



February 26, 2025

The Honorable Sean Tarwater, Chairperson
House Committee on Commerce, Labor and Economic Development
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Tarwater:

SUBJECT: Fiscal Note for HB 2292 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2292 is respectfully submitted to your committee.

Under current law, the provisions of the Sales Tax and Revenue (STAR) Bond Financing Act regarding STAR bond districts will expire on July 1, 2026. HB 2292 would extend the sunset date to July 1, 2031.

The bill would require the Secretary of Revenue to certify on July 1, 2025, to the Director of the Budget and the Director of Accounts and Reports at the Department of Administration the amount of revenue that would have been generated from sales of food and food ingredients in STAR bond districts if the state retail sales and compensating use tax rate remained at 6.5 percent for the months of January 2024 through June 2025. On or before September 1, 2025, the Director of Accounts and Reports would certify that amount to the State Treasurer who would transfer that amount from the State General Fund to the STAR Bonds Food Sales Tax Revenue Replacement Fund. On or before October 15, 2025, the State Treasurer would then make payments from the STAR Bonds Food Sales Tax Revenue Replacement Fund to the City Bond Finance Fund that would be used to make STAR bond payments. The bill would also setup similar certifications and procedures to make monthly transfers from the State General Fund to the STAR Bonds Food Sales Tax Revenue Replacement Fund and monthly payments from the STAR Bonds Food Sales Tax Revenue Replacement Fund to the City Bond Finance Fund that would be used to make STAR bond payments. For STAR bond districts established with a base year before December 31, 2022, the bill allows for an adjustment to be added to the tax increment with the amount of state sales and use tax revenue that would have been derived from the sale of food and food ingredients within

the district. These provisions would hold STAR bond districts harmless from the elimination of the state sales tax on food and food ingredients and would not apply to STAR bond project districts established after July 1, 2022.

The Department of Revenue estimates that HB 2292 would decrease State General Fund revenues by authorizing transfers that total \$15.9 million from the State General Fund to the STAR Bonds Food Sales Tax Revenue Replacement Fund in FY 2026. The FY 2026 amount includes the transfer associated with the months of January 2024 through June 2025, and monthly transfers going forward beginning in July 2025. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
State General Fund	(\$8,200,000)	(\$8,200,000)	(\$8,300,000)	(\$8,400,000)

To formulate these estimates on holding STAR bond districts harmless from the elimination of the state sales tax on food and food ingredients, the Department of Revenue reviewed sales tax collections data from STAR bond districts. For tax year 2023, the Legislature held STAR bond districts harmless from the reduction of state sales tax rate on food and food ingredients by providing nearly \$2.9 million to these districts to help pay off STAR bonds. The Department of Revenue indicates that the administrative costs associated with implementing this provision of bill, including the monthly certifications of the amount of revenue that would have been generated from sales of food and food ingredients in STAR bond districts if the state retail sales and compensating use tax rate remained at 6.5 percent, would be negligible and could be absorbed within existing resources.

The Office of the State Treasurer indicates that the administrative costs associated with implementing the bill, including the modification of its accounting procedures, would be negligible and could be absorbed within existing resources. The bill would increase expenditures from its STAR Bonds Food Sales Tax Revenue Replacement Fund to the City Bond Finance Fund by \$15.9 million in FY 2026 and by \$8.2 million in FY 2027.

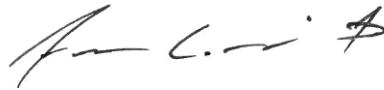
The Department of Revenue indicates that the provision of the bill that extends the sunset date on the STAR Bond Financing Act could have a fiscal effect on State General Fund revenues which would depend upon the project that is financed using STAR bonds. STAR bond projects provide local governments with the opportunity to issue bonds to finance the development of major commercial, entertainment, and tourism areas and use the state and local retail sales and compensating use tax revenue that is generated by the development to pay off the bonds which would reduce state revenues. However, the Department is unable to estimate this fiscal effect. This provision of the bill would have no fiscal effect on the Department's operations.

The Kansas Department of Transportation (KDOT) indicates that the provision of the bill that extends the sunset date on the STAR Bond Financing Act has the potential to reduce state revenues to the State Highway Fund by unknown amounts. KDOT indicates that when the state receives fewer State Highway Fund dollars, it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan. The

Department of Commerce states the bill would not have a fiscal effect on agency operations. Any fiscal effect associated with HB 2292 is not reflected in *The FY 2026 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that holding STAR bond districts harmless from the elimination of the state sales tax on food and food ingredients would provide additional revenues to help pay off STAR bonds and could aid in the financial success and viability of existing STAR bond projects. The League and the Association indicate that extending the sunset date on the STAR Bond Financing Act could have a fiscal effect on local governments interested in utilizing the STAR bond program. However, the fiscal effect would vary depending on the size and scope of a potential project, and the League and the Association are unable to estimate the fiscal effect.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", followed by a stylized flourish or symbol.

Adam C. Proffitt
Director of the Budget

cc: Sherry Rentfro, Department of Commerce
Lynn Robinson, Department of Revenue
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
John Hedges, Office of the State Treasurer