



February 20, 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 2794 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2794 is respectfully submitted to your committee.

HB 2794 would provide a sales tax exemption for all not-for-profit animal shelters and rescue networks licensed under the Kansas Pet Animal Act for the purpose of furthering the organization’s mission, including feeding, housing, and providing veterinary and other care to homeless and abandoned pets, finding homes for abandoned pets, offering spay and neuter clinics, educational programs, and other measures to address pet overpopulation in Kansas. The sales tax exemption would also be extended to any contractor hired for constructing, equipping, reconstructing, maintaining, repairing, enlarging, furnishing, or remodeling a facility used as an animal shelter. The bill would include reporting requirements for contractors and penalties for the use of the sales tax exemption that is determined to not be part of an allowable project, which would be punishable as a misdemeanor.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
<b>Expenditures</b>			
State General Fund	--	--	--
Fee Fund(s)	--	\$1,800	--
Federal Fund	--	--	--
Total Expenditures	--		--
<b>Revenues</b>			
State General Fund	--	(\$600,000)	(\$700,000)
Fee Fund(s)	--	(100,000)	(100,000)
Federal Fund	--	--	--
Total Revenues	--	(\$700,000)	(\$800,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2794 would decrease state revenues by \$700,000 in FY 2025. Of that total, the State General Fund is estimated to decrease by \$600,000 in FY 2025, while the State Highway Fund is estimated to decrease by \$100,000 in FY 2025. This bill is also estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

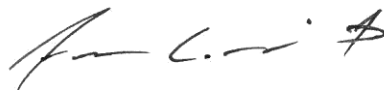
	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State General Fund	(\$700,000)	(\$700,000)	(\$700,000)	(\$700,000)
State Highway Fund	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>
	(\$800,000)	(\$800,000)	(\$800,000)	(\$800,000)

To formulate these estimates, the Department of Revenue reviewed data from the Department of Agriculture, which reports that there are 289 animal shelters and rescue networks licensed in the state. Of that amount, approximately 50.0 percent are either licensed as a for-profit business or are already exempt from sales tax as a function of a local government. Of the remaining licensees, it is estimated that the bill would reduce sales tax on purchases of tangible personal property and services by \$700,000 in FY 2025 and \$800,000 in FY 2026. The costs of any future capital projects at animal shelter and rescue network locations are unknown. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,800 from the State General Fund in FY 2025.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. Any fiscal effect associated with HB 2794 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. This bill has the potential to reduce revenues that are pledged to repay STAR bond projects; 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: Lynn Robinson, Department of Revenue  
Jay Hall, Kansas Association of Counties  
Wendi Stark, League of Kansas Municipalities  
Brendan Yorkey, Department of Transportation