

April 3, 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 2404 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2404 is respectfully submitted to your committee.

HB 2404 would allow a board of county commissioners to submit to voters the question of imposing an additional countywide sales tax for the purpose of eliminating property taxes on real and personal property. All revenue collected from the additional countywide sales tax would be retained by the county and the county would not be restricted in proposing a countywide sales tax that is above the current 1.0 percent sales tax authority for counties. The bill requires that the county adopt budgets in which there is no property tax increases for at least four years following the date of the election. After that four year period, if the board of county commissioners proposes a county budget that requires increasing the mill levy by at least 10 mills, the voters of the county would be required to vote on increasing the mill levy. The bill would not allow the county to reduce property taxes on motor vehicles and the county would not be allowed to charge the additional countywide sales tax on motor vehicles.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	--	--
Expenditure	--	--	\$50,000	\$50,000
FTE Pos.	--	--	--	--

The Department of Revenue indicates HB 2404 would affect only local sales tax and property tax collections in the counties that vote to increase countywide sales tax to eliminate property taxes on real and personal property. The bill would have no fiscal effect on state revenues.

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The Department of Revenue indicates that the bill would require \$50,000 from the State General Fund for administrative costs to implement the bill, including updating instructions for county officials, and to modify the motor vehicle processing system and the sales tax processing system to accommodate a county having two different countywide sales tax rates. The required programming for this bill by itself 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 Kansas Association of Counties indicates that the bill is designed to be revenue neutral for counties that choose to increase countywide sales taxes to eliminate county property taxes on real and personal property. The Association indicates that consumers might avoid making purchases in a county that has the additional countywide sales tax rate because the sales tax rate may be substantially higher than surrounding counties that do not have the additional countywide sales tax, which would make it more difficult to predict the amount of revenue collected from the additional countywide sales tax authority. The county is prohibited from increasing the property tax mill levy for four years following the date of the election, and if sales tax collections decline during that time period the county could see a decrease in revenue to finance the county government. The Association indicates that the bill has the potential to eliminate the county's use of property tax in the future because a county can only reinstate the property tax at a level higher than 10 mills and only if the citizens vote to approve it. However, the Association does not have information on which counties would choose to increase sales tax to eliminate county property taxes to precisely estimate the fiscal effect on local governments.

The League of Kansas Municipalities indicates the bill has the potential to reduce local sales tax collections for cities if consumers avoid making purchases in a city that also has the additional countywide sales tax rate. Any fiscal effect associated with HB 2404 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Melissa Wangemann, Association of Counties
Larry Baer, League of Municipalities