

February 26, 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 2679 by Representative Alcalá

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2679 is respectfully submitted to your committee.

HB 2679 would authorize salary increases beginning in FY 2019 for unclassified and classified state employees of the Judicial and Executive Branches. Appointed or elected state officers or judges would be excluded. The salary increases would be paid from the amount certified by the Secretary of Revenue and the Director of the Budget as actual tax collected from the implementation of the water's edge election. The pay increase would be 5.0 percent in FY 2019 and would increase every subsequent fiscal year by a percentage equal to the percentage increase in the Consumer Price Index.

The Department of Revenue expects that corporate taxpayers familiar with tax liabilities would choose the water's edge option only when the filing method would result in lower Kansas tax liabilities than tax liabilities under the domestic combination method currently used by Kansas. Therefore, the Department estimates that the bill would likely result in reduced corporate income tax revenues, which would reduce revenues to the State General Fund. However, the agency has no information to estimate the precise fiscal effect on revenues.

The Department of Administration indicates that the specific amounts of the salary increases in FY 2019 and beyond cannot be accurately estimated because the exact size and makeup of the state's workforce in those fiscal years is unknown. It is also unknown how much actual tax collected from the implementation of the water's edge election would be available for the pay increases. The Division of the Budget would be able to handle any duties associated with the bill using current resources.

According to *The FY 2017 Governor's Budget Report*, the total amount for statewide salaries and wages for FY 2017 is \$2,920,953,402, which includes \$1,101,786,734 from the State General Fund. Excluding the Legislative Branch, total salaries and wages expenditures for FY 2017 are estimated to be \$2,901,839,835 from all funds and \$1,082,685,167 from the State General Fund. Using these figures, it is estimated that a 5.0 percent salary increase in FY 2019 would result in salaries and wages expenditures of \$1,136,819,425 from the State General Fund and \$3,046,931,827 from all funds. This would require additional funding of \$54,134,258 from the State General Fund and \$145,091,992 from all funds. Any fiscal effect associated with HB 2679 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Colleen Becker, Department of Administration