

March 31, 2015

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

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 264 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 264 is respectfully submitted to your committee.

Under current law, the sale of farm machinery and equipment and the service, repair, or replacement parts for farm machinery and equipment are exempt from retail sales tax. SB 264 would remove this sales tax exemption beginning on July 1, 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$60,800,000	\$73,300,000
Expenditure	--	--	\$1,800	\$1,800
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 264 would increase state revenues by \$73.3 million in FY 2016. Of that total, the State General Fund is estimated to increase by \$60.8 million in FY 2016, while the State Highway Fund is estimated to increase by \$12.5 million in FY 2016. This bill also is estimated to increase local revenues by \$18.3 million 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	60,800	2,330,800
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	\$ 60,800	\$6,031,400
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	\$ 60,800	\$5,872,200

The fiscal effect to local and 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	\$63,100,000	\$65,400,000	\$67,900,000	\$70,400,000
State Highway Fund	13,000,000	13,500,000	14,000,000	14,500,000
Local Governments	<u>19,000,000</u>	<u>19,700,000</u>	<u>20,500,000</u>	<u>21,200,000</u>
	\$95,100,000	\$98,600,000	\$102,400,000	\$106,100,000

To formulate these estimates, the Department of Revenue reviewed data on sales of farm machinery and equipment and the service, repair, or replacement parts for farm machinery and equipment. According to the Department, reissuing sales tax publications would cost \$1,800 from the State General Fund in FY 2016.

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.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net increase to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with SB 264 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
Ben Cleeves, Transportation
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties