

March 12, 2013

REVISED

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

Dear Representative Carlson:

SUBJECT: Revised Fiscal Note for HB 2285 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2285 is respectfully submitted to your committee.

HB 2285 would include commercial and industrial machinery and equipment in the definition of personal property for determining property taxes beginning in tax year 2013. The bill defines “commercial and industrial machinery and equipment” as machinery or equipment used directly in commercial, manufacturing, or processing activities to produce income. Commercial and industrial machinery and equipment items cannot become a fixture or improvement for property tax purposes if the item may be disassembled, detached, or removed from real property without causing significant damage to the item. Commercial and industrial machinery and equipment does not include fixtures that are common to buildings and intended to primarily benefit real property rather than the trade or business conducted on the premises. The bill would allow the Director of Property Valuation of the Department of Revenue to adopt rules and regulations or issue appraisal directives to administer the provisions of the bill. The bill would take effect upon its publication in the *Kansas Register*.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	--	(\$875,460)
Expenditure	--	--	\$11,672,800	\$11,672,800
FTE Pos.	--	--	--	--

Passage of HB 2285 would decrease property tax revenues by allowing certain property that is currently classified as real property to be classified as personal property. The Department

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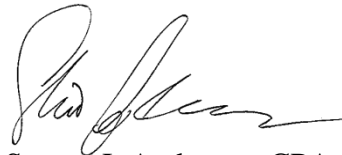
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of Revenue indicates the bill has the potential to reduce the assessed valuation for certain manufacturing, grain elevators, and railroad properties. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$875,460 in FY 2014, with \$583,640 going to the EBF and \$291,820 going to the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive less property tax revenue through the state's uniform mill levy, the state provides additional state aid through the school finance formula. The Department of Revenue estimates the increased state expenditures for aid to schools to be \$11,672,800 in FY 2014. The bill would also decrease revenues to any local government that levies a property tax.

To develop these estimates, the Department examined the assessed valuation for certain manufacturing, grain elevators, and railroad properties. The estimate is based on a 75.0 percent reduction in the assessed valuation of a limited number of manufacturing and processing facilities and a 25.0 percent reduction for grain elevators. In addition, the Department indicates that the bill would also apply to railroads because of the federal Railroad Revitalization and Regulatory Reform Act that prohibits discriminatory tax treatment of railroad property. The Department estimates the bill would reduce the assessed valuation of railroads by approximately 32.4 percent. Overall, the bill is estimated to reduce the assessed valuation of property in the state by a total of \$583,640,000. Any fiscal effect associated with HB 2285 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 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 this type of property to make a precise estimate of the fiscal effect on local governments. In the fiscal effect statement original issued, language was included that attempted to describe the potential actions local governments might take in response to passage of this bill. That information has been removed as it is not directly an outcome of passage of HB 2285.

Sincerely,



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

cc: Steve Neske, Revenue
Larry Baer, League of Kansas Municipalities
Melissa Wangemann, Kansas Association of Counties