



Senate Assessment and Taxation Committee
Hearing on HB 2609- March 9th and 10th, 2016

Written Testimony in Support of HB 2609 on behalf of the City of Manhattan
By Kiel Mangus, Assistant City Manager

Good morning Chairman Kleeb, Vice Chair Suellentrop and honorable members of the House Taxation Committee.

The City of Manhattan supports HB 2609. Last year HB 2109 was passed implementing a property tax lid for cities beginning in 2018. HB 2609, along with SB 316, were proposed during the 2016 Legislative Session regarding a property tax lid on municipalities. A few reasons to support HB 2609 include:

- **HB 2609 utilizes a Municipal Cost Index (MCI).** The other property tax lid bills focused on utilizing the CPI-U as a cap percentage for municipalities to increase their budget. The CPI-U is not an accurate measure of what cities purchase or how they operate. The CPI-U also is national and lacks local influence. The MCI proposed is a fixed-weighted index using an average of three instruments: CPI-U, Producers Price Index and Construction Cost Index. It measures costs more commonly taken on by cities (i.e., concrete, lumber and fuel). No matter what measure the Legislature decides to utilize as the cap percentage a weighted 3-5 year average should be used in order to smooth out the turbulent year to year swings.
- **Citizen Petition.** HB 2609 would still permit an election if the budget exceeded the MCI percentage. The difference is that the bill would require a petition to be filed and signed by at least 10% of the local government electorate before an election would be held. We feel this helps eliminate some necessary costs imposed upon cities by special elections and it will allow citizens who actually have displeasure with the local budgeting process to be active and be heard.
- **Exemptions added to HB2609.** Exemptions are important to local governments when looking at increases in ad valorem tax. Cities need the ability to react to the needs of taxpayers, to maintain essential services, to react to natural disasters that may occur in a community, and to properly build the necessary infrastructure in order to engage in pro-growth activities. Costs associated with opportunities with private sector growth don't necessarily correlate with a CPI-U or other measure. It is prudent of cities to try and plan, and invest, appropriately for future community growth. Some of the important exemptions added in HB 2609 include:
 - Exemption on employer contributions to social security, worker's compensation, unemployment insurance, retirement, and healthcare costs. Healthcare costs alone have escalated greatly, much higher than the CPI-U, over the last 10-15 years. Cities need to be able to react to those changes.
 - Principal and interest on state infrastructure loans, bonds, temporary notes, no-fund warrants, payments. These items are financing tools that allow our city to react to private sector growth and properly accommodate it through projects such as infrastructure upgrades.
 - Expenses related to natural disasters. Mother nature can bring surprises at any time that can greatly impact a cities fiscal condition. The municipality should be able to react appropriately financially when those incidents occur, including raising taxes in order to rebuild where necessary.
- **Home Rule.** HB 2609 references a cities ability to use home rule powers as prescribed by the Kansas Constitution. Home Rule has been in place since 1961 and was put in place by the citizens of Kansas. Elected, informed local governing bodies should have direct oversight and control of local tax policy.
- Please see the attached for some perspective on the property tax lid and taxes in Manhattan.

For all the above reasons listed and attached the **City of Manhattan supports HB 2609.** Thanks for your time and consideration.



City of Manhattan

Property Tax Lid Analysis

Introduction & Background

At the end of the 2015 session, without any public hearing or feedback, the Kansas Legislature passed a property tax lid bill that would limit the ability of municipalities to raise property taxes more than the prior year CPI-U index. The tax lid was to go into effect in 2018 and had eight categories of exemptions from the lid. Early in the 2016 Legislative Session, SB316 was proposed. SB 316 eliminates several exemptions from the prior property tax lid bill and moves up the implementation date to July 1, 2016.

The State of Kansas Legislature and Governor frequently speak of economic prosperity, job creation, and population growth. Yet the state's actions are in direct opposition to their own statements. A municipal property tax lid limits the municipality's ability to react to private sector growth. In order to meet the State's vision of growth and prosperity in the private sector, a municipality must be ready and able to react and grow. Municipal growth should occur in order to accommodate services needed to serve the private sector growth. Tying municipal growth to a CPI index doesn't allow for the proper growth vision to occur. That growth vision allows a municipality to not have to make continuous improvements and disrupt the private sector growth opportunities. In Manhattan, like most other municipalities, we make decisions to expand infrastructure and services based on factors of growth rate and investing for the future. Cities that are not growing typically focus on repairing and maintaining their current infrastructure, while growing cities should invest in the current and future growth conditions. Yearly reactions and limitations from a CPI Index, rather than allowing for multi-year visions and investments, will lead to waste of public tax dollars.

The tax lid bill is an overreach of state government control and is in direct conflict with the State of Kansas Constitution regarding Home Rule. Home Rule has been in place since 1961 and was put in place by the citizens of Kansas. Elected, informed local governing bodies should have direct oversight and control of local tax policy.

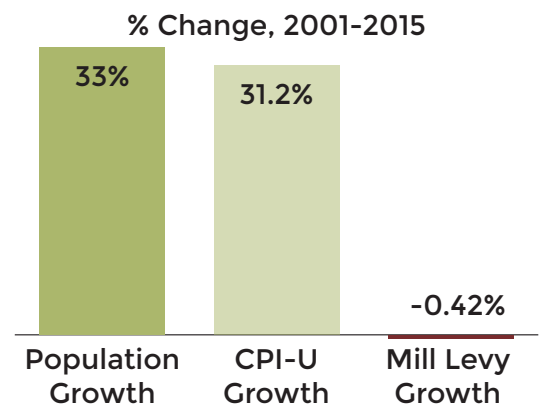
Manhattan, KS Tax Story

Manhattan is one of the fastest growing cities in the State of Kansas. The population of Manhattan in 2001 was 44,177 and has grown to an estimated 58,900 in 2015. That is a 33.3% increase in growth over that short period of time. Strong building permit increases in residential and commercial development are expected to continue in the area for the foreseeable future. The City of Manhattan also recently completed a community-wide survey of its residents, and more than 97% are either very satisfied or satisfied with the Quality of Life in Manhattan. If the City of Manhattan were not in tune with local citizens regarding taxes (as the idea behind the state mandated property tax lid suggests), then why would growth and the high percentage of residents satisfied with quality of life continue?

2001 Population	2015 Population	% Growth
44,177	58,900	33.3%

New Housing Units 2001-2015	
One/Two-Family	3,035
Multi-Family	2,632

Over that same time period, the City mill levy rose from 44.147 mills in 2001 to 43.963 mills in 2015. That is an overall decrease in mill levy percentage by 0.42%. Yet, also over that time period, the CPI-U index increased by 31.2%. During this period of time, the City of Manhattan was able to provide services to 14,723 new residents (33.3% increase in growth) with no increase in mill levy. Part of the reason the City was able to not raise the mill levy over that period was large increases in assessed valuation. Manhattan has averaged nearly 3.81% increase in total assessed valuation, minus new construction, from 2001-2015. Since 2008 though, Manhattan's total assessed valuation, minus new construction, has only averaged an increase of 0.21%, below the CPI-U average over that period of time. Market forces drive those valuation increases. Manhattan believes it may be more prudent to address how properties are assessed — and that formula — before looking at a property tax lid. This is also a good example of why the CPI-U measure in the tax lid bill doesn't correlate to the economy of the City and the services Manhattan provides.



Another issue in the tax lid discussion is that in 2003 the State was experiencing financial difficulties and cut Local Ad Valorem Tax Reduction (LAVTR) and City County Revenue Share (CCRS) to local municipalities. The intention of the State legislature at that time was to reinstate those items when the economy turned around. Those revenues have not been returned to any municipalities as of yet. In sum, the City of Manhattan estimates to have missed out on \$11,219,983 in revenue from those sources since 2003. The city was receiving in the range of \$500,000 per year from LAVTR and estimates nearly \$7,228,976 in lost revenue from that source. The CCRS revenue was in the \$300,000 per year range, and lost revenue is estimated at \$3,990,917 over that time period.

Year	Mill Levy	% Change	CPI-U % Average Increase	Mill Levy Equivalent Loss for LAVTR/Local Revenue Share
2001	44.147	- -	1.6	- -
2002	42.46	-3.82	2.4	- -
2003	44.388	4.54	1.9	2.81
2004	43.54	-1.91	3.3	3.11
2005	40.832	-6.22	3.4	2.89
2006	36.235	-11.26	2.5	2.68
2007	33.089	-8.68	4.1	2.36
2008	31.683	-4.25	0.1	2.12
2009	34.268	8.16	2.7	3.06
2010	37.289	8.82	1.5	2.07
2011	41.917	12.41	3	2.07
2012	42.156	0.57	1.7	2.04
2013	43.439	3.04	1.5	1.99
2014	43.424	-0.03	0.8	1.92
2015	43.963	1.24	0.7	1.88
AVG	40.19	0.19	2.11	2.38

2001 Fire Service Calls	2015 Fire Service Calls	% Growth
1,128	2,581	228.8%

Property taxes in Manhattan help support important City services such as fire services, city planning, public works, debt payments for road improvement projects, and parks and recreation maintenance. Manhattan has a unique relationship with the Riley County Police Department (RCPD). RCPD is the only consolidated law enforcement entity in the State. The City of Manhattan pays 80% of the RCPD budget and Riley County pays the other 20%. By State Statute, RCPD is funded 100% by property taxes. A property tax lid would be extremely detrimental to the vital police services that RCPD provides.

2001 RCPD Service Calls	2015 RCPD Service Calls	% Growth
34,850	39,800	14.2%

2001 Land Area Growth	2015 Land Area Growth	% Growth
10,283	12,266	19.28%

2001 Median Home Value*	2015 Median Home Value*	% Growth
\$101,000	\$191,000	89.11%

*Approximate value based on valuation growth

City of Manhattan Position on Proposed Tax Lid Bills

SB 316 — Accelerates the tax lid implementation to 2016 and strips several exemptions from the tax lid passed in 2015. Bases budgetary growth on annual CPI-U. Election is required if budget is to increase higher than prior year CPI-U. If tax increase is needed, this bill makes the timeline for an election unworkable. **The City of Manhattan OPPOSES SB 316.**

HB 2609 — Leaves original date of implementation in 2018. Adds some exemptions to the bill. Bases budgetary growth on Municipal Cost Index (MCI). MCI is an average of CPI-U, Producer's Price Index, and Construction Cost Index. That index is a better measure of what governments actually spend funds on. Allows for elections to occur if budget grows beyond MCI, but requires petition signed by 10% of electorate before election will be held. **The City of Manhattan SUPPORTS HB 2609.**

Conclusion

The City of Manhattan is one of the fastest growing cities in the State. The City has an established record of adequately planning for, and appropriately budgeting for, its growth. The thought process behind this tax lid bill is in direct conflict with Home Rule for cities. The proposed bill will only stifle growth in a city that is flourishing in job creation and economic prosperity. The City has good communications with our local constituents, and the elected City Commissioners are the most qualified to make educated, informed decisions regarding local tax policy. The tax lid bill only erodes the Representative Democracy that Kansas was built upon.

Please consider all of those items before voting on any property tax lid bill.