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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

March 26, 2013

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

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 235 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 235 is respectfully submitted to your committee.

SB 235 would provide a property tax exemption for new automobile manufacturing property. The bill defines "new automobile manufacturing property" as real property purchased or constructed after December 31, 2011 that is owned by a qualifying automobile manufacturer. The bill requires that the property include a building or addition to a building with at least 50,000 square feet of floor space. The bill requires the property to be purchased or constructed for a total cost of at least $10.0 million including the cost of both the land and the buildings. The bill would exempt the new automobile manufacturing property from property taxes for ten years and would be retroactive to tax year 2012. The property owners would be required to make all payments in lieu of taxes that are mutually agreed to with local governments.

The Department of Revenue indicates that one automobile manufacturer recently announced plans to invest $600.0 million in an expansion of an existing plant. The local government and the manufacturer associated with this project indicate that an agreement is in place that would provide the property tax exemption through Industrial Revenue Bonds (IRB) and would require payments in lieu of taxes for this expansion. Placing the property tax exemption in state law would streamline the property tax exemption process for this project and would allow future expansions of an existing automobile manufacturer or property of a new automobile manufacturer to qualify for this property tax exemption in the future. The bill has the potential to reduce costs for local governments and property owners by eliminating the administrative costs associated with issuing IRBs. The Department of Revenue has not received information on the agreement that would provide payments in lieu of taxes to provide a precise fiscal effect of granting this property tax exemption. However, because the property associated with this expansion would be exempt from property taxes if the project proceeded with IRBs, passage of SB 235 would have no additional fiscal effect on state or local property tax revenues.

The bill has the potential to reduce property tax revenues in the future by allowing certain property to be exempt from property taxes and allow for payments in lieu of taxes to be paid, which are generally negotiated to be lower than the amount of property taxes that would be due if the property were not exempt. The Department of Revenue does not have data on the assessed valuation of the specific property that would receive this abatement to make a precise estimate of the amount of reduced property tax revenue. The bill would reduce the amount of property tax revenues that would be collected for the two building funds, the Educational Building Fund and the State Institutions Building Fund. Less property tax revenue 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 more state aid through the school finance formula. Local governments that levy a property tax would also receive less revenues; however, the amount of change cannot be estimated. The Department of Revenue indicates that the bill would have no fiscal effect on its operations. Any fiscal effect associated with SB 235 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