

February 14, 2023

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 2220 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2220 is respectfully submitted to your committee.

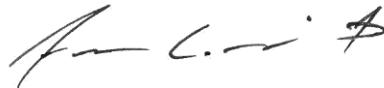
HB 2220 would provide a property tax exemption for property used by any city, county, or township of the state that is leased for the purpose of establishing an incubator for business creation beginning in tax year 2024. The bill defines incubator as a property under public ownership that would provide temporary tenancy to start-up rural microentrepreneurs, microenterprises, new technology development entities, or commercial entities at below market rates for a term of five years or less. Property leased to a business would be exempt from property tax for a period of not more than five calendar years after the year the business begins its operations on the property. After five calendar years, only that portion of the property being used by the business still operating on the property would be subject to property taxes based on square footage leased by the business. If the business moves out of the space, then the governmental entity owning the property could establish a new business incubator space for a new business. The bill would not allow a new property exemption to be granted after tax year 2029.

Passage of HB 2220 has the potential to decrease property tax revenues by adding a new property tax exemption. The state would receive less property tax revenues to the two state building funds, the Educational Building Fund and the State Institutions Building Fund. The bill would also decrease the amount of property tax revenues that school districts would receive through the state's uniform mill levy. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. The bill would also decrease revenues to any local government that levies a property tax. However, the Department of Revenue does not have data on the property that would receive a

property tax exemption under the provisions of the bill; therefore, a precise estimate of the amount of decreased property tax revenues and the effect on local and state revenues cannot be estimated. If after the abatement period ends and the portion of the property owned by the city, county, or township is still leased to the business, then that property would be subject to the property tax, which has the potential to increase property tax collection at that time. The bill would have no fiscal effect on the operations of the Department of Revenue. Any fiscal effect associated with HB 2220 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 increase economic development by establishing an incubator for business creation. After the abatement period ends, the bill has the potential to increase local property tax revenues that are used in part to finance local governments. However, they do not have a basis on which to estimate the amount of property taxes that would be abated or the amount of property taxes that could be collected after the abatement period ends to make a precise estimate of the fiscal effect on local governments.

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
Craig Neuenswander, Department of Education
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities