on Food Rate Reduction Fund to the Secretary of Revenue and the Director of the Budget. The Kansas Department of Revenue (KDOR) would reduce the sales and compensating use tax rates for the sale of food and food ingredients based on the certified amount. The bill would require that the amount of sales and compensating tax revenue distributed to the State Highway Fund be adjusted so that the State Highway Fund would receive the same distribution percentage if there is any reduction to sales and compensating use tax rates. The definition of “food and food ingredients” would be amended to exclude candy, dietary supplements, food sold through vending machines, prepared foods and soft drinks. The Sales Tax on Food Rate Reduction Fund would be part of the KDOR budget.

The *Kansas Statewide Efficiency Review* estimates that implementing all of the recommendations could result in total savings and revenues of \$301.2 million from all funds in FY 2017 and approximately \$2.0 billion from all funds from FY 2016 through FY 2021. At this time, it is unknown what the actual cost savings would be and how much of the savings would be from the State General Fund. Also unknown is how many recommendations will not be pursued based on determinations made during legislative review. Therefore, it is unclear how much savings or revenues from implementing the efficiency recommendations would be available in the Kansas Efficiency Fund.

The Kansas Department of Revenue is unable to estimate how much revenue the Sales Tax on Food Rate Reduction Fund would receive and what adjustments would be made to the sales and compensating use tax on food. KDOR indicates that overseeing the fund and annually adjusting the sales and compensating use tax on food would require additional programming expenditures of \$326,256 and 6.00 FTE positions. The required programming for this bill by itself would be performed with existing resources. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department’s programming resources expenditures beyond the Department’s current budget may be required.

KPERS indicates that administration of the two new trust funds would require additional costs but the precise amount is unknown. In any case, the bill allows any costs incurred from managing the funds to be paid by the funds. Any fiscal effect associated with HB 2675 is not reflected in *The FY 2017 Governor’s Budget Report*.

Sincerely,



Shawn Sullivan,  
Director of the Budget

cc: Faith Loretto, KPERS  
Scott Miller, PMIB  
Dale Dennis, Education  
Jack Smith, Department of Revenue