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Adam C. Proffitt, Director

Laura Kelly, Governor

March 27, 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 2394 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2394 is respectfully submitted to your committee.

HB 2394 would change how residential, mobile or manufactured homes, commercial and industrial, and buildings and other improvements located on land devoted to agricultural use is valued for the purposes of property tax payments. Beginning in tax year 2026, the bill would establish a multi-year "tax use value" methodology for each of these property types. The tax use value would be the lower of either the fair market value or an average of fair market values that gradually incorporates additional years into the calculation. The averaging system would begin with the current year's fair market value in 2026, then progressively include additional prior years, adding one additional year to the calculation annually until reaching the maximum of a seven-year average.

For any new structures or improvements or the remodeling or renovation of any existing structures or improvements on real property, excluding any ordinary maintenance or repair of any existing structures or improvements on the property that increase the appraised value by 50.0 percent or more compared to the prior year's appraised value, the property would be valued at fair market value for the tax year that the construction, improvements, remodeling, renovation, or improvements occur as its tax use value. The county clerk of each county would be required to calculate the tax use value for each property.

The Department of Revenue estimates HB 2394 would decrease property tax revenues by limiting the growth of the taxable value of certain property beginning in tax year 2027 or FY 2028. 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:

	FY 2028	FY 2029	FY 2030
School District Finance	($23,650,000)	($48,940,000)	($75,960,000)
EBF	(1,180,000)	(2,450,000)	(3,800,000)
SIBF	(590,000)	(1,225,000)	(1,900,000)
	($25,420,000)	($52,615,000)	($81,660,000)

To formulate these estimates, the Department of Revenue reviewed data from its Property Valuation Division. The fiscal note was calculated using the 20-year average of valuation increases for each type of property class. 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 2028. 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 2028. Any fiscal effect associated with HB 2394 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties and the Kansas League of Municipalities indicate the bill would have indeterminate fiscal effect on local governments. The bill has the potential to shift taxes from one class of property owners to another from any changes in tax use valuations. The bill has the potential to impact the appraiser's office which would have the responsibility to calculate both the tax use value and the fair market value for each property. There may also be some cost for local governments to educate the public on this change.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Stephen Bauchum, Board of Tax Appeals
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
Gabrielle Hull, Department of Education