

February 6, 2013

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

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 72 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 72 is respectfully submitted to your committee.

SB 72 would provide a property tax exemption for health clubs and would exempt all health club membership dues from sales taxes. The bill defines a health club as any corporation, partnership, unincorporated association, or other business enterprise whose primary purpose is to offer facilities that contain cardio, weight training, or strength conditioning equipment for the preservation, maintenance, encouragement or development of physical fitness in return for the payment of a fee entitling the buyer to use the facilities. The exemptions would take effect beginning in tax year 2014.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$3,460,000)	(\$3,920,000)
Expenditure	--	--	\$201,575	\$201,575
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 72 would reduce state revenues by \$3,920,000 in FY 2014. Of that total, the State General Fund is estimated to decrease by \$3,460,000 in FY 2014, while the State Highway Fund is estimated to decrease by \$440,000 and the state building funds are estimated to decrease by a total of \$20,000. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	(3,460)	1,948,540
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 3,460)	\$5,552,040
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 3,460)	\$5,460,840

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

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	(\$3,300,000)	(\$3,430,000)	(\$3,550,000)	(\$3,690,000)
State Highway Fund	<u>(750,000)</u>	<u>(770,000)</u>	<u>(800,000)</u>	<u>(830,000)</u>
	(\$4,050,000)	(\$4,200,000)	(\$4,350,000)	(\$4,520,000)

To formulate these estimates, the Department of Revenue reviewed data on the amount of state sales taxes that were remitted under the business classification of fitness and recreational sports centers (NAICS Code 71394). In FY 2012, the Department indicates that it received \$5.1 million in state sales taxes from this category. Assuming that 80.0 percent of the taxes remitted are from membership dues, then the exemption would reduce state sales tax collections by approximately \$3.9 million.

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The Department of Revenue does not have specific data on the number of health clubs in the state that would qualify for this new property tax exemption or the assessed valuation of that property. To formulate this estimate the Department relied on industry sources from the commercial real estate industry to calculate the size of the health club industry in relation to the overall amount of commercial property in the state. Passage of SB 72 would reduce property tax revenues by adding a property tax exemption. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would reduce revenues to these two funds by \$20,000 in FY 2014, with \$13,333 from the EBF and \$6,667 from the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts would receive less property tax revenue through the state's uniform mill levy, the state would provide additional state aid through the school finance formula. The Department of Revenue estimates the additional state expenditures for aid to schools would be \$200,000 in FY 2014. The bill would also decrease revenues to any local government that levies a property tax.

The Department of Revenue indicates the bill would require \$1,575 from the State General Fund to update publications and sales tax exemption certificates. Any fiscal effect associated with SB 72 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

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

cc: Steve Neske, Revenue