

March 13, 2017

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2387 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2387 is respectfully submitted to your committee.

HB 2387 would provide a sales tax exemption for purchases related to certain property destroyed by wildfires. The bill would exempt all purchases of tangible personal property and services made to construct, reconstruct, repair, or replace any residence, utility pole owned by a rural electric cooperative, or fence used to enclose land devoted to agricultural use that was damaged or destroyed by wildfires occurring during calendar year 2017. The sales tax exemption would be effective for calendar years 2017 and 2018. The bill would take effect upon publication in the *Kansas Register*. Any sales tax paid after January 1, 2017, and before the effective date of the bill would be refunded.

The Department of Revenue indicates that it does not have complete information to provide an estimate of the fiscal effect of HB 2387. The bill has the potential to reduce state and local sales tax collections in FY 2017, FY 2018, and FY 2019; however, it is unknown how much of the purchases of tangible personal property and services related to wildfire damage would already be exempt from sales taxes. In addition, the new expenditures to repair or replace property damaged by wildfires were not accounted for in the November 2016 Consensus Revenue Estimate. The reduction of sales tax collections would reduce revenues that are distributed to the State General Fund, State Highway Fund, and local governments. The Department of Revenue gathered the following information on possible expenditures related to wildfires:

1. As of March 10, 2017, the *Topeka Capital Journal* reported that over 1,100 square miles of land burned in 21 counties. Assuming about 6.4 miles of fence (perimeter fencing and cross fencing) per square mile, potentially 7,040 miles of fencing will need to be replaced. At a cost of \$10,000 per mile, fence replacement costs are estimated at \$70.4 million. At a state sales tax rate of 6.5 percent this would result in \$4.6 million in state sales tax not received by the state.

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2. On March 8, 2017, the *Wichita Eagle* reported the loss of at least 70 structures by wildfires. It is unknown how many of those are residential homes. As of March 10, 2017, the *Wichita Eagle* reported ten homes were lost in Reno County and the *Hays Daily News* reported multiple homes were lost in the city of Ransom and possibly the city of Brownell.
3. According to Kansas Electric Cooperatives, Inc. (KEC), at least six rural electric cooperatives have been impacted by the fires. KEC reports that the preliminary estimates of damage related to wildfires are \$100,000 for CMS Electric Cooperative (Clark and Comanche Counties), \$3,500 for Ark Valley Electric Cooperative (Reno County), \$73,400 in Mid-Kansas Electric Company (Ford and Reno Counties), \$27,000 for Victory Electric (Ford County), and \$50,000 for Midwest Energy (Hays). Damage estimates for other cooperatives are unknown.

The Kansas Department of Transportation (KDOT) indicates that the bill has the potential to reduce state revenues to the State Highway Fund. 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 has the potential to provide a net reduction in local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2387 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Ben Cleaves, Transportation
Brock Ingmire, League of Municipalities
Melissa Wangemann, Association of Counties