

May 8, 2013

The Honorable Sharon Schwartz, Chairperson  
House Committee on Agriculture and Natural Resources  
Statehouse, Room 149-S  
Topeka, Kansas 66612

Dear Representative Schwartz:

**SUBJECT:** Fiscal Note for HB 2031 by House Committee on Agriculture and Natural Resources

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2031 is respectfully submitted to your committee.

HB 2031 would amend current law regarding retail sales and compensating use tax rates and revenue distributions, and would change the revenue sources for the State Water Plan Fund. The bill would increase the state retail sales and compensating use tax rates from 5.7 percent to 5.8 percent beginning on July 1, 2013. The bill would also reduce the percentage of state retail sales and compensating use taxes that are distributed to the State General Fund and State Highway Fund and would provide a new share of the revenue to the State Water Plan Fund. The following table compares the current law rates and distributions of state retail sales and compensating use taxes that will go into effect on July 1, 2013 with the new rates and distributions proposed in the bill:

<u>Proposal</u>	<u>Tax Rate</u>	<u>Percent to State General Fund</u>	<u>Percent to State Highway Fund</u>	<u>Percent To State Water Plan Fund</u>
Current Law	5.7 %	81.579 %	18.421 %	-- %
HB 2031	5.8	80.942	17.486	1.572

Agencies that utilize the State Water Plan Fund would be allowed to use the funding to replace full-time equivalent positions. The bill would establish priorities for State Water Plan Fund expenditures and would change the requirements for future state water supply contracts. The bill would eliminate the following distribution of fees or transfers to the State Water Plan Fund:

1. The inspection fee from the sale of all commercial fertilizers (amount of the fee would remain unchanged and all revenues would be retained in the Fertilizer Fee Fund);
2. The registration fee for agricultural chemicals (amount of the fee would remain unchanged and all revenues would be retained in the Agricultural Chemical Fee Fund);

3. The reimbursement of expenses from the Sand Royalty Fund (revenues would be retained in the Sand Royalty Fund);
4. The Clean Drinking Water Fee; (amount of the fee would remain unchanged and all revenues would be retained in the State General Fund);
5. The Water Protection Fee would be eliminated;
6. The Water Marketing Fund of the Kansas Water Office would be eliminated and the ending balance would be transferred to the State Water Plan Fund;
7. The portion of any money collected from Colorado or Nebraska to resolve disputes arising under the Arkansas River Compact or the Republican River Compact (revenues would be retained in specific water conservation project funds);
8. The annual transfer from the State Economic Development Initiatives Fund would be eliminated; and
9. The annual transfer from the State General Fund would be eliminated.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	\$22,769,289	\$39,014,767
Expenditure	--	--	\$24,600	\$24,600
FTE Pos.	--	--	--	--

HB 2031 would increase state revenues by a net of \$39,014,767 in FY 2014. Of that total, the State General Fund is estimated to increase by \$22,769,289 in FY 2014, the State Highway Fund is estimated to decrease by \$15,680,000 in FY 2014, the State Water Plan Fund is estimated to increase by \$29,787,694 in FY 2014, and several special revenue funds are estimated to increase revenues by a total of \$2,137,784 in FY 2014. The increase in revenues and how the April 19, 2013 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates  
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 19, 2013)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 41,000	\$ --	\$ 41,000

Income Taxes:			
Individual	2,400,000	--	2,400,000
Corporate	370,000	--	370,000
Financial Institutions	31,000	--	31,000
Excise Taxes:			
Retail Sales	1,920,000	16,938	1,936,938
Compensating Use	295,000	2,602	297,602
Cigarette	90,000	--	90,000
Corporate Franchise	6,000	--	6,000
Severance	132,800	--	132,800
All Other Excise Taxes	100,000	--	100,000
Other Taxes	<u>162,000</u>	<u>--</u>	<u>162,000</u>
Total Taxes	\$5,547,800	\$ 19,540	\$5,567,340
Other Revenues:			
Interest	\$ 10,400	\$ --	\$ 10,400
Transfers	(159,930)	--	(159,930)
Agency Earnings	<u>56,000</u>	<u>3,229</u>	<u>59,229</u>
Total Other Revenues	(\$ 93,530)	\$ 3,229	(\$ 90,301)
Total Receipts	\$5,454,270	\$ 22,769	\$5,477,039

Increasing the state retail sales and compensating use tax rates by 0.1 percentage points and changing the distribution of revenue is estimated to increase overall revenue by \$43,790,000 in FY 2014. Of that total, the State General Fund is estimated to increase by \$19,540,000, the State Highway Fund is estimated to be reduced by \$15,680,000, and the State Water Plan Fund is estimated to receive \$39,930,000. The State General Fund would also receive \$3,229,289 from the Clean Drinking Water Fee that would no longer be transferred to the State Water Plan Fund beginning in FY 2014. The annual State General Fund and Economic Development Initiatives Fund transfers to the State Water Plan Fund are currently suspended for FY 2014 and the bill would make that permanent. Therefore, the State General Fund is estimated to receive an additional \$22,769,289 in FY 2014 (\$19,540,000 from retail sales and compensating use taxes plus \$3,229,289 from the Clean Drinking Water Fee).

Under current law, the State Water Plan Fund is estimated to receive a total of \$12,772,732 in revenues in FY 2014 from various fees, transfers, and fines. The bill would eliminate the current distribution of fees and transfers that go into the State Water Plan Fund and would create a new funding mechanism that would allow the State Water Plan Fund to receive \$39,930,000 from a portion of state retail sales and compensating use taxes in FY 2014. It is estimated that the State Water Plan Fund would continue to receive \$250,000 in fines. The State Water Plan Fund is also estimated to receive a onetime transfer of \$2,380,426 in FY 2014 from the estimated ending balance in the Water Marketing Fund, which is currently used to finance the water marketing functions at the Kansas Water Office. Therefore, the bill would provide State Water Plan Fund with a total of \$42,560,426 in FY 2014, which is an increase of \$29,787,694 from the current FY 2014 estimate (\$42,560,426 minus \$12,772,732).

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Reallocating fee revenue that under current law is distributed to the State Water Plan Fund is estimated to increase revenues to various special revenue funds by a total of \$4,518,210 in FY 2014, including \$3,276,000 that would be retained in the Fertilizer Fee Fund, \$1,165,000 that would be retained in the Agricultural Chemical Fee Fund, and \$77,210 that would be retained in the Sand Royalty Fund. Transferring the balance in the Water Marketing Fund to the State Water Plan Fund is also estimated to reduce special revenue fund revenue by \$2,380,426. Therefore, the net fiscal effect on special revenue funds would be a net increase of \$2,137,784 (\$4,618,210 minus \$2,380,426). The bill would also eliminate the Water Protection Fee, which is expected to generate a total of \$4,775,233 to the State Water Plan Fund in FY 2014.

The Kansas Water Office indicates the bill would restructure revenues to the State Water Plan Fund that could be used for water related projects and technical assistance. The bill would also allow the agency and other agencies that receive funding from the State Water Plan Fund to use that funding source to pay for salaries and wages of its employees. There is currently no estimate of damage award money scheduled to be received from the State of Colorado or the State of Nebraska in FY 2014.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund by \$15,680,000 in FY 2014 and by \$17,750,000 in FY 2015. KDOT indicates the reduction in revenues would require reductions and/or delays to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS. KDOT also indicates that the reduction in revenue may require it to increase the amount of bonds that it plans to issue under its current bonding authority in order to complete planned projects.

The Department of Revenue indicates the bill would require \$24,600 from the State General Fund in FY 2014 for administrative costs to change forms and to update its computer system to reflect the elimination of the Water Protection Fee. 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 beyond the Department's current budget may be required. Any fiscal effect associated with HB 2031 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA  
Director of the Budget

cc: Steve Neske, Revenue  
Mark Heim, Agriculture

Ben Cleeves, KDOT  
Susabn Metzger, Water Office