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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

May 1, 2015

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2377 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2377 is respectfully submitted to your committee.

Under current law, property taxes are required to be paid in full on December 20th of each year, or in equal payments on December 20th and on May 10th of the following year. HB 2377 would allow an owner of a qualified homestead property to enter into a property tax averaging payment plan with the county treasurer beginning in tax year 2017. Property taxes under the property tax averaging payment plan would be calculated by averaging the taxes levied on the property in that year and the next four preceding years and would also include any special assessments levied against the property in the current year. If the amount of property taxes collected in the averaging payment plan was less than the actual amount of property taxes assessed for that property, then a lien would be created for any deferred taxes. The deferred taxes and accrued interest would be required to be paid when the taxpayer dies, sells the homestead, no longer claims the property as a homestead, or elects to no longer participate in the program. All deferred taxes and accrued interest would be due within 90 days after a qualifying event, except that if the taxpayer dies then the deferred taxes and accrued interest is due within 180 days after the taxpayer's death. In order to qualify for the property tax averaging payment plan, the property cannot be income-producing, must be insured by a property and casualty insurance policy, and all prior real property taxes have been paid. The bill would allow a surviving spouse to continue the property tax averaging payment plan if they continue to meet the requirements of the plan. Any taxpayer who elects to no longer participate in the property tax averaging payment plan would be prohibited from applying for a new plan on the same property.

The bill would also allow a board of county commissioners to establish a property tax installment payment plan for homestead property taxes beginning in tax year 2016. Property taxes under the property tax installment payment plan would be calculated by adding taxes levied on the homestead property in the preceding year, including any special assessments, and divided into 12 equal monthly payments. The taxpayer would be required to apply to the county treasurer by May 1st to participate in the property tax installment payment plan and the first monthly payment would be due on June 1st. If the amount of property taxes collected in the installment payment plan is less than the actual amount of property taxes assessed for that property, then the remaining property taxes would be due by May 10th.

Passage of HB 2377 has the potential to decrease property tax revenues by allowing property taxes to be deferred under a property tax averaging payment plan. The state would receive less property tax revenues to the two state building funds, the Educational Building Fund and the State Institutions Building Fund. The bill would also decrease the amount of 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 Department of Revenue does not have data on the number of counties and taxpayers who would elect to participate in the property tax averaging payment plan or the property tax installment payment plan; therefore, a precise estimate of the amount of deferred property tax revenues and its effect on local and state revenues cannot be estimated.

The property tax installment payment plan would have no fiscal effect on the amount of property taxes collected. The bill would allow individuals to pay property taxes in smaller increments, which could have the potential to increase the amount of property taxes collected. The amount of increased property taxes could be offset by lower interest earnings from additional payments being made by the date the property taxes are due.

The Department of Education indicates that the bill has the potential to affect the budgeting process of school district and could result in school districts receiving less or more money than budgeted depending on the amount of property taxes that are deferred and when the deferred payments are eventually paid. This could result in challenges particularly as it relates to bond and interest payments for school districts as well as being able to spend the amount budgeted when the school district budget is adopted.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that local governments could potentially experience cashflow problems due to property tax revenue being deferred. The deferred property tax revenue also has the potential to affect the budgeting process of local governments. If the amount of deferred property tax revenues increases in future tax years, the mill levy could be adjusted to accommodate budgetary needs of local governments. The Kansas Association of Counties also believes counties would incur additional expenditures because new procedures would need to be developed to accommodate the new payment plans. The Association indicates that it is unable to provide a precise estimate of the fiscal effect associated with HB 2377. Any fiscal effect associated with HB 2377 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR
Dale Dennis, Education
Larry Baer, LKM
Melissa Wangemann, KAC