

April 2, 2025

The Honorable Adam Smith, Chairperson  
House Committee on Taxation  
300 SW 10th Avenue, Room 346-S  
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2406 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2406 is respectfully submitted to your committee.

Under current law, commercial and industrial machinery and equipment that is purchased, leased, or transported into this state after June 30, 2006, is eligible for a property tax exemption. HB 2406 would eliminate this date in statute, which would allow any of this property purchased, leased, or transported into the state before June 30, 2006, to be eligible for this property tax exemption.

The Department of Revenue estimates HB 2406 would decrease property tax revenues by expanding a current property tax exemption. The state funds directly affected by this bill would be the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The bill would decrease property tax revenues that school districts would receive through the state's uniform mill levy. The bill would also decrease revenues to any local government that levies a property tax; however, the specific estimate of lower local property tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues would be as follows:

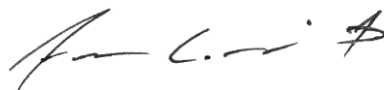
	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
School District Finance	(\$9,890,000)	(\$9,420,000)	(\$8,970,000)
EBF	(490,000)	(470,000)	(450,000)
SIBF	<u>(245,000)</u>	<u>(235,000)</u>	<u>(225,000)</u>
	(\$10,625,000)	(\$10,125,000)	(\$9,645,000)

To formulate these estimates, the Department of Revenue reviewed data from its Property Valuation Division on commercial and industrial machinery and equipment that is currently on the tax roll. The Department indicates the bill would become effective on July 1, 2025; however, the fiscal effect of the bill would be delayed until tax year 2026 as the 2025 valuation cycle would be complete and 2025 values certified to the county clerk by the effective date of the bill. The Department indicates that the bill would have no fiscal effect on its operations.

The Division of the Budget notes that the estimated reduction in revenues from the 20-mill school levy would require an offsetting appropriation for State Foundation Aid from the State General Fund to keep the Base Aid for Student Excellence (BASE) in the school finance formula whole. If this provision of the bill would be enacted without a corresponding increase to the State General Fund appropriation for State Foundation Aid, the Department of Education would have to prorate the BASE by reducing state aid to school districts in FY 2026. The Department of Education indicates the bill would also reduce property taxes collected by local school boards to support capital outlay projects by unknown amounts beginning in FY 2026. Any fiscal effect associated with HB 2406 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net reduction to local property tax collections that are used in part to finance local governments. The bill has the potential to shift the tax burden to other property classifications and types.

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