

May 6, 2015

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

Dear Representative Kleebl:

SUBJECT: Fiscal Note for HB 2427 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2427 is respectfully submitted to your committee.

HB 2427 would temporarily increase the following motor fuel tax rates for three years beginning on July 1, 2015:

<u>Motor Fuel Type</u>	<u>Current Tax Rate</u>	<u>New Tax Rate</u>
Motor-vehicle fuels (not including E85)	\$0.24	\$0.29
E85 fuel	\$0.17	\$0.22
Special fuels	\$0.26	\$0.31
LP-gas	\$0.23	\$0.28
Compressed natural gas	\$0.24	\$0.29
Liquefied natural gas	\$0.26	\$0.31

The bill would implement a new permanent \$0.05 motor fuel tax on special fuel (indelibly dyed for non-highway purposes) beginning on July 1, 2015. The bill would change the distribution of motor fuel tax revenue as follows:

<u>Fiscal Year</u>	<u>State Highway Fund</u>	<u>Special City and County Highway Fund</u>
Current Law	66.37 %	33.63 %
FY 2016	72.58 %	27.42 %
FY 2017	72.95 %	27.05 %
FY 2018	72.95 %	27.05 %
FY 2019 and future fiscal years	66.37 %	33.63 %

The bill would change the distribution of retail sales tax and compensating uses tax receipts as follows:

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>State Highway Fund</u>
Current Law	82.927 %	17.073 %
FY 2016	85.570 %	14.430 %
FY 2017	85.665 %	14.335 %
FY 2018	85.570 %	14.430 %
FY 2019 and future fiscal years	82.927 %	17.073 %

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$81,955,000	\$98,669,000
Expenditure	--	--	\$96,626	\$96,626
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2427 would increase state revenues by \$98,669,000 in FY 2016. Of that total, the State General Fund is estimated to increase by \$81,955,000 in FY 2016, while the State Highway Fund is estimated to increase by \$16,714,000 in FY 2016. The increase in revenues and how the April 20, 2015 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 (April 20, 2015)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 11,000	\$ --	\$ 11,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	440,000	--	440,000
Financial Institutions	44,000	--	44,000
Excise Taxes:			
Retail Sales	2,240,000	70,337	2,310,337
Compensating Use	370,000	11,618	381,618
Cigarette	88,000	--	88,000
Severance	73,800	--	73,800
All Other Excise Taxes	113,700	--	113,700
Other Taxes	190,500	--	190,500
Total Taxes	\$5,871,000	\$ 81,955	\$5,952,955
Other Revenues:			
Interest	\$ 17,800	\$ --	\$ 17,500
Transfers	(232,680)	--	(232,680)
Agency Earnings	57,100	--	57,100
Total Other Revenues	(\$ 157,780)	\$ --	(\$ 157,780)
Total Receipts	\$5,713,220	\$ 81,955	\$5,795,175

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

	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	\$ 89,655,000	\$ 89,905,000
State Highway Fund	<u>16,714,000</u>	<u>16,714,000</u>
	\$106,369,000	\$106,619,000

To formulate these estimates, the Department of Revenue reviewed data on retail sales tax, compensating use tax, and motor fuel taxes. The Department indicates the bill would increase revenues to the State Highway Fund by a net total of \$16,714,000 in FY 2016 (\$98,669,000 increase attributable to the increase in motor fuel taxes which is partially offset by an \$81,955,000 reduction attributable to changing the distribution formula for the retail sales tax and compensating use tax). Revenues to the State General Fund would increase by \$81,955,000 in FY 2016 solely from changing the distribution formula for the retail sales tax and compensating use tax. The bill is designed to be revenue neutral for the Special City and County Highway Fund.

The Department of Revenue indicates that it would require \$96,626 from the State General Fund in FY 2016 to implement the bill, including the costs associated with updating forms and instructions, salaries and wages for a new 1.00 FTE Customer Representative Specialist, and to modify the motor fuel processing system. Most of the administrative costs to implement the bill are related to imposing the new motor fuel tax on special fuel (indelibly dyed for non-highway purposes), which is currently untaxed. 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.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. KDOT indicates the bill would provide additional funding for the comprehensive transportation plan, known as T-WORKS. Any fiscal effect associated with HB 2427 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Ben Cleaves, Transportation
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties