

February 22, 2019

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2311 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2311 is respectfully submitted to your committee.

HB 2311 would provide a state and local retail sales tax and compensating use tax exemption for food and food ingredients beginning on July 1, 2019. Food and food ingredients would be defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, candy, dietary supplements, food sold through vending machines, soft drinks, tobacco, or certain prepared food. Food and food ingredients would specifically include bottled water. The bill would provide specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would not adjust the distribution of state retail sales and compensating use tax revenue, which would remain the same as current law: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund.

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	(\$325,900,000)	(\$388,700,000)
Expenditure	--	--	\$1,600	\$1,600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2311 would decrease state revenues by \$388.7 million in FY 2020. Of that total, the State General Fund is estimated to decrease by \$325.9 million in FY 2020, while the State Highway Fund is estimated to decrease by \$62.8 million in FY

2020. 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 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	(\$360,000,000)	(\$365,700,000)	(\$371,600,000)
State Highway Fund	<u>(69,400,000)</u>	<u>(70,500,000)</u>	<u>(71,600,000)</u>
	(\$429,400,000)	(\$436,200,000)	(\$443,200,000)

The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients. State General Fund revenues in the out years assume a 1.6 percent annual growth rate based on the November 2018 Consensus Revenue Estimate. According to the Department of Revenue, updating sales tax publications and forms would cost \$1,600 from the State General Fund in FY 2020.

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 2311 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

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