

February 20, 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 2077 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2077 is respectfully submitted to your committee.

HB 2077 would provide a sales tax exemption for all not-for-profit animal shelters and rescue networks licensed under the Kansas Pet Animal Act for the purpose of furthering the organization’s mission, including feeding, housing, and providing veterinary and other care to homeless and abandoned pets, finding homes for abandoned pets, offering spay and neuter clinics, educational programs, and other measures to address pet overpopulation in Kansas. The sales tax exemption would also be extended to any contractor hired for constructing, equipping, reconstructing, maintaining, repairing, enlarging, furnishing, or remodeling a facility used as an animal shelter. The bill would include reporting requirements for contractors and penalties for the use of the sales tax exemption that is determined to not be part of an allowable project, which would be punishable as a misdemeanor.

| Estimated State Fiscal Effect | | | |
|-------------------------------|---------|-------------|-------------|
| | FY 2025 | FY 2026 | FY 2027 |
| Expenditures | | | |
| State General Fund | -- | \$2,010 | -- |
| Fee Fund(s) | -- | -- | -- |
| Federal Fund | -- | -- | -- |
| Total Expenditures | -- | \$2,010 | -- |
| Revenues | | | |
| State General Fund | -- | (\$600,000) | (\$700,000) |
| Fee Fund(s) | -- | (100,000) | (100,000) |
| Federal Fund | -- | -- | -- |
| Total Revenues | -- | (\$700,000) | (\$800,000) |
| FTE Positions | -- | -- | -- |

The Department of Revenue estimates that HB 2077 would decrease state revenues by \$700,000 in FY 2026. Of that total, State General Fund revenues are estimated to decrease by \$600,000, while State Highway Fund revenues are estimated to decrease by \$100,000. This bill is also estimated to decrease local sales tax revenues; however, a specific estimate of this reduction to local sales tax receipts was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

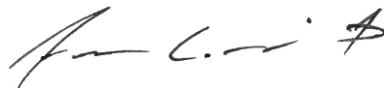
| | <u>FY 2027</u> | <u>FY 2028</u> | <u>FY 2029</u> | <u>FY 2030</u> |
|--------------------|------------------|------------------|------------------|------------------|
| State General Fund | (\$700,000) | (\$700,000) | (\$700,000) | (\$700,000) |
| State Highway Fund | <u>(100,000)</u> | <u>(100,000)</u> | <u>(100,000)</u> | <u>(100,000)</u> |
| | (\$800,000) | (\$800,000) | (\$800,000) | (\$800,000) |

To formulate these estimates, the Department of Revenue reviewed data from the Department of Agriculture, which reports that there are 288 animal shelters and rescue networks licensed in the state. Of that amount, approximately 50.0 percent are either licensed as a for-profit business or are already exempt from sales tax as a function of a local government. Of the remaining licensees, it is estimated that the bill would reduce sales tax on purchases of tangible personal property and services by \$700,000 in FY 2026 and \$800,000 in FY 2027. The costs of any future capital projects at animal shelter and rescue network locations are unknown. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$2,010 from the State General Fund in FY 2026.

The Kansas Department of Transportation indicates that the bill would reduce State Highway Fund revenues as noted above. Any fiscal effect associated with HB 2077 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. This bill has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact the bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt
Director of the Budget

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