

February 20, 2013

CORRECTED

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Corrected Fiscal Note for HB 2244 by House Committee on Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2244 is respectfully submitted to your committee.

Under current law, watercraft is classified in the “all other” property tax category which requires property taxes to be assessed on 30.0 percent of its fair market value. HB 2244 would reduce the assessment rate on watercraft to 20.0 percent of its fair market value in tax year 2014, 10.0 percent in tax year 2015, and would exempt watercraft from property taxation in tax year 2016 and each future tax year. The bill defines watercraft as any vessel designed to be propelled by machinery, oars, paddles, or wind action upon a sail for navigation on the water. Watercraft would also include trailers which are designed to launch, retrieve, transport, and store watercraft. The bill is based on the amendment to the Kansas Constitution approved by the voters at the November 2012 general election that authorizes the Legislature to classify watercraft on a different basis than other property. In the fiscal note originally issued, the fiscal effect of the bill included references to an incorrect fiscal year and an incorrect tax year.

By lowering the tax rate, passage of HB 2244 would decrease property tax revenues on watercraft over a three-year period. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$41,000 in FY 2015, with \$27,000 from the EBF and \$14,000 from the SIBF. Revenue to the two building funds is estimated to decrease by a total of \$81,000 in FY 2016 (previously reported as FY 2015) and \$121,000 in FY 2017 as the property tax exemption for watercraft is phased in. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts would receive less property tax revenue through the state’s uniform mill levy, the state would provide additional state aid through the school finance

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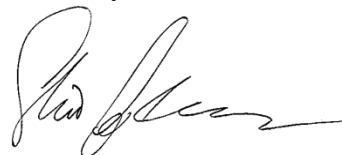
Page 2—HB 2244 Corrected

formula. The Department of Revenue estimates the additional state expenditures for aid to schools would be \$544,000 in FY 2015, \$1,088,000 in FY 2016, and \$1,612,000 in FY 2017. The bill would also decrease revenues to any local government that levies a property tax. The Department did not attempt to anticipate any effect from boat owners registering their boat in Kansas when prior to the rate change the boat was registered in another state.

To formulate these estimates, the Department of Revenue reviewed data on the assessed valuation of watercraft. The Department of Revenue indicates that the assessed valuation of watercraft, including trailers, was \$82,005,347 in tax year 2011 (previously reported as FY 2012) and \$79,591,812 in tax year 2012. The bill would have no fiscal effect on the operations of the Department of Revenue or the Court of Tax Appeals. Any fiscal effect associated with HB 2244 is not reflected in *The FY 2014 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would reduce the amount of local property tax collections. However, they do not have data to be able to provide an accurate estimate of the amount of property tax collections on watercraft to make a precise estimate of the fiscal effect on local governments. If lower property tax revenues are generated as a result of HB 2244, then local governments would be required to offset this reduction by either increasing the local mill levy or by decreasing expenditures.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Chris Tymeson, Wildlife, Parks & Tourism
Melissa Wangemann, Kansas Association of Counties
Jody Allen, Tax Appeals
Larry Baer, League of Kansas Municipalities