

March 15, 2023

The Honorable Rick Billinger, Chairperson
Senate Committee on Ways and Means
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Billinger:

SUBJECT: Fiscal Note for SB 309 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 309 is respectfully submitted to your committee.

SB 309 would create the Fixing Instant Revenue Shock for Taxpayers Fund that would be administered by the State Treasurer. All expenditures from this fund would be for the purposes of restoring to cities and counties the local retail sales and compensating use tax revenue lost due to the enactment of legislation passed by the Legislature. The bill would transfer \$220.0 million from the State General Fund to the Fixing Instant Revenue Shock for Taxpayers Fund on July 1, 2023, or as soon thereafter as moneys are available. The Director of Taxation at the Department of Revenue would be required to certify the amount of lost revenue experienced by each city and county to the State Treasurer due to the enactment of legislation passed by the Legislature. The State Treasurer would pay each city and county the certified amount from Fixing Instant Revenue Shock for Taxpayers Fund, upon the certification from the governing body of each city or county that they have complied with the revenue neutral rate requirements. The State Treasurer would be required to transmit a copy of the certification of each payment from the Fixing Instant Revenue Shock for Taxpayers Fund to the Director of the Budget and the Director of Legislative Research. The State Treasurer would establish procedures to recapture monies paid from the Fixing Instant Revenue Shock for Taxpayers Fund if a city or county is not complying with the revenue neutral rate requirements.

The bill would create the Local Extraordinary Needs Fund that would be administered by the State Treasurer. All expenditures from this fund would be for the purposes of providing grants to cities and counties for capital expenditure projects approved by the Joint Committee on Local Extraordinary Needs Grants. The bill would transfer \$50.0 million from the State General Fund to the Local Extraordinary Needs Fund on July 1, 2023, or as soon thereafter as moneys are available. The city or county would submit a local extraordinary needs grant application to the

State Treasurer. As part of the application, the governing body of each city or county would be required to certify to the State Treasurer that they have complied with the revenue neutral rate requirements before the State Treasurer would forward the application to Joint Committee on Local Extraordinary Needs Grants. The State Treasurer would pay each city and county the amount approved by the Joint Committee on Local Extraordinary Needs Grants. The State Treasurer would be required to transmit a copy of the certification of each payment from the Local Extraordinary Needs Fund to the Director of the Budget and the Director of Legislative Research.

The bill would establish the Joint Committee on Local Extraordinary Needs Grants within the legislative branch of state government. The committee would be composed of five members of the Senate and five members of the House of Representatives. All Senate members would be appointed by the President of the Senate and all Representative members would be appointed by the Speaker of the House of Representatives. The committee would review all grant applications from cities and counties. The committee could adopt procedural guidelines to aid in reviewing the grant applications and would be permitted to introduce legislation that would be necessary in performing its functions. The committee would be prohibited from approving a grant for a single capital expenditure project that exceeds \$2.0 million.

The bill would abolish the Local Ad Valorem Tax Reduction Fund (LAVTRF) and transfers any monies and liabilities from the LAVTRF to the State General Fund on July 1, 2023. The bill also removes all statutory references to the LAVTRF and outdated references.

SB 309 would reduce State General Fund revenues by a total of \$270.0 million in FY 2024 by authorizing transfers from the State General Fund of \$220.0 million to the Fixing Instant Revenue Shock for Taxpayers Fund and \$50.0 million to the Local Extraordinary Needs Fund.

The State Treasurer indicates the bill would require expenditures of \$93,000 from the State Treasurer Operating Fund beginning in FY 2024 including expenditures for salaries and wages and overhead expenses for 1.00 new Program Administrator FTE position to manage these two new programs. The State Treasurer indicates the bill would require it to implement minor computer programming changes in order to pay amounts to cities and counties for these two new programs. These programming costs are estimated to be negligible and could be absorbed within existing resources.

The amount of expenditures from the Fixing Instant Revenue Shock for Taxpayers Fund are capped at \$220.0 million in FY 2024; however, the amount needed to restore to cities and counties local retail sales and compensating use tax revenue lost due to the enactment of legislation passed by the Legislature is unknown. The expenditures from the Local Extraordinary Needs Fund are capped at \$50.0 million; however, the number of grant applications and the total dollar amounts included in those applications that the State Treasurer would receive or the precise timing of these payments once approved by the Joint Committee on Local Extraordinary Needs Grants is unknown.

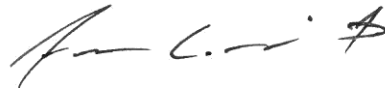
Under current law, the State General Fund transfer to the LAVTRF is set to resume in FY 2025 with a total transfer amount of \$54.0 million. The last State General Fund transfer to the LAVTRF occurred in FY 2003 and transfers have routinely been suspended in appropriations bills.

The Department of Revenue would be required to calculate and certify to the State Treasurer the amount of lost revenue experienced by each city and county due to the enactment of legislation passed by the Legislature. The Department indicates that these costs are estimated to be negligible and could be absorbed within existing resources.

Legislative Administrative Services states that creating a new joint committee in FY 2024 would require additional expenditures of \$26,878 from the state General Fund for salaries and wages for legislators and committee assistants. Any fiscal effect associated with SB 309 is not reflected in *The FY 2024 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill has the potential to provide additional resources to local governments to restore local retail sales and compensating use tax revenue lost due to the enactment of legislation passed by the Legislature in FY 2024. However, this funding would only be for one year and would create a 12-month delay in cities and counties from receiving this funding. If local governments are prohibited from collecting sales tax on food and food ingredients, overall local sales tax collections are estimated to be reduced by as much as 15.0 percent. Some cities and counties with a lack of retail diversification may see local sales tax reductions of over 35.0 percent. The lack of dedicated sales tax funding has the potential to jeopardize bond payments, including STAR bonds, and the funding of projects and services funding directly from local sales taxes. If funding from the Fixing Instant Revenue Shock for Taxpayers Fund is not provided beyond FY 2024, then local governments would likely increase property tax mill levies or reduce services. However, the amount needed to restore to cities and counties local retail sales and compensating use tax revenue lost due to the enactment of legislation passed by the Legislature is unknown. The bill also has the potential to provide cities and counties up to \$50.0 million in FY 2024 for capital expenditure projects from the new Local Extraordinary Needs Fund.

Sincerely,

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

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
John Hedges, Office of the State Treasurer
Amy Penrod, Department of Health & Environment
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties
Karen Clowers, Legislative Services