

January 30, 2023

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2036 by Representative Proctor, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2036 is respectfully submitted to your committee.

HB 2036 would exempt certain amounts of a homestead property's assessed valuation for certain retired and disabled veterans beginning in tax year 2024. The amount of the exemption would be determined according to the disability rating for a service-connected disability from the U.S. Department of Veterans Affairs as follows:

<u>Disability Rating</u>	<u>Exemption Percentage of Assessed Valuation</u>
30.0 percent to less than 40.0 percent	60.0 percent
40.0 percent to less than 50.0 percent	70.0 percent
50.0 percent to less than 60.0 percent	80.0 percent
60.0 percent to less than 70.0 percent	90.0 percent
70.0 percent and above	Full exemption

In addition to the amount of exempt assessed valuation for a disabled veteran with a disability rating of at least 30.0 percent but less than 70.0 percent, the bill does not prohibit the disabled veteran to also claim the homestead property tax refund. If a disabled veteran is permanently confined to a wheelchair, reaches the age of 65 years or older, or has a service-connected disability rate of at least 70.0 percent, then all property taxes on the homestead would be exempted and the disabled veteran would not be eligible for the homestead property tax refund program. A surviving spouse of a qualified disabled veteran would be able to continue to be eligible for this new homestead property tax exemption unless the surviving spouse remarries.

Passage of HB 2036 would decrease property tax revenues by exempting certain amounts of a homestead property’s assessed valuation for certain disabled veterans. 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 \$570,000 in FY 2025, with \$380,000 from the EBF and \$190,000 from the SIBF. Less property tax revenue would also affect 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 an additional \$7,560,000 in state aid from the State General Fund through the school finance formula in FY 2025. Local governments that levy a property tax would also receive less revenues; however, the amount of reduced property tax revenues was not estimated. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2026</u>	<u>FY 2027</u>
School District Finance	(\$8,070,000)	(\$8,610,000)
EBF	(400,000)	(430,000)
SIBF	<u>(200,000)</u>	<u>(215,000)</u>
	(\$8,670,000)	(\$9,255,000)

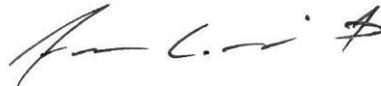
To formulate these estimates, the Department of Revenue reviewed data on disabled veterans from the Kansas Commission on Veterans Affairs. The Department estimates that of the 43,653 veterans in Kansas receiving disability compensation, in addition to an estimated 3,957 surviving spouses, 24,878 would qualify for this new exemption. The Department was unable to determine the number of disabled veterans who are permanently confined to a wheelchair.

To formulate the fiscal note, the Department reviewed data from the Housing Assistance Council, National Center for Veterans Analysis, and Statistics Military Officers Association of America. The Department assumes that the average value of veteran-owned home is \$160,000, average statewide levy is 129.65, five-year average annual property tax increase is 6.7 percent, 35.0 percent of the eligible disabled veterans are 65 years old and older, and 74.5 percent of veterans in Kansas receiving disability own their home.

According to the Department of Revenue, the bill would require a total \$7,038 from the State General Fund in FY 2024 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, 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, additional expenditures for outside contract programmer services beyond the Department’s current budget may be required. Any fiscal effect associated with HB 2036 is not reflected in *The FY 2024 Governor’s Budget Report*.

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 used in part to finance local governments. However, they do not have a basis on which to estimate the amount of property taxes that would be exempted to make a precise estimate of the fiscal effect on local governments.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Craig Neuenswander, Department of Education
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
Michael Neth, Office of the Adjutant General