

February 4, 2005

The Honorable Jim Morrison, Chairperson  
House Committee on Health and Human Services  
Statehouse, Room 171-W  
Topeka, Kansas 66612

Dear Representative Morrison:

SUBJECT: Fiscal Note for HB 2204 by House Committee on Health and Human Services

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2204 is respectfully submitted to your committee.

HB 2204 would expand the retail sales tax exemptions to include services provided by health and fitness organizations and businesses. The services that would be included in the exemption are membership charges and initiation fees.

Estimated State Fiscal Effect				
	FY 2005 SGF	FY 2005 All Funds	FY 2006 SGF	FY 2006 All Funds
Revenue	--	--	(\$1,715,000)	(\$1,800,000)
Expenditure	--	--	\$17,575	\$17,575
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2204 would decrease state revenues by \$1.8 million in FY 2006. Of that total, the State General Fund is estimated to decrease by \$1,715,000, while the State Highway Fund is estimated to decrease by \$85,000. The decrease in revenues and how the November 3, 2004 consensus revenue estimate for FY 2006 would be affected are shown in the following table:

Effect on FY 2006 Consensus Revenue Estimates  
(Dollars in Thousands)

Tax Type	Consensus Revenue Estimates (Nov. 3, 2004)	Change in Revenue FY 2006	Proposed Adjusted CRE FY 2006
Motor Carrier	\$22,000	\$--	\$22,000
Income Taxes			
Individual	2,060,000	--	2,060,000
Corporate	155,000	--	155,000
Financial Institutions	22,000	--	22,000
Estate	51,000	--	51,000
Excise Taxes:			
Retail Sales	1,700,000	(1,715)	1,698,285
Compensating Use	237,000	--	237,000
Cigarette	117,000	--	117,000
Corporate Franchise	45,000	--	45,000
Severance	88,000	--	88,000
All Other Excise Taxes	76,000	--	76,000
Other Taxes	104,500	--	104,500
Total Taxes	\$4,677,500	(\$1,715)	\$4,675,785

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

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	(\$1,729,000)	(\$1,692,000)	(\$1,751,000)	(\$1,812,000)
State Highway Fund	(134,000)	(236,000)	(245,000)	(253,000)
Local Governments	--	--	--	--
	<u>(\$1,863,000)</u>	<u>(\$1,928,000)</u>	<u>(\$1,996,000)</u>	<u>(\$2,065,000)</u>

To formulate these estimates, the Department of Revenue reviewed sales data for health and fitness organizations. The Department states that passage of this bill would require revisions to the *Kansas Sales and Compensating Use Tax* publication and a notice of the changes to retailers at an estimated cost of \$17,575. However, these costs would be absorbed by the Department. This bill also would require modifications to the automated tax 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

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beyond the Department's current budget may be required. Any fiscal effect associated with HB 2204 is not reflected in *The FY 2006 Governor's Budget Report*.

Sincerely,

Duane A. Goossen  
Director of the Budget

cc: Steve Neske, Revenue