

February 15, 2011

The Honorable Mario Goico, Chairperson  
House Committee on Veterans, Military and Homeland Security  
Statehouse, Room 268-W  
Topeka, Kansas 66612

Dear Representative Goico:

**SUBJECT:** Fiscal Note for HB 2168 by Representative Schwab

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2168 is respectfully submitted to your committee.

HB 2168 would allow any person who is a resident of Kansas and who has been honorably discharged from active service in any branch of the armed forces of the United States a free annual vehicle permit to the state parks. The bill would also allow these individuals and their dependents free tuition and fees at every community college, Washburn University, all vocational schools, and all institutions of post high-school education which are supported by state money. The Kansas Commission on Veterans Affairs would administer this provision of the bill as well as determine eligibility and handle claims for reimbursement of tuition and fees.

The bill would exempt veterans, who are residents of Kansas and certified to be 100.0 percent disabled by the Department of Veterans Affairs, from the provisions of the Kansas Retailers' Sales Tax Act as it applies to food, food products, grooming and hygiene products, and household personal products. Based on the definition of food in the bill, it appears that food purchased in restaurants would also be exempt. Sales qualifying for this exemption could not exceed \$20,000 per year per individual taxpayer. The bill would require the disabled veteran to be issued a certificate of exemption from the Kansas Department of Revenue and present that certificate to the retailer when claiming the sales tax exemption.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	(\$2,090,000)	(\$2,438,255)
Expenditure	--	--	\$9,244,025	\$9,244,025
FTE Pos.	--	--	--	--

The Kansas Board of Regents indicates it is difficult to predict participation to make an accurate estimate. When the state's Military Service Scholarship was enacted in FY 2008, the Kansas Commission on Veterans Affairs estimated that approximately 16,000 soldiers would be

discharged between 2001 and 2007. Extending this assumption through 2010, approximately 23,500 soldiers would have been discharged during this ten-year period. These soldiers, as well as any dependents or future dependents, would be eligible to have tuition and fees waived. While there is considerable variation in tuition and required fees among the postsecondary institutions, the average tuition and required fees for 2008-2009 for a public four-year school is \$5,746, for a public two-year school is \$2,091, and for a private four-year school is \$17,522. The Board states that conservatively, if only 10.0 percent of the discharged soldiers from 2001 through 2010 ( $23,500 \times .10 = 2,350$ ) took advantage of this benefit, and assuming that one half attended a four-year institution ( $\$5,746 \times 1,175 \text{ veterans} = \$6,751,550$ ) and one half attended a community college ( $\$2,091 \times 1,175 \text{ veterans} = \$2,456,925$ ), the fiscal effect would be \$9.2 million from the State General Fund for one academic year. The claims for tuition and fees reimbursement would be paid out by the Kansas Commission on Veterans Affairs, which would be able to handle administrative costs within existing resources.

The FY 2012 Governor's budget recommendation for the Kansas Department of Wildlife and Parks provided for expenditures of \$6,882,035 from the Parks Fee Fund with an estimated ending balance on June 30, 2012 of \$136,476. The Department currently issues approximately 35,250 annual vehicle park permits. If 10.0 percent of the annual permits were issued to veterans, the estimated loss of revenue to the Parks Fee Fund would be \$78,255, leaving an ending balance of \$58,221.

The agency believes that the waiver of the annual vehicle permit fee for honorably discharged veterans could have a significant effect on revenue to the Parks Fee Fund. Using the estimate of 23,500 veterans discharged during the ten-year period 2001 to 2010, and assuming that the average veteran is approximately 25 years old and would be eligible for the fee waiver for the next 40 years, the agency estimates that for the period 1970 to 2010, there would be approximately 94,000 honorably discharged veterans eligible for the fee waiver. If 50.0 percent of those eligible used the fee waiver, approximately 47,000 annual park vehicle fees would be waived the first year. The Department charges \$19.70 for an annual vehicle permit during the off-season and \$24.70 during the summer season. Assuming that half of the fee waivers would be during the off-season ( $23,500 \times 19.70 = \$462,950$ ) and half during the summer season ( $23,500 \times \$24.70 = \$580,450$ ), the loss of potential revenue to the Parks Fee fund during a fiscal year could be as much as \$1,043,400 ( $\$462,950 + \$580,450 = \$1,043,400$ ). The long term effect on state park operations would be an increase in park users and a reduction in the level of services available to those users.

The Department of Revenue estimates that the tax exemption provision of HB 2168 would decrease state revenues by \$2.36 million in FY 2012. Of that total, the State General Fund is estimated to decrease by \$2.09 million, while the State Highway Fund is estimated to decrease by \$270,000. This bill also is estimated to decrease local revenues by \$590,000 in FY 2012. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates  
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 2, 2010)	Change in Revenue FY 2012	Proposed Adjusted CRE FY 2012
Motor Carrier	\$ 27,000	\$ (270)	\$ 26,730
Income Taxes:			
Individual	2,705,000	--	2,705,000
Corporate	275,000	--	275,000
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	(2,090)	2,087,910
Compensating Use	295,000	--	295,000
Cigarette	97,000	--	97,000
Corporate Franchise	8,000	--	8,000
Severance	94,300	--	94,300
All Other Excise Taxes	96,400	--	96,400
Other Taxes	<u>127,000</u>	<u>--</u>	<u>127,000</u>
Total Taxes	\$5,835,700	\$ (2,360)	\$5,833,340
Other Revenues:			
Interest	\$ 11,800	\$ --	\$ 11,800
Transfers	(93,700)	--	(93,700)
Agency Earnings	<u>56,800</u>	<u>--</u>	<u>56,800</u>
Total Other Revenues	(\$ 25,100)	\$ --	(\$ 25,100)
Total Receipts	\$5,810,600	\$ (2,360)	\$5,808,240

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

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
State General Fund	(\$2,170,000)	(\$1,730,000)	(\$1,790,000)	(\$1,860,000)
State Highway Fund	(270,000)	(400,000)	(420,000)	(430,000)
Local Governments	<u>(610,000)</u>	<u>(530,000)</u>	<u>(550,000)</u>	<u>(570,000)</u>
	(\$3,050,000)	(\$2,660,000)	(\$2,760,000)	(\$2,860,000)

To formulate these estimates, the Department of Revenue reviewed data from the Department of Veterans Affairs.

Costs to the Department of Revenue for administration of this bill are estimated to be \$35,550 annually, which would include accepting applications, verifying eligibility, corresponding with veterans, and issuing the exemption certificates. The Department would

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need to hire additional, temporary staff at a cost of \$30,000, update its publications and processes at a cost of \$1,050, and modify the existing exemption certificate process at a cost of \$4,500.

Any fiscal effect associated with HB 2168 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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

cc: Dale Dennis, Education  
Diane Duffy, Board of Regents  
Dick Koerth, W&P  
Steve Neske, Revenue