

March 23, 2015

CORRECTED

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

Dear Senator Donovan:

SUBJECT: Corrected Fiscal Note for SB 261 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning SB 261 is respectfully submitted to your committee.

SB 261 removes the state sales tax exemption on the sale of gas, electricity, and heat for residential and agricultural uses. The bill would also remove the state sales tax exemption for other fuel sources for the production of heat and lighting for residential uses. In the original fiscal note issued, the taxation of water was incorrectly included in the estimates for the fiscal effect for each fiscal year.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$129,400,000	\$156,040,000
Expenditure	--	--	\$30,687	\$30,687
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 261 would increase state revenues by \$156,040,000 in FY 2016. Of that total, the State General Fund is estimated to increase by \$129,400,000 in FY 2016, while the State Highway Fund is estimated to increase by \$26,640,000 in FY 2016. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	129,400	2,399,400
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	\$ 129,400	\$6,100,000
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	\$ 129,400	\$5,940,800

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$146,460,000	\$151,950,000	\$157,650,000	\$163,560,000
State Highway Fund	<u>30,150,000</u>	<u>31,280,000</u>	<u>32,460,000</u>	<u>33,670,000</u>
	\$176,610,000	\$183,230,000	\$190,110,000	\$197,230,000

To formulate these estimates, the Department of Revenue reviewed data on sales tax collections on residential and agriculture utilities. The Department estimates that residential and agricultural utility customers would pay an additional \$156,040,000 to fund the state sales tax on residential and agriculture utilities. The Department indicates that there would be a one month lag from the time that the changes become effective and when the revenues are collected. The Department indicates that FY 2016 would only include 11 months of revenue from removing the state sales tax exemption on residential and agriculture utilities. It should be noted that current

law allows local governments to collect a sales tax on residential and agriculture utilities; therefore the bill is not expected to have a fiscal effect for local governments.

The Department of Revenue indicates the bill it would require \$30,687 from the State General Fund to update forms and instructions and to modify the sales tax processing system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. KDOT indicates the bill would provide additional funding for the comprehensive transportation plan, known as T-WORKS. Any fiscal effect associated with SB 261 is not reflected in *The FY 2016 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
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties
Amy Gilbert, KCC
Ben Cleeves, Transportation