

March 25, 2015

The Honorable Les Donovan, Sr., Chairperson
 Senate Committee on Assessment and Taxation
 Statehouse, Room 123-E
 Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 110 by Senator Olson, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 110 is respectfully submitted to your committee.

SB 110 would provide a sales tax exemption for machinery and equipment used to manufacture or process ice for sale in an automated ice vending machine. The sales tax exemption 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	--	--	(\$476,830)	(\$575,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 110 would decrease state revenues by \$575,000 in FY 2016. Of that total, the State General Fund is estimated to decrease by \$476,830 in FY 2016, while the State Highway Fund is estimated to decrease by \$98,170 in FY 2016. This bill also is estimated to decrease local sales tax revenues by \$143,750 in FY 2016. The fiscal effect to state and local 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	(\$494,711)	(\$513,263)	(\$532,510)	(\$552,480)
State Highway Fund	(101,851)	(105,671)	(109,633)	(113,744)
Local Governments	<u>(149,141)</u>	<u>(154,733)</u>	<u>(160,536)</u>	<u>(166,556)</u>
	(\$745,703)	(\$773,667)	(\$802,679)	(\$832,780)

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To formulate these estimates, the Department of Revenue reviewed data on the potential growth of automated ice vending machine throughout the state. The self-contained machines cost approximately \$125,000 prior to making utility upgrades or changing the facades due to city zoning requirements. The Department indicates automated ice vending machines is a growing market and estimates that between 50 and 100 machines could be installed annually. Assuming 75 machines were purchased annually, it would result in the loss of state retail sales tax revenues of \$575,000 in FY 2016. According to the Department, reissuing sales tax publications would cost \$1,200 from the State General Fund in FY 2016.

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 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 SB 110 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, KDOR
Larry Baer, LKM
Melissa Wangemann, KAC
Ben Cleaves, KDOT