

February 21, 2023

The Honorable Caryn Tyson, Chairperson  
Senate Committee on Assessment and Taxation  
300 SW 10th Avenue, Room 548-S  
Topeka, Kansas 66612

Dear Senator Tyson:

**SUBJECT:** Fiscal Note for SB 252 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 252 is respectfully submitted to your committee.

SB 252 would provide a property tax exemption and a sales tax exemption for certain business property operated in competition with property owned or operated by a government entity. Beginning in tax year 2024, the property tax exemption would apply to real property owned and operated by a business in the State of Kansas that is used by the business for ambulance service, child care center, entertainment, exercise, health club, recreation, or restaurant purposes and is located within a county where there is at least one facility owned or operated by a governmental entity that competes against the business and the competing facility owned or operated by a governmental entity is exempt from property taxes. The bill defines “competes against the business” as receiving any payment for offering the same or substantially the same goods or services to the public and would not include providing these goods or services without receiving payment or only to its own employees or students. Beginning on July 1, 2023, businesses that qualify for the property tax exemption could also apply to the Secretary of Revenue for a sales tax exemption certificate for all sales of tangible personal property or services purchased by a business or sold by that business.

Passage of SB 252 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 Department of Revenue’s Property Valuation Division can identify the property values by county for possible eligible businesses that use specific land use codes from the statewide computer assisted mass appraisal system but lacks the information to match competing businesses with government operated properties.

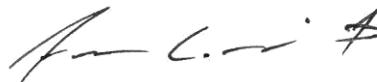
The Department of Revenue estimates that the bill would decrease state and local sales tax revenues by unknown amounts beginning in FY 2024. The state funds directly affected by this bill are the State General Fund and the State Highway Fund. However, the Department does not have sufficient information on how many businesses would qualify for this new sales tax exemption that would apply to both the purchases and sales from the qualifying businesses to make a precise estimate of the amount of reduced state and local sales tax revenues under this provision of the bill. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,800 from the State General Fund in FY 2024.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan.

The bill has the potential for increasing the number of property tax exemption requests filed at the Board of Tax Appeals that would determine if the business qualified for this new property tax exemption. However, it is not possible to estimate the number of property tax exemption requests that would arise or how complex and time-consuming the requests would be. The fiscal effect would most likely be negligible and could be accommodated within the existing budget resources. Any fiscal effect associated with SB 252 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 decrease local property and sales 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. The League is unable to determine how many businesses would qualify for the property and sales 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 also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects.

Sincerely,



Adam Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Brendan Yorkey, Department of Transportation  
Wendi Stark, League of Kansas Municipalities  
Jay Hall, Kansas Association of Counties  
Craig Neuenswander, Department of Education  
Joe House, Emergency Medical Services  
Jody Allen, Board of Tax Appeals