

February 12, 2024

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 332 by Senator Olson

In accordance with KSA 75-3715a, the following fiscal note concerning SB 332 is respectfully submitted to your committee.

Under current law, State General Fund transfers to the Local Ad Valorem Tax Reduction Fund (LAVTRF) are suspended in the appropriations bill for both FY 2024 and FY 2025 and are capped at \$54.0 million when the transfer is set to resume in FY 2026. SB 332 would transfer \$50.0 million from the State General Fund to the LAVTRF in FY 2025 and in each future fiscal year. The State Treasurer would advise each county treasurer, prior to July 1st of each year, on the amount of LAVTRF moneys from the state that the State Treasurer estimates will be paid to each county based on population (65.0 percent) and valuation (35.0 percent). The transfer from the State General Fund to the LAVTRF and the State Treasurer paying each county their portion of the LAVTRF would both occur on October 15 of each year. The bill would require each county treasurer to distribute the county's receipts from the LAVTRF within 60 days directly to each residential property taxpayer in the form of rebate checks or a credit against current-year property taxes.

On or before December 31st of each year, each county treasurer would transmit to the Director of Property Valuation at the Department of Revenue, on forms prepared and supplied by the Director, a statement showing the amount received from the State Treasurer; the date the amount was received; the total assessed valuation of all residential property in the county as of November 1st of the current tax year; the method by which rebates were made to residential property taxpayers; and the date of the rebates. On or before January 31st of each year, the Director would report to the Legislature the information from each county by filing a copy of the report with the Chief Clerk of the House of Representatives and with the Secretary of the Senate. A copy of the report would also be posted on the website of the Division of Property Valuation.

The bill would require the Legislative Post Audit Committee to annually direct the Legislative Division of Post Audit to conduct a performance audit of at least five counties to examine compliance with the provisions of the bill. The performance audits would be conducted

during calendar years 2025 through 2029, and each performance audit report would be submitted to the Legislature on or before January 15th of each succeeding year.

The bill would also remove statutory references to the LAVTRF. Specifically, the LAVTRF would no longer be used for loan repayments if a municipality fails to repay a water or sewer loan from the Kansas Department of Health and Environment's State Revolving Fund. The bill would remove the ability for a municipality to use LAVTRF distributions to fund a water pollution control project; remove LAVTRF distributions as a factor in the State Library's grant-in-aid to local public libraries; and remove language that allows LAVTRF distributions to counties be withheld under certain circumstances.

SB 332 would reduce State General Fund revenues by \$50.0 million in FY 2025 by resuming the State General Fund transfer to the LAVTRF. The bill would increase State General Fund revenues by \$4.0 million in FY 2026 and in each future fiscal year by reducing the State General Fund transfer to the LAVTRF from \$54.0 million to \$50.0 million under the provisions of the bill. Using statewide averages, residential taxpayers would see about a 1.6 percent rebate from residential property taxes paid. The last State General Fund transfer to the LAVTRF occurred in FY 2003, since then transfers have routinely been suspended in appropriations bills.

The Department of Revenue's Property Valuation Division would be required to calculate and report current assessed values and distribution, as well as update related documents. The Department indicates that these costs are estimated to be negligible and could be absorbed within existing resources.

The State Treasurer indicates the bill would require it to implement computer programming changes in order to apportion and pay amounts to counties based on population and assessed valuation. The State Treasurer indicates it would be difficult to advise each county treasurer on the amount of LAVTRF moneys from the state that the State Treasurer estimates will be paid to each county because it does not have property tax valuation data to validate an estimate. The State Treasurer indicates it would need to coordinate closely with and rely on the Department of Revenue, the Department of Administration, and the Secretary of State for information required to estimate LAVTRF distributions. The State Treasurer indicates that the administrative costs to implement the bill are estimated to be negligible and could be absorbed within existing resources. The amounts transferred to the LAVTRF would also be required to be included as expenditures in the State Treasurer's budget beginning in FY 2025.

The Kansas Department of Health and Environment (KDHE) indicates the bill would have no fiscal effect on the operations of the State Revolving Fund programs. The bill removes a mechanism for expedited repayment of loans from municipalities that have missed a payment but the revenue generating streams a municipality may use for loan repayment remain in place. Eliminating that mechanism, which has never been used, does not threaten the financial backing of revenue or general obligation bonds for the State Revolving Fund programs. State statutes retain use of service charges, connection fees, special assessments, property taxes, grants, or other sources of revenue available to the municipality to make loan repayments.

KDHE indicates removing the ability for a municipality to use LAVTRF distributions to fund a water pollution control project would have no fiscal effect on its operations. KDHE

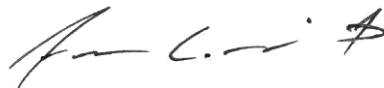
indicates that this provision was used in the early years of the Clean Water Act and associated construction grant program but is no longer used.

The State Library indicates since the LAVTRF has not been funded in two decades, it has not been a factor for grant-in-aid for some time. Removing this as a factor will not have a noticeable impact on the eligibility requirements.

Legislative Post Audit indicates that it would perform the audit requirements of the bill within existing resources. The cost of the audits would be covered through the agency's annual appropriation that is used to perform other audits throughout the year. However, doing the audits required under the bill would mean it could not do one or two other performance audits. Legislative Post Audit assumes that it would be able to complete the LAVTRF audit within its typical timeframe and resources (three staff members over the course four to five months). The fiscal effect associated with SB 332 is partially reflected in *The FY 2025 Governor's Budget Report*, which includes resuming funding the LAVTRF with a \$54.0 million transfer from the State General Fund under the original requirements of the program.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would provide additional resources for property tax relief directly to property owners. The Kansas Association of Counties indicates the bill would increase costs to counties to implement the bill by unknown amounts. Counties would have programming costs to calculate the distribution. If the county mails rebates, there would be the cost of check stock and postage. Applying the distribution as a credit against the tax statement that would have already been calculated, would require the county to send revised tax bills so taxpayers would know the correct amount to pay.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
Jody Allen, Board of Tax Appeals
Ray Walling, State Library
Amy Penrod, Department of Health & Environment
John Hedges, Office of the State Treasurer