Landon State Office Building
900 S.W. Jackson, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

phone: 785-296-2436
fax: 785-296-0231
steve.anderson@budget.ks.gov

Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

April 24, 2013

CORRECTED

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Corrected Fiscal Note for SB 181 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning SB 181 is respectfully submitted to your committee.

SB 181 would increase the minimum property tax on motorcycles from $12 to $18 beginning in tax year 2014, and the minimum property tax on any other motor vehicle would increase from $24 to $36 beginning in tax tear 2014. The bill includes a grandfather clause to prevent older vehicles (including those already below the newly proposed minimum tax thresholds) from receiving a tax increase.

The bill would change the depreciation schedule for calculating the amount of future taxes. The depreciation rate would be reduced from 16.0 percent to 15.0 percent for 2013 and for the first three years of a vehicle, 12.0 percent for years four through six, and 10.0 percent for all years thereafter, of the remaining balance for each year of the difference between the model year and the year for which the tax is levied. This amount is multiplied by 20.0 percent during calendar year 2013, 18.0 percent during calendar year 2014, 16.0 percent during calendar year 2015, 14.0 percent during calendar year 2016, and 12.0 percent during calendar year 2017, and all future calendar years. The minimum tax amount would apply once the amount of the tax is equal to or less than the minimum tax amount.

Under current law, the statewide 20 mill property tax levy for education is not applied to motor vehicles, including motorcycles. The bill would require that motor vehicle property tax assessments include 25.0 percent of the amount of the statewide property tax for education on November 1, 2013, 50.0 percent as of November 1, 2014, 75.0 percent as of November 1, 2015, and 100.0 percent as of November 1, 2016.

In the fiscal note originally issued, the fiscal effect of the bill included incorrect calculations. Additionally, the fiscal effect for FY 2018 was not available at the time the fiscal note was originally issued and is now included in this version.

Passage of SB 181 would decrease net property tax revenues by reducing the assessed valuation of motor vehicles, which would be partially offset by increased property tax revenue from phasing in the statewide property tax mill levy for education on motor vehicles. 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 $450,000 in FY 2014, with $300,000 from the EBF and $150,000 from the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive greater amounts of property tax revenue through the state's uniform mill levy, the state provides less state aid through the school finance formula. The Department of Revenue estimates the reduced state expenditures for aid to schools would not begin until FY 2015 from the phase in of the statewide education levy on vehicles. The bill would also decrease revenues to any local government that levies a property tax. Property tax revenues collected by local governments are estimated to decrease by approximately $24,250,000 in FY 2014.

The fiscal effect to revenues during subsequent years would be as follows:

	FY 2015	FY 2016	FY 2017	FY 2018
EBF	($490,000)	($620,000)	($650,000)	($410,000)
SIBF	(245,000)	(310,000)	(325,000)	(205,000)
Statewide Education Levy	14,700,000	27,990,000	40,770,000	54,740,000
Local Governments	(41,056,000)	(51,740,000)	(51,165,000)	(19,359,000)
	($27,091,000)	($24,680,000)	($11,370,000)	$34,766,000

To formulate these estimates, the Department of Revenue reviewed data on state and local property tax collections on motor vehicles, including motorcycles. Under current law, property tax revenues from vehicles are expected to increase by 1.6 percent each year, as the overall assessed valuation of motor vehicles increases. However, the bill would reduce the overall assessed valuation of motor vehicle property in the state, which would reduce the amount of property tax revenue collected by a total of $24.7 million in FY 2014 ($300,000 EBF + $150,000 SIBF + $24,250,000 from local governments).

The Department of Revenue indicates the bill would require $14,190 from the Vehicle Operating Fund for administrative costs to implement the bill, including updating instructions for county officials, and to modify the Vehicle Information Processing System (VIPS). The required programming for this bill by itself (866 hours of in-house programming and implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill has the potential to reduce the amount of local property tax revenues that are currently collected from motor vehicles. However, they do not have data on the amount of vehicle property tax collections to make a precise estimate of the fiscal effect on local governments. If lower property tax revenues are generated as a result of SB 181 then local governments would be required to offset this reduction by either increasing the local mill levy or by decreasing expenditures.

The bill has the potential to provide a negligible increase in new and used car sales by reducing the costs associated with owning a newer vehicle. However, a precise fiscal effect on the amount of additional vehicle sales and the subsequent effect on retail sales tax collections cannot be estimated. Any fiscal effect associated with SB 181 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

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

cc: Steve Neske, Revenue
Melissa Wangemann, KAC
Dale Dennis, Education
Larry Baer, LKM