

February 16, 2023

REVISED

The Honorable Jim Minnix, Chairperson  
House Committee on Water  
300 SW 10th Avenue, Room 218-N  
Topeka, Kansas 66612

Dear Representative Minnix:

**SUBJECT:** Revised Fiscal Note for HB 2302 by House Committee on Water

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2302 is respectfully submitted to your committee.

Under current law, \$6.0 million from the State General Fund and \$2.0 million from the Economic Development Initiatives Fund is transferred to the State Water Plan Fund (SWPF) each fiscal year. HB 2302 would suspend these statutory transfers as long as dedicated funding from a portion of the 6.5 percent state retail sales and compensating use tax rate is distributed to the SWPF beginning in FY 2024 and continuing through FY 2028. The bill would adjust the distribution of overall state retail sales and compensating use tax revenue collected as follows:

<u>Date of Rate Change</u>	<u>Percent to State General Fund</u>	<u>Percent to State Highway Fund</u>	<u>Percent to State Water Plan Fund</u>
Current Law	83.000 %	17.000 %	0.000 %
July 1, 2023	81.769	17.000	1.231

The amount distributed to the SWPF from the state retail sales and compensating use tax would be used to fund additional water infrastructure projects. Of this amount, \$5.0 million per year would be transferred to the newly created Water Technical Assistance Fund, \$15.0 million per year would be transferred to the newly created Water Projects Grant Fund, and at least \$15.0 million per year would be used to retire water supply storage debt for Milford and Perry Lake. The bill would require the Kansas Water Office to create rules and regulations relating to the administration of these new funds.

The Department of Revenue estimates that HB 2302 would decrease State General Fund revenues by \$48.1 million in FY 2024, including a reduction \$54.1 million in retail sales and compensating use tax revenue and an increase of \$6.0 million by eliminating the SWPF transfer from the State General Fund. Based on the November 2022 Consensus Revenue Estimate, the Department of Revenue estimates that the bill would result in distributing \$54.1 million in retail sales and compensating use tax revenue to the SWPF in FY 2024, including \$41.4 million of retail

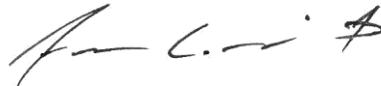
sales tax receipts and \$12.7 million of compensating use tax receipts. In the original fiscal note issued, the distribution of retail sales and compensating use tax to the SWPF were identified as a transfer from State General Fund instead of as reduction in State General Fund revenues. This distribution would replace the existing statutory transfers to the SWPF totaling \$8.0 million, resulting in a net funding increase of \$46.1 million for additional water infrastructure projects in FY 2024. The Department of Revenue indicates that the specific adjustments to the State General Fund in subsequent fiscal years would be as follows:

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Sales Tax	(\$42,000,000)	(\$42,700,000)	(\$43,200,000)	(\$43,600,000)
Compensating Use Tax	(13,500,000)	(14,200,000)	(14,900,000)	(15,600,000)
Net Transfers	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>
	(\$49,500,000)	(\$50,900,000)	(\$52,100,000)	(\$53,200,000)

The suspension of the existing statutory transfer from the Economic Development Initiatives Fund (EDIF) to the SWPF would increase EDIF revenues by \$2.0 million per year from FY 2024 through FY 2028. The Kansas Water Office, the Kansas Department of Agriculture, and the Kansas Department of Health and Environment are the primary recipients of State Water Plan Fund appropriations, so enactment of HB 2302 would likely increase the expenditures of all three agencies by unknown amounts. According to the Kansas Water Office, administration of HB 2302 would cost \$246,650 in FY 2024 and \$200,000 in subsequent fiscal years. These expenditures would be made to fill 2.00 vacant FTE positions and contract with outside counsel to draft rules and regulations. The Kansas Department of Health and Environment indicates that enactment of HB 2302 could decrease agency revenues from loan service fees as water storage debt is paid off, but the size of this reduction is unknown. Any fiscal effect associated with HB 2302 is not reflected in *The FY 2024 Governor's Budget Report*.

The League of Kansas Municipalities indicates that the new local grant opportunities authorized by HB 2302 would increase municipal revenues by unknown amounts. The Kansas Association of Counties indicates that HB 2302 would not have a fiscal effect on counties.

Sincerely,



Adam Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Debra Jones, Kansas Water Office  
Kellen Liebsch, Department of Agriculture  
Amy Penrod, Department of Health & Environment  
Jay Hall, Kansas Association of Counties  
Wendi Stark, League of Kansas Municipalities  
Scott Miller, Pooled Money Investment Board