

January 31, 2024

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 2528 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2528 is respectfully submitted to your committee.

HB 2528 would cap homestead property taxes to no more than the amount established in the base year for individuals 65 years of age or older or their surviving spouse beginning in tax year 2025. For individuals that turned 65 years of age prior to 2025, the base year would be 2024. If the property or ad valorem taxes that are levied are less than the amount established as the base year amount, the lesser amount would be levied and collected and that amount would be used as the new base year amount for future years. All moneys received from taxes levied on the homestead property would be allocated and distributed to the appropriate taxing subdivisions to the proportion of the cumulative tax levies for that property. The Department of Revenue's Division of Property Valuation would be required to make available suitable forms with instructions for claimants. Copies of the forms would also be made available to all county clerks and county treasurers in sufficient numbers to supply claimants residing in their respective counties. The county clerk would have the duty to assist claimants seeking assistance in filing their claim. Claimants would be required to submit their application to the county treasurer by April 1st, who would grant or deny the application.

Enactment of HB 2528 would decrease property tax revenues by adding a new property tax exemption for individuals 65 years of age or older. 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 \$510,000 in FY 2026, with \$340,000 from the EBF and \$170,000 from the SIBF. The bill would decrease property tax revenues that school districts would receive through the state's uniform mill levy by \$6,820,000. The bill would also decrease revenues to any local government that levies a property tax; however, the specific estimate of lower local property tax

revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
School District Finance	(\$13,990,000)	(\$21,530,000)	(\$29,470,000)
EBF	(700,000)	(1,080,000)	(1,470,000)
SIBF	<u>(350,000)</u>	<u>(540,000)</u>	<u>(735,000)</u>
	(\$15,040,000)	(\$23,150,000)	(\$31,675,000)

The Board of Regents indicates that the bill has the potential to provide less funding for the EBF that would be used to fund deferred maintenance projects at the state universities. According to the Board, the estimated renewal cost to bring all mission critical buildings to a “state of good repair” is estimated at just over \$1.3 billion in FY 2023. The Board estimates that an annual amount of \$166.0 million is needed for on-going maintenance to prevent any further backlogs and to adequately maintain university campuses. The Division of the Budget notes that it is unknown if the State General Fund or other state resources would be used in the appropriation process to provide additional funding for projects that were previously funded with EBF dollars.

The bill has the potential to provide less funding to the SIBF. The SIBF is established in the *Kansas Constitution* for constructing, equipping, and repairing buildings at the state institutions for the mentally ill and developmentally disabled overseen by the Department for Aging and Disability Services, the state’s juvenile correctional facility, the Schools for the Deaf and Blind under the Department of Education, as well as the veterans’ homes and cemeteries. *The FY 2025 Governor’s Budget Report* indicates that a number of state agencies depend on monies available in the SIBF for their capital improvement projects. The Division of the Budget notes that it is unknown if the State General Fund or other state resources would be used in the appropriation process to provide additional funding for projects that were previously funded with SIBF dollars.

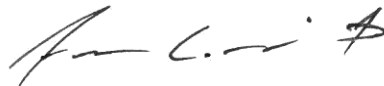
The Division of the Budget notes that the estimated reduction in revenues from the 20-mill school levy would require an offsetting appropriation for State Foundation Aid from the State General Fund to keep the Base Aid for Student Excellence (BASE) in the school finance formula at \$5,623 for FY 2026, as included in *The FY 2025 Governor’s Budget Report*. If this provision of the bill would be enacted without a corresponding increase to the State General Fund appropriation for State Foundation Aid, the Department of Education would have to prorate the BASE by reducing state aid to school districts in FY 2026. The Department of Education indicates the bill would also reduce property taxes collected by local school boards to support capital outlay projects by unknown amounts beginning in FY 2026.

The Department of Revenue indicates that the bill would require \$43,395 from the State General Fund in FY 2025 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 2528 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill by itself would lower local property tax collections that are used in part to finance local governments by providing a new property tax exemption. To offset this decrease, local governments would likely increase property taxes from other taxpayers not receiving this property tax exemption. The Kansas Association of Counties indicates the bill would increase costs by unknown amounts for county clerks to assist claimants seeking assistance in filing their claim and for county treasurers to review applications.

Sincerely,

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

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  
Gabrielle Hull, Department of Education  
Leigh Keck, Department for Aging & Disability Services  
Jennifer King, Department of Corrections  
Adela Tan, Schools for the Blind and Deaf  
Crystal Hewitt, Commission on Veterans Affairs Office  
Becky Pottebaum, Board of Regents