

March 27, 2015

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2328 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2328 is respectfully submitted to your committee.

HB 2328 would create a sales tax refund program for the purchase of required textbooks by students enrolled in Kansas postsecondary educational institutions. Postsecondary educational institutions are defined as any university, municipal university, community college, and technical college, whether public or private. The sales tax refund program would become effective on July 1, 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$5,540,000)	(\$6,680,000)
Expenditure	--	--	\$64,400	\$64,400
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2328 would decrease state revenues by \$6,680,000 in FY 2016. Of that total, the State General Fund is estimated to decrease by \$5,540,000 in FY 2016, while the State Highway Fund is estimated to decrease by \$1,140,000 in FY 2016. This bill also is estimated to decrease local revenues by \$1,670,000 in FY 2016. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	(5,540)	2,264,460
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 5,540)	\$5,965,060
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 5,540)	\$5,805,860

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$5,540,000)	(\$5,540,000)	(\$5,540,000)	(\$5,540,000)
State Highway Fund	(1,140,000)	(1,140,000)	(1,140,000)	(1,140,000)
Local Governments	<u>(1,670,000)</u>	<u>(1,670,000)</u>	<u>(1,670,000)</u>	<u>(1,670,000)</u>
	(\$8,350,000)	(\$8,350,000)	(\$8,350,000)	(\$8,350,000)

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 related 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 costs in future years, even though printed textbook costs have been rising annually. The

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Department estimates that the average annual cost for textbooks and course related materials would be \$800 for full time students and \$350 for part time students. The Department indicates that the total enrollment at Kansas colleges, universities, community colleges, and technical schools is 214,500, including 155,000 full time students. Assuming that 75.0 percent of students would file a refund application, the bill would result in the loss of state retail sales tax revenues of \$6,680,000 in FY 2016.

The Department of Revenue indicates that it would require \$64,400 from the State General Fund in FY 2016 to create forms and instructions and to administer this new sales tax refund program. The bill would require the Department to hire 1.00 new FTE positions to review and process sales tax refund claims.

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 Board of Regents indicates the bill would have no fiscal effect on the Board of Regents or any Kansas postsecondary educational institutions. The bill would reduce the total amount of money that students would spend on textbooks to attend classes at postsecondary educational institutions.

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 2328 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Kelly Oliver, Board of Regents
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties