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Larry L. Campbell, Director

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March 19, 2020

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

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 486 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 486 is respectfully submitted to your committee.

SB 486 would create the Assessed Valuation Increase Deferral Program. The purpose of this program is to provide a payment plan for a portion of increased property taxes when taxpayers experience certain extraordinary increases in valuation and taxation on property beginning in tax year 2021. To be eligible for the program, the property must not have had any material changes or new construction in the preceding year; the assessed value must have increased more than 40.0 percent from the prior year; the appraised value of the property cannot exceed $10.0 million; and the total property tax must have increased more than 40.0 percent from the previous year. The taxpayer would be required make a timely payment of an amount equal to at least 140.0 percent of the previous year's tax on the due date. The program would allow the remaining balance to be deferred and would be paid over the next four years. At least 25.0 percent of the deferral must be paid each year by December 20, and no interest would accrue if timely payments are being made. Deferred payments under the program would not be considered delinquent.

The taxpayer would be required to file an application with the county treasurer by December 10, and the county treasurer would be required to calculate the payments that are due. If the property is sold or the taxpayer does not make timely payments, the payment plan would end, and the remaining balance will be due immediately and interest would start to accrue. The county treasurer would be required to include information about this program in the valuation notice for all property that may be eligible to participate in this program. The county would be allowed to apply for a loan from the Pooled Money Investment Board (PMIB) to account for the amounts deferred under the program. The loan would be required to be repaid within four years.

The Department of Revenue indicates passage of SB 486 has the potential to decrease property tax revenues by allowing certain property taxes to be deferred for up to four years. The Department of Revenue does not have data on the amount of property that would qualify for this program or how many taxpayers that would choose to participate in this program to make a precise estimate of the amount of property tax revenue that would be deferred as a result of this bill. 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. Reduced property tax revenue would also have an effect on state expenditures for aid to school districts. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. Local governments that levy a property tax would also receive less revenues; however, the amount of reduced property tax revenues cannot be estimated.

The bill would have no fiscal effect on the operations of the Department of Revenue or the Board of Tax Appeals. The Department of Education indicates that the bill has the potential to reduce the amount of property tax revenues by spreading out a large increase in property taxes for certain property over a four-year period. The Department of Education indicates that deferring property tax payments could raise some constitutional issues on school finance equity. School districts not being able to receive all property tax revenue from the assessed valuation that is owed that year could result in discrimination that could lead to litigation.

The PMIB indicates that under current law, it is authorized to loan up to $50.0 million to counties at an interest rate equivalent to the PMIB investment portfolio earnings rate at the time of the loan. However, the bill would require that the loan to the counties under this new program would not include any interest over the four-year period. Offering no-interest loans for up to four years would reduce the overall amount interest earnings that the state would earn on state idle funds that are deposited in the State General Fund and certain other state funds each year. However, without knowing the dollar amount that would be dedicated to no-interest loans to counties, the PMIB is unable to make a precise estimate of the fiscal effect of this bill.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill has the potential to reduce the amount of local property tax revenues by deferring property tax payments. The Association indicates the bill has the potential to increase administrative costs for counties to determine which taxpayers qualify for the program, review applications, calculate payments, and to apply for a loan for the amount of the deferral with PMIB. However, the Association does not have a basis on which to estimate the amount of property taxes that would be reduced and the amount of additional administrative costs to make a precise estimate of the fiscal effect on local governments. Any fiscal effect associated with SB 486 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

cc: Scott Miller, PMIB
Jody Allen, Tax Appeals
Lynn Robinson, Department of Revenue
Jay Hall, Association of Counties
Trey Cocking, League of Municipalities
Dale Dennis, Education