

March 25, 2014

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

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2731 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2731 is respectfully submitted to your committee.

HB 2731 would provide a retail sales tax exemption for the purchase of textbooks that are required for classes held by a public or private postsecondary educational institution, including colleges, universities, community colleges, and technical schools. The sales tax exemption would only apply to the purchases of textbooks that are made by students.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	(\$7,380,000)	(\$8,900,000)
Expenditure	--	--	\$1,050	\$1,050
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2731 would decrease state revenues by \$8.9 million in FY 2015. Of that total, the State General Fund is estimated to decrease by \$7,380,000 in FY 2015, while the State Highway Fund is estimated to decrease by \$1,520,000 in FY 2015. This bill also is estimated to decrease local revenues by \$2,230,000 in FY 2015. The decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	\$ 24,000	\$ --	\$ 24,000
Income Taxes:			
Individual	2,525,000	--	2,525,000
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	(7,380)	2,152,620
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	<u>161,700</u>	<u>--</u>	<u>161,700</u>
Total Taxes	\$5,975,200	(\$ 7,380)	\$5,967,820
Other Revenues:			
Interest	\$ 10,000	\$ --	\$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	<u>49,900</u>	<u>--</u>	<u>49,900</u>
Total Other Revenues	(\$ 58,100)	\$ --	(\$ 58,100)
Total Receipts	\$5,917,100	(\$ 7,380)	\$5,909,720

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	(\$7,380,000)	(\$7,380,000)	(\$7,380,000)	(\$7,380,000)
State Highway Fund	(1,520,000)	(1,520,000)	(1,520,000)	(1,520,000)
Local Governments	<u>(2,230,000)</u>	<u>(2,230,000)</u>	<u>(2,230,000)</u>	<u>(2,230,000)</u>
	(\$11,130,000)	(\$11,130,000)	(\$11,130,000)	(\$11,130,000)

To formulate these estimates, the Department of Revenue reviewed data on textbook purchases from The College Board and the National Association of College Stores (NSCS). The College Board estimates that the purchase of new textbooks and course materials cost full time students \$1,200 each year. NSCS reports from a survey of 11,000 college students that students spend an average of \$662 on course materials. The Department assumes The College Board overstates the costs and the survey results reported by NACS under reports the costs. The Department also assumes that the greater use of electronic textbooks will result in no growth in

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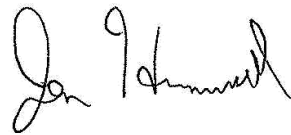
costs in future years, even though printed textbook costs have been rising annually. The Department estimates that the average annual cost for textbooks and course material would be \$800 for full time students and \$350 for part time students. The Department of Revenue indicates that the total enrollment at Kansas colleges, universities, community colleges, and technical schools is 214,500, including 155,000 full time students.

The Department of Revenue indicates that it would require \$1,050 from the State General Fund in FY 2015 for the costs associated with updating forms.

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 is required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS. Any fiscal effect associated with HB 2731 is not reflected in *The FY 2015 Governor's Budget Report*.

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive style with a large initial "J".

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Department of Revenue
Kelly Oliver, Board of Regents
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties
Ben Cleaves, Transportation