

February 14, 2024

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 2508 by Representative V. Miller, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2508 is respectfully submitted to your committee.

Under current law, State General Fund transfers to the Local Ad Valorem Tax Reduction Fund (LAVTRF) are suspended in the appropriations bill for both FY 2024 and FY 2025 and are capped at \$54.0 million when the transfer is set to resume in FY 2026. HB 2508 would resume the transfer from the State General Fund to the LAVTRF in FY 2025 and in each future fiscal year based on 3.63 percent of the total retail sales and compensating use taxes credited to the State General Fund during the preceding calendar year. The State Treasurer would advise each county treasurer prior to June 1st of each year on the amount of LAVTRF moneys from the state that the State Treasurer estimates will be paid to each county based on population (65.0 percent) and valuation (35.0 percent). The transfer from the State General Fund to the LAVTRF and the State Treasurer paying each county their portion of the LAVTRF would both occur on January 15th and July 15th of each year. After crediting the July 15th payment, each county treasurer would credit each political subdivision to residential taxpayers as rebate to be reflected a credit on their next ensuing property tax statement. The bill includes procedures for the county to determine the rebate amount.

The bill would also remove statutory references to the LAVTRF. Specifically, the LAVTRF would no longer be used for loan repayments if a municipality fails to repay a water or sewer loan from the Kansas Department of Health and Environment's State Revolving Fund. The bill would remove the ability for a municipality to use LAVTRF distributions to fund a water pollution control project; remove LAVTRF distributions as a factor in the State Library's grant-in-aid to local public libraries; and remove language that allows LAVTRF distributions to counties be withheld under certain circumstances.

HB 2508 would reduce State General Fund revenues by \$130.3 million in FY 2025 by resuming the State General Fund transfer to the LAVTRF. The bill would decrease State General Fund revenues by \$74.1 million in FY 2026 by increasing the State General Fund transfer to the LAVTRF from \$54.0 million to \$128.1 million under the provisions of the bill. The last State General Fund transfer to the LAVTRF occurred in FY 2003, since then transfers have routinely been suspended in appropriations bills.

The Department of Revenue's Property Valuation Division would be required to calculate and report current assessed values and distribution, as well as update related documents. The Department indicates that these costs are estimated to be negligible and could be absorbed within existing resources.

The State Treasurer indicates the bill would require it to implement computer programming changes in order to apportion and pay amounts to counties based on population and assessed valuation. The State Treasurer indicates it would be required to advise each county treasurer on the amount of LAVTRF moneys from the state that the State Treasurer estimates will be paid to each county. The State Treasurer indicates that the administrative costs to implement the bill are estimated to be negligible and could be absorbed within existing resources. The amounts transferred to the LAVTRF would also be required to be included as expenditures in the State Treasurer's budget beginning in FY 2025.

The Kansas Department of Health and Environment (KDHE) indicates the bill would have no fiscal effect on the operations of the State Revolving Fund programs. The bill removes a mechanism for expedited repayment of loans from municipalities that have missed a payment but the revenue generating streams a municipality may use for loan repayment remain in place. Eliminating that mechanism, which has never been used, does not threaten the financial backing of revenue or general obligation bonds for the State Revolving Fund programs. State statutes retain use of service charges, connection fees, special assessments, property taxes, grants, or other sources of revenue available to the municipality to make loan repayments.

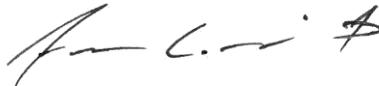
KDHE indicates removing the ability for a municipality to use LAVTRF distributions to fund a water pollution control project would have no fiscal effect on its operations. KDHE indicates that this provision was used in the early years of the Clean Water Act and associated construction grant program but is no longer used.

The State Library indicates since the LAVTRF has not been funded in two decades, it has not been a factor for grant-in-aid for some time. Removing this as a factor will not have a noticeable impact on the eligibility requirements. The fiscal effect associated with HB 2508 is partially reflected in *The FY 2025 Governor's Budget Report*, which includes resuming funding the LAVTRF with a \$54.0 million transfer from the State General Fund under the original requirements of the program.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would provide additional resources for property tax relief directly to property owners. The

Kansas Association of Counties indicates the bill would increase costs to counties to implement the bill by unknown amounts. Counties would have programming costs to calculate the distribution.

Sincerely,

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

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities
John Hedges, Office of the State Treasurer
Amy Penrod, Department of Health & Environment
Ray Walling, State Library
Jody Allen, Board of Tax Appeals