



February 7, 2024

The Honorable Adam Smith, Chairperson  
 House Committee on Taxation  
 300 SW 10th Avenue, Room 346-S  
 Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2688 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2688 is respectfully submitted to your committee.

HB 2688 would provide a sales tax exemption for Exploration Place, Inc. for the purpose of constructing, remodeling, furnishing, or equipping a riverfront amphitheater, a destination playscape, an education center, and indoor renovations at Exploration Place in Wichita. The sales tax exemption would also be extended to any contractor hired for constructing, remodeling, furnishing, or equipping the project for Exploration Place, Inc. The bill includes reporting requirements for contractors and penalties for the use of the sales tax exemption that is determined to not be part of this project, which would be punishable as a misdemeanor. The sales tax exemption would expire December 31, 2030. The sales tax exemption would go into effect on July 1, 2024, but for purchases made on or after January 1, 2024, and prior to the effective date of the bill, the organization would be eligible to submit a sales tax refund request.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
<b>Expenditures</b>			
State General Fund	--	--	--
Fee Fund(s)	--	\$1,800	--
Federal Fund	--	--	--
Total Expenditures	--		--
<b>Revenues</b>			
State General Fund	--	(\$106,600)	(\$106,600)
Fee Fund(s)	--	(23,400)	(23,400)
Federal Fund	--	--	--
Total Revenues	--	(\$130,000)	(\$130,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2688 would decrease state revenues by \$130,000 in FY 2025. Of that total, the State General Fund is estimated to decrease by \$106,600 in FY 2025, while the State Highway Fund is estimated to decrease by \$23,400 in FY 2025. This bill is also 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:

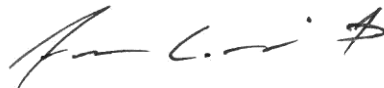
	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State General Fund	(\$106,600)	(\$106,600)	(\$106,600)	(\$106,600)
State Highway Fund	<u>(23,400)</u>	<u>(23,400)</u>	<u>(23,400)</u>	<u>(23,400)</u>
	(\$130,000)	(\$130,000)	(\$130,000)	(\$130,000)

To formulate these estimates, the Department of Revenue reviewed data from Exploration Place, Inc., which reports that it is implementing a multi-year renovation project with combined taxable expenditures estimated at \$13.0 million. The project is estimated to begin in the spring of 2024 with an estimated completion date of December 31, 2030. A sales tax exemption for the project is estimated to result in a state sales tax reduction of \$845,000, including \$692,900 from the State General Fund and \$152,100 from the State Highway Fund from January 1, 2024, through December 31, 2030. Assuming the impact is evenly spaced throughout the duration of the exemption period, the bill would result in an annual reduction of state sales tax collections of \$130,000 per fiscal year from FY 2025 through FY 2030 and a reduction of state sales tax collections of \$65,000 in FY 2031. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,800 from the State General Fund in FY 2025.

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. Any fiscal effect associated with HB 2688 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. This bill has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact the bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Brendan Yorkey, Department of Transportation  
Wendi Stark, League of Kansas Municipalities  
Jay Hall, Kansas Association of Counties