

March 6, 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 2635 by Representative Ohaebosim

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2635 is respectfully submitted to your committee.

HB 2635 would exempt certain amounts of a homestead property's assessed valuation for certain disabled veterans beginning in tax year 2025. 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>Amount of the Exemption of Assessed Valuation</u>
30.0 percent to less than 40.0 percent	Up to \$3,000
40.0 percent to less than 50.0 percent	Up to \$3,500
50.0 percent to less than 60.0 percent	Up to \$4,000
60.0 percent to less than 70.0 percent	Up to \$4,500
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 has a service-connected disability rate of at least 70.0 percent or is permanently confined to a wheelchair, 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. For a disabled veteran who is 65 years of age or older, the amount of exempt assessed valuation would be equal to the percentage of their disabled veteran's disability rating, and they would no longer 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. For escrow purposes for purchasing a qualified residence, the disabled veteran could request the Director of Taxation at the Department of Revenue to issue a certification of eligibility that shows the amount of the exemption that they would qualify for.

Passage of HB 2635 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 \$585,000 in FY 2026, with \$390,000 from the EBF and \$195,000 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 \$7,820,000 in state aid from the State General Fund through the school finance formula in FY 2026. Local governments that levy a property tax would also receive less revenue; 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 2027</u>	<u>FY 2028</u>
School District Finance	(\$8,230,000)	(\$8,660,000)
EBF	(410,000)	(430,000)
SIBF	<u>(205,000)</u>	<u>(215,000)</u>
	(\$8,845,000)	(\$9,305,000)

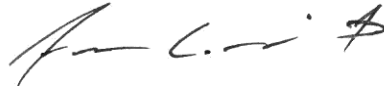
To formulate these estimates, the Department of Revenue reviewed data on disabled veterans from the Housing Assistance Council, National Center for Veterans Analysis and Statistics, and Military Officers Association of America. The Department estimates that of the 46,944 veterans in Kansas receiving disability compensation and 3,957 surviving spouses, 26,423 would qualify for this new exemption. The Department assumes that the average value of a veteran-owned home is \$195,014, the five-year average annual property tax increase is 5.21 percent, 36.8 percent of the eligible disabled veterans are 65 years of age or older, and 74.5 percent of veterans in Kansas receiving disability own their home. The Department was unable to determine the number of disabled veterans who are permanently confined to a wheelchair, which has the potential to reduce additional property tax revenue from the amount stated in this fiscal note. There would also be an undetermined increase in State General Fund revenues from taxpayers that would no longer qualify for the homestead property tax refund program under the provisions of the bill.

The Department indicates that the bill would require \$143,656 from the State General Fund in FY 2025 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new Customer Service Representative FTE position to answer questions from taxpayers and to issue a certification of eligibility. The Department estimates that ongoing expenses for salaries and wages for the 1.00 new FTE position would total \$69,276 from the State General Fund in FY 2026. 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.

The bill would have no fiscal effect on the operations of the Board of Tax Appeals. Any fiscal effect associated with HB 2635 is not reflected in *The FY 2025 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 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  
Jody Allen, Board of Tax Appeals