

February 14, 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 2319 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2319 is respectfully submitted to your committee.

HB 2319 would provide a property tax exemption for business property that operates in competition with property owned or operated by a governmental entity. The business would be required to apply to the county appraiser for the property tax exemption by March 1st of the year that the property tax exemption is sought. If the county appraiser determines that the business did not qualify for the property tax exemption, the business would be allowed to appeal that decision to the Director of Taxation at the Department of Revenue. If the Director of Taxation determines that the business does not qualify for the property tax exemption, the business would be allowed to appeal to the court of jurisdiction where the property is located. The property tax exemption would take effect beginning in tax year 2024.

Passage of HB 2319 would decrease property tax revenues by creating a new property tax exemption. 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. 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. 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 property that would receive a property tax exemption under the provisions of the bill; therefore, a precise estimate of the reduction in property tax revenues and its effect on local and state revenues cannot be estimated. The bill would have no fiscal effect on the operations of the Department of Revenue.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill has the potential to decrease local property tax revenues that are used in part to finance local governments. The League estimates that more than 20.0 percent of its property tax revenue is tied to businesses that could qualify for this exemption including businesses that provide services like housing, meeting spaces, transit, recreation programs and facilities, aquatics, golf courses, and office supplies. The League is unable to determine how many businesses would qualify for the property tax exemption but indicates it could result in the loss of millions of dollars to cities. The Association indicates the bill has the potential to shift property tax burden to residential property taxpayers or other businesses not receiving this property tax exemption.

The bill has the potential for increasing litigation in the courts because the bill allows businesses the ability to appeal the property tax exemption decisions of the Director of Taxation to the court of jurisdiction where the property is located. In such cases, the Office of Judicial Administration indicates that there would be a fiscal effect on the operations of the court system. However, it is not possible to estimate the number of additional court cases that would arise or how complex and time-consuming they would be. Therefore, a fiscal effect cannot be estimated. In any case, the fiscal effect would most likely be accommodated within the existing schedule of court cases and would not require additional resources. Any fiscal effect associated with HB 2319 is not reflected in *The FY 2024 Governor's Budget Report*.

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
Vicki Jacobsen, Judiciary