

January 21, 2025

REVISED

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: Revised Fiscal Note for SB 35 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning SB 35 is respectfully submitted to your committee.

Under current law, the State of Kansas receives property tax revenue each year from the 1.0 mill Education Building Fund (EBF) tax levy and the 0.5 mill State Institutions Building Fund (SIBF) tax levy. SB 35 would discontinue these property tax levies after tax year 2025 and authorize an annual transfer from the State General Fund (SGF) to these funds starting in FY 2027. The bill would transfer \$50.0 million from the SGF to the EBF on July 1, 2026. In future fiscal years, the transfer from the SGF to the EBF would increase by \$1.0 million each year and would occur on July 1st of each future fiscal year. The bill would transfer \$25.0 million from the SGF to the SIBF on July 1, 2026. In future fiscal years, the transfer from the SGF to the SIBF would increase by \$500,000 each year and would occur on July 1st of each future fiscal year. The bill would remove outdated language on the EBF and SIBF, including language that allows the Director of Accounts and Reports at the Department of Administration to credit amounts to the EBF and SIBF for cashflow purposes.

SB 35 would reduce SGF revenues by a total of \$75.0 million in FY 2027 by authorizing transfers from the SGF of \$50.0 million to the EBF and \$25.0 million to the SIBF. The bill would decrease state property tax revenues by discontinuing the EBF and SIBF property tax levies. The Department of Revenue estimates this bill would decrease property tax revenues to these two funds by a total of \$84,230,000 in tax year 2026 or FY 2027, with \$56,150,000 from the EBF and \$28,080,000 from the SIBF.

The bill is estimated to have a net reduction of revenue to the state building funds of \$9,230,000 in FY 2027. Specifically, the EBF would receive \$6,150,000 less in revenue in FY

2027 (\$50.0 million in new revenue from the SGF transfer minus \$56,150,000 by discontinuing the property tax). The SIBF would receive \$3,080,000 less in revenue in FY 2027 (\$25.0 million in new revenue from the SGF transfer minus \$28,080,000 by discontinuing the property tax). The bill would also provide less revenues to the EBF and SIBF in future fiscal years as property tax revenues are estimated to increase with property valuations each year by approximately 5.0 percent, while the amount of the SGF transfers would grow by 2.0 percent each year. In the original fiscal note response from the Department of Revenue, the SGF transfers to the EBF and SIBF in FY 2029 and the net revenue reduction to these funds included a calculation error. The reduction in revenue to the EBF and SIBF are shown in the following tables:

<u>Current Law</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
EBF	\$56,150,000	\$58,960,000	\$ 66,970,000
SIBF	<u>\$28,080,000</u>	<u>\$29,480,000</u>	<u>\$ 33,480,000</u>
Total	\$84,230,000	\$88,440,000	\$100,450,000

<u>SB 35 Transfers</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
EBF	\$50,000,000	\$51,000,000	\$52,000,000
SIBF	<u>\$25,000,000</u>	<u>\$25,500,000</u>	<u>\$26,000,000</u>
Total	\$75,000,000	\$76,500,000	\$78,000,000

<u>Revenue Reduction</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
EBF	(\$6,150,000)	(\$ 7,960,000)	(\$14,970,000)
SIBF	<u>(\$3,080,000)</u>	<u>(\$ 3,980,000)</u>	<u>(\$ 7,480,000)</u>
Total	(\$9,230,000)	(\$11,940,000)	(\$22,450,000)

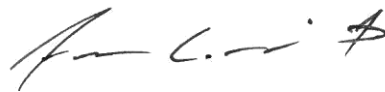
The property tax estimates (excluding motor vehicles) were developed jointly by the Department of Revenue, Kansas Legislative Research Department, and the Division of the Budget in November 2024 as part of the education consensus revenue estimating process. That process includes the assumption that approximately 3.0 percent of property taxes become delinquent and are collected in future years; however, the actual amount of delinquent property taxes varies from year to year. Delinquent property tax revenue that are collected in future fiscal years would be credited to the EBF and SIBF. Motor vehicle property taxes have a two-year lag with their mill levy and will not cause an impact until FY 2029.

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 \$1.570 billion in FY 2025. The Board estimates that an annual amount of \$168.0 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 2026 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 SGF or other state resources would be used in the appropriation process to provide additional funding for projects that were previously funded with SIBF dollars. Any fiscal effect associated with SB 35 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", followed by a stylized flourish.

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Chris Mitchell, Department of Administration
Becky Pottebaum, Board of Regents
Melissa Ford, Office of Veterans Services
Jennifer King, Department of Corrections
Adela Tan, Schools for the Blind and Deaf