

March 12, 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 2815 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2815 is respectfully submitted to your committee.

Under current law, the statewide mill rate to fund public education is set at 20-mills for school years 2023-2024 and 2024-2025. SB 332 would set the statewide mill rate to fund public education at 18-mills for school year 2025-2026. For school year 2026-2027 and in each future school year, the Director of Property Valuation at the Department of Revenue would calculate the mill rate amount that generates same property tax revenue as levied for the 2025-2026 school year using the current tax year's total assessed valuation. The bill removes specific references to the 20-mills statewide mill rate to fund public education. The bill includes a policy statement that revenues generated from the statewide school property tax levy would remain consistent rather than automatically increasing as a result of property valuation increases; and the Legislature provides direct appropriations from the State General Fund to pay for the cost of education.

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. The bill would eliminate the transfer to this fund from the State General Fund, transfer the balance of the fund to the State General Fund on July 1, 2024, abolish the fund, and transfer the liabilities of the fund to the State General Fund. 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 State Revolving Fund of the Kansas Department of Health and Environment (KDHE). 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.

Under current law, State General Fund transfers to the County and City Revenue Sharing Fund are suspended in the appropriations bill for both FY 2024 and FY 2025 and the transfer is set to resume in FY 2026. The bill would eliminate the transfer to this fund from the State General Fund, transfer the balance of the fund to the State General Fund on July 1, 2024, abolish the fund, and transfer the liabilities of the fund to the State General Fund. The bill would also remove statutory references to the County and City Revenue Sharing Fund.

Under current law, State General Fund transfers to the Special City and County Highway Fund are suspended in the appropriations bill for both FY 2024 and FY 2025 and the transfer is set to resume in FY 2026. The bill would eliminate the transfer to this fund from the State General Fund.

The Department of Revenue estimates that HB 2815 would reduce the statewide mill rate to fund public education that would result in a reduction of property tax revenues totaling \$94.2 million in FY 2026, \$136.2 million in FY 2027, \$180.1 million in FY 2028, and \$226.0 million in FY 2029. The Division of the Budget notes that the estimated reduction in revenues from the 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 bill would increase State General Fund revenues by \$171.3 million in FY 2026, \$173.6 million in FY 2027, \$176.0 million in FY 2028, and \$178.4 million in FY 2029 by eliminating the State General Fund transfer to the LAVTRF, County and City Revenue Sharing Fund, and Special City and County Highway Fund. For FY 2026 when these transfers are set to resume under current law, the LAVTRF would receive \$54.0 million, County and City Revenue Sharing Fund would receive \$102.0 million, and Special City and County Highway Fund would receive \$15.3 million. The last State General Fund transfer to these funds occurred in FY 2003; since then, transfers have routinely been suspended in appropriations bills and have been excluded from long-term budget profiles.

The Department of Revenue's Property Valuation Division would be required to annually calculate the mill rate amount that generates the same property tax revenue as levied for the 2025-2026 school year using the current tax year's total assessed valuation. 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 perform minor accounting procedures to abolish the LAVTRF and County and City Revenue Sharing Fund. 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 Kansas Department of Transportation (KDOT) indicates that all revenues to the Special City and County Highway Fund are disbursed to local governments by a statutory formula. The fund is included in KDOT's budget for reporting purposes and the bill would not change reporting requirements. KDOT indicates the bill would have no fiscal effect on its operations.

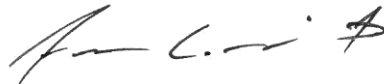
KDHE indicates the bill would have no fiscal effect on the operations of the State Revolving Fund programs. The bill would remove a mechanism for expedited repayment of loans from municipalities that have missed a payment, but the revenue generating streams a municipality may use for loan repayment remain in place. Eliminating that mechanism, which has never been used, would not threaten the financial backing of revenue or general obligation bonds for the State Revolving Fund programs. State statutes would retain the 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. *The FY 2025 Governor's Budget Report* includes resuming funding the LAVTRF with a \$54.0 million transfer from the State General Fund beginning in FY 2025. No other provisions of HB 2815 are reflected in *The FY 2025 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would eliminate the statutory transfers from the State General Fund to the LAVTRF, County and City Revenue Sharing Fund, and Special City and County Highway Fund that could provide additional resources to local governments. By lowering the statewide mill rate to fund public education, the bill has the potential to reduce revenues that are pledged to repay tax increment financing projects such as redevelopment districts or bioscience development districts; however, it is unknown what impact the bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Ray Walling, State Library
Gabrielle Hull, Department of Education
Lynn Robinson, Department of Revenue
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
John Hedges, Office of the State Treasurer
Amy Penrod, Department of Health & Environment
Brendan Yorkey, Department of Transportation