

STATE OF KANSAS



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GOVERNOR JEFF COLYER, M.D.
 LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

February 21, 2018

The Honorable Steven Johnson, Chairperson
 House Committee on Taxation
 Statehouse, Room 185-N
 Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2658 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2658 is respectfully submitted to your committee.

HB 2658 would provide a sales tax exemption for all food and food ingredients that are approved under the federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The sales tax exemption would apply to food and food ingredients purchased with or without a WIC voucher and would be effective beginning on July 1, 2018.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	(\$87,100,000)	(\$103,900,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2658 would decrease state revenues by \$103.9 million in FY 2019. Of that total, the State General Fund is estimated to decrease by \$87.1 million in FY 2019, while the State Highway Fund is estimated to decrease by \$16.8 million in FY 2019. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State General Fund	(\$96,800,000)	(\$98,600,000)	(\$100,500,000)
State Highway Fund	<u>(18,700,000)</u>	<u>(19,000,000)</u>	<u>(19,400,000)</u>
	(\$115,500,000)	(\$117,600,000)	(\$119,900,000)

To formulate these estimates, the Department of Revenue reviewed data on the WIC Program. The WIC program includes a variety of foods in the following categories: baby food, infant cereal, infant formula, milk, eggs, cheese, yogurt, soy beverages, tofu, peanut butter, dried beans/peas, canned beans, fish, fruit, vegetables, juice, whole grains (tortillas, rice, pasta, bread, rolls, and buns), and breakfast cereals. The retail sales tax is not currently collected on food and food ingredients items purchased with a WIC voucher. Based on information from the Consumer Expenditure Survey, it is estimated that sales of these foods comprise 4.0 percent of total sales tax collections. The Department indicates that State General Fund estimates for FY 2019 are based on the November 2017 Consensus Revenue Estimate. According to the Department of Revenue, revising forms and reissuing sales tax publications would cost \$1,200 from the State General Fund in FY 2019.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under 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 reduction to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2658 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Ben Cleaves, Transportation
Chardae Caine, League of Municipalities
Melissa Wangemann, Association of Counties