



February 10, 2023

The Honorable Caryn Tyson, Chairperson
 Senate Committee on Assessment and Taxation
 300 SW 10th Avenue, Room 548-S
 Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 89 by Senator Holscher

In accordance with KSA 75-3715a, the following fiscal note concerning SB 89 is respectfully submitted to your committee.

SB 89 would provide a sales tax exemption for diapers and feminine hygiene products beginning on July 1, 2023. The bill includes definitions for diapers and feminine hygiene products.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2023 SGF | FY 2023 All Funds | FY 2024 SGF | FY 2024 All Funds |
| Revenue | -- | -- | (\$6,800,000) | (\$8,300,000) |
| Expenditure | -- | -- | \$1,200 | \$1,200 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that SB 89 would decrease state revenues by \$8.3 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$6.8 million in FY 2024, while the State Highway Fund is estimated to decrease by \$1.5 million in FY 2024. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

| | <u>FY 2025</u> | <u>FY 2026</u> | <u>FY 2027</u> | <u>FY 2028</u> |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| State General Fund | (\$8,100,000) | (\$8,300,000) | (\$8,400,000) | (\$8,500,000) |
| State Highway Fund | <u>(1,730,000)</u> | <u>(1,830,000)</u> | <u>(1,850,000)</u> | <u>(1,850,000)</u> |
| | (\$9,830,000) | (\$10,130,000) | (\$10,250,000) | (\$10,350,000) |

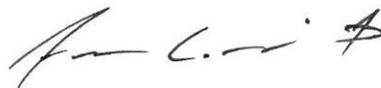
To formulate these estimates, the Department of Revenue reviewed data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey and the Kansas Department of Health and Environment. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,200 from the State General Fund in FY 2024.

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.

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. The bill also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects.

The fiscal effect associated with SB 89 is reflected in *The FY 2024 Governor's Budget Report*. However, the total reduction in sales tax revenue is slightly less in FY 2024 for SB 89 as compared to the tax policy recommended by the Governor. There is a one-month lag in sales tax collections after a sales tax change goes into effect and the Governor's tax policy recommendation would take effect three months earlier on April 1, 2023.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties