

February 20, 2012

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 421 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 421 is respectfully submitted to your committee.

SB 421 would increase the minimum property tax on motorcycles from \$12 to \$18 beginning in tax year 2013, except the tax would be \$6 if the motorcycle is from model year 1997 or earlier. The minimum property tax on any other motor vehicle would increase from \$24 to \$36 beginning in tax year 2013, except the tax would be \$12 if the motor vehicle is from model year 1997 or earlier.

The bill would change the depreciation schedule for calculating the amount of future taxes. The depreciation rate would be reduced from 16.0 percent to 15.0 percent for 2012, and all years thereafter. For vehicles first registered in 2013 and thereafter, the depreciation rate would be 15.0 percent for the first five years of a vehicle, 12.0 percent for years six through ten, and 10.0 percent for all years thereafter, of the remaining balance for each year of the difference between the year 1997 and the year for which the tax is levied. This amount is multiplied by 20.0 percent during calendar year 2012, 18.0 percent during calendar year 2013, 16.0 percent during calendar year 2014, 14.0 percent during calendar year 2015, and 12.0 percent during calendar year 2016, and all future calendar years.

Under current law, the statewide 20 mill property tax levy for education is not applied to motor vehicles, including motorcycles. The bill would require that motor vehicle property tax assessments include 25.0 percent of the amount of the statewide property tax for education on November 1, 2012, 50.0 percent as of November 1, 2013, 75.0 percent as of November 1, 2014, and 100.0 percent as of November 1, 2015.

Passage of SB 421 would decrease net property tax revenues by reducing the assessed valuation of motor vehicles, which would be partially offset by increased property tax revenue from phasing in the statewide property tax mill levy for education on motor vehicles. 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 \$341,000 in FY 2013, with \$227,000 from the EBF and \$114,000 from the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive greater amounts of property tax revenue through the state's uniform mill levy, the state provides less state aid through the school finance formula. The Department of Revenue estimates the reduced state expenditures for aid to schools to be \$14.7 million in FY 2013. The bill would also decrease revenues to any local government that levies a property tax. Property tax revenues collected by local governments are estimated to decrease by approximately \$24,459,000 in FY 2013.

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
EBF	(\$417,000)	(\$550,000)	(\$644,000)
SIBF	(209,000)	(275,000)	(322,000)
Statewide Education Levy	28,100,000	40,900,000	53,700,000
Local Governments	<u>(41,374,000)</u>	<u>(52,175,000)</u>	<u>(58,834,000)</u>
	(\$13,900,000)	(\$12,100,000)	(\$6,100,000)

To formulate these estimates, the Department of Revenue reviewed data on state and local property tax collections on motor vehicles, including motorcycles. Under current law, property tax revenues from vehicles are expected to increase by 1.6 percent each year, as the overall assessed valuation of motor vehicles increases. However, the bill would reduce the overall assessed valuation of motor vehicle property in the state, which would reduce the amount of property tax revenue collected by a total of \$24.8 million in FY 2013 (\$227,000 EBF + \$114,000 SIBF + \$24,459,000 from local governments). The reduction in property tax revenues would be partially offset by an increase of \$14.7 million in property tax revenues from the phase in the statewide property tax mill levy for education on motor vehicles. Therefore, the net fiscal effect of the bill is estimated to reduce property tax revenues in FY 2013 by a total of \$10.1 million (\$14.7 million – \$24.8 million).

The Department of Revenue indicates the bill would require \$14,788 from the Vehicle Operating Fund for administrative costs to implement the bill, including updating instructions for county officials, modifying the new Vehicle Information Processing System (VIPS), and to update the legacy VIPS system. The required programming for this bill by itself (126 hours of in-house programming and implementation) would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Honorable Les Donovan, Chairperson

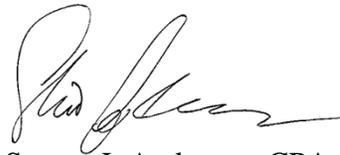
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The League of Kansas Municipalities indicates that the bill has the potential to reduce the amount of local property tax revenues that are currently collected from motor vehicles. However, the League does not have data on the amount of vehicle property tax collections to make a precise estimate of the fiscal effect on local governments. The League indicates that if lower property tax revenues are generated as a result of SB 421, then local governments would be required to offset this reduction by either increasing the local mill levy or by decreasing expenditures.

The bill has the potential to provide a negligible increase in new and used car sales by reducing the costs associated with owning a vehicle. However, a precise fiscal effect on the amount of additional vehicle sales and the subsequent effect on retail sales tax collections cannot be estimated. Any fiscal effect associated with SB 421 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Dale Dennis, Education
Melissa Wangemann, KAC