



CITY OF TOPEKA

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TESTIMONY

CITY OF TOPEKA

Information prepared by:

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House Taxation Committee
March 9, 2016

HB 2609

**Approval of budgets by taxing subdivisions;
resolution and election requirements.**

The information contained in this report was prepared in support of HB 2609.

PROPERTY TAX LID

House Bill 2142 enacted by the Kansas legislature during the 2015 session placed a restriction on governing bodies after January 1, 2018, that Cities could not increase property taxes more than the consumer price index unless approved by a special election. The bill also allowed for certain exceptions to the increase if they were the result of infrastructure improvements, bond and interest payments, and a number of other items. Currently SB 316 is filed in the 2016 session that would remove certain exceptions and push up the implementation date to July 2016.

HOME RULE

In the November 1960 general election, the citizens of Kansas elected to amend the State Constitution starting on July 1, 1961, to approve Home Rule for cities of the State. Home rule is a limited autonomy or self-government granted by a central or regional government to its dependent political units. Through the Kansas Constitution, Article 12, Section 5, cities are no longer dependent upon specific enabling acts of the Legislature, giving cities authority in the absence of State legislation. This amendment applies to all cities regardless of their class. Language in that amendment included:

“Cities are hereby empowered to determine their local affairs and government including the levying of taxes, excises, fees, charges and other exactions . . . “

Citizens not only voted for local control, but also elect an informed governing body that has direct oversight and control of local tax control policy. The property tax lid is an example where the State continues to infringe on local control.

TOPEKA, KS TAX POLICY

In 1999, the median home value for a citizen in the City of Topeka was \$68,800, compared to a 2015 valuation of \$95,600. The mill levy for the City in 1999 was 31.671, compared to the mill in 2015 of 39.809, a 26% increase. Taxes based on the mill levy for the average home in the City in 2000 was \$251 (\$21 monthly), compared to taxes in 2015 of \$438 annually (\$36 monthly). This represents a 75% increase in the amount of taxes paid on an annual basis, both due to increased valuations of the homes and increases in the mill levied. The CPI during that time increased by 38%.

During that same period, the State has changed taxing laws and reduced income to local governments. These changes have had drastic impacts to City finances from which the City is

Impact of Machinery & Equipment to Assessed Valuation			
Property Classification	2007	2016	% Change
Real Property	\$827,861,828	\$915,377,737	11%
Personal Property	\$110,281,801	\$26,812,623	(76)%
State Assessed	\$89,655,115	\$100,696,193	12%
Total Assessed Valuation	\$1,027,798,744	\$1,042,886,553	1%

only now recovering. In 2006 the legislature passed changes to exempt Machinery and Equipment (M&E) from the tax rolls with the promise that revenues would increase because of new jobs attained. In January of 2006, the City

of Topeka had 7,800 manufacturing jobs. In January of 2015, the City had 7,000. The job growth from exempting M&E has not occurred; however, it has affected City finances. In 2006, the assessed valuation of the City was \$1,027,798,744, compared to 2015 values of \$1,042,886,553 — a 1.45% increase. During that time, personal property valuation dropped 76%, while real property and state valuations increased only 11% and 12%, respectively. The 2015 valuations were the first time the City's assessed valuation was more than the 2007

values. The loss of \$83,469,178 in valuations, is equivalent to the City losing \$3.3 million in property tax revenue — or about 3 mills.

In effect, the exemption of M&E has pushed the tax burden onto residential and commercial structures. The shifted tax burden from legislative changes has not resulted in more manufacturing jobs, as intended.

In 2003, because of a financial crisis, the State cut Local Ad Valorem Tax Reduction (LAVTR) and City County Revenue Share (CCRS) to local municipalities. This amounted to about \$2.1 million in lost revenue to Topeka. In 2015, those revenues could be worth \$2.4 million to the City — or 2.3 mills.

	1999	2016
City Mills Levied	31.671	39.809
M&E Impact (expressed in mills)		3.186
LAVTR (expressed in mills)		2.324
State Impact to City Revenues		5.51

Between these two State changes, the impacts are about 5.5 mills — or \$5.7 million in revenues. From 1999 to 2012, the City mill increased by 1.257, with the City absorbing the impacts through cuts to services. In 1999 the City employed 1,247

workers (minus parks and rec employees), in 2015 the City employed 1,140, a 9% reduction in work force. In 2013 the City increased mills by 2.91 and 2014 by 3.90. This was after being listed in the *Wall Street Journal* as one of the top 250 cities with the lowest cash on hand. Increases in the property tax were to ensure financial solvency and financial sustainability of services, especially public safety, moving into the future.

Property taxes support City services such as public safety: police, fire, municipal court, jail fees, public works, the zoo, planning, cemeteries, debt payments for roads, and general administration of the City. From 1999 to 2015, the needs for City services have continued to increase. In 1999 there were 11,556 total incidents for fire response; in 2014 that increased to 18,195 — a 57% increase in demand for services. In 1999 the city utilized 1,200 tons of material for pot hole patching; in 2014 the City utilized 4,774 tons — a 298% increase. In 1999 the City employed 293 police employees; in 2014 there were 300, resulting from initiatives to increase public safety in the community. In 1999 the City was 56 sq miles; that increased to 60 sq miles in 2014 — a 6% increase. In 1999 the City had 671 center line miles of streets; in 2014 it was 686 center lane miles — a 2% increase.

TOPEKA, KS REAL PROPERTY ASSESSED VALUATION GROWTH

New construction in the City of Topeka is what keeps real property valuations growing at a greater rate than inflation on an annual basis, not reappraisals on existing properties. Real property for the 1999 budget was \$537,961,023. In 2015 that figure rose to \$915,377,737 — a

	1999	2016	% Change
Real Property	\$537,961,023	\$915,377,737	70%
Cumulative New Construction (1999-2016)		-\$259,998,726	
Reappraisal Growth of Existing Values	\$537,961,023	\$655,379,011	22%

70% increase. However, during that same period, there was \$259,998,726 in new construction added in the City of Topeka. In order to compare to the original 1999, the

new construction is removed. That would bring the 2015 values down to \$655,379,011. This compared to 1999 values would result in a change of \$117,417,988 for existing properties — or

a 22% difference. This 22% divided by 17 years results in a 1.28% increase, well below the average inflation rate of 2.32%. That means reappraisal values, excluding new construction, are below the rate of inflation. So an inflation-based tax lid wouldn't reflect the reality of our real estate (and revenue-generating) environment, making it difficult to continue to provide the same level of services to a growing city.

DOWNTOWN REDEVELOPMENT

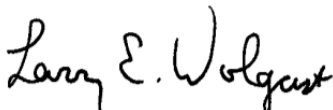
The City of Topeka is also in the process of making substantial investments to our downtown area. This has occurred through public private partnerships. By partnering with area local businesses to make our downtown truly unique by improving City infrastructure assets along with privately financed pocket parks. This investment into our downtown has spurred interest from local developers and has started property renovations.

Under the tax lid law, new construction is exempt from the current tax lid. However, new construction is interpreted as completely new buildings or significant changes to the footprint of existing buildings. Remodeling or renovation projects are seldom classified as new construction. While this can enhance the vibrancy of local communities, these projects can also increase the demand for local government services. Since these projects are not classified as new construction, these projects are not exempt from the tax lid. This can create a disincentive for local governments to pursue policies of urban revitalization.

CONCLUSION

The City of Topeka values the home rule granted by the voters of the State in regards setting local policy. The City has been greatly affected by the Kansas Legislature and changes in law that have reduced revenues to the City. Because of these changes and economic recession, the City has made cuts, including decreasing its work force by 9%. However, in 2013 and 2014, the City decided to achieve a balanced tax policy in order to ensure sustainability of services, especially maintaining public safety, the governing body made increase to the mill levy. In addition to mill levy increases, growth in property values is primarily the result of new construction, while valuations of reappraisals have remained well below the rate of inflation. In response to State cuts and increased demands for services, the City implores the Legislature to remain committed to local control through representative democracy. Representative democracy is best served by a well-informed group of people, elected by local voters, who remain committed to delivering a fair and balanced taxing policy for their citizens, a policy based on the needs and services of those whom they serve.

Sincerely,

A handwritten signature in black ink that reads "Larry E. Wolgast". The signature is written in a cursive, flowing style.

Larry E. Wolgast, Mayor
City of Topeka

City of Topeka Mill Levy, Assessed Valuation and Real Property

Year	City of Topeka Mills Levied	% Growth	City of Topeka Assessed Valuation	% Growth	City of Topeka Real Property	City of Topeka New Construction	City of Topeka Real Property % Change WO New Construction
1999	31.671		\$ 696,297,321		\$ 537,961,023	\$12,969,636	
2000	31.785	0%	\$ 738,337,386	6%	\$ 567,535,489	\$14,656,546	3%
2001	32.574	2%	\$ 781,083,814	6%	\$ 598,880,284	\$15,582,756	3%
2002	32.447	0%	\$ 833,732,561	7%	\$ 639,811,794	\$14,307,829	4%
2003	33.129	2%	\$ 851,798,116	2%	\$ 663,952,786	\$2,136,892	3%
2004	33.224	0%	\$ 890,473,951	5%	\$ 697,585,301	\$15,799,623	3%
2005	32.391	-3%	\$ 941,826,041	6%	\$ 743,500,077	\$19,715,641	4%
2006	30.653	-5%	\$ 981,955,603	4%	\$ 773,082,310	\$14,374,390	2%
2007	30.747	0%	\$1,027,798,744	5%	\$ 827,861,828	\$22,626,595	4%
2008	32.457	6%	\$1,043,352,566	2%	\$ 857,081,725	\$21,666,945	1%
2009	32.682	1%	\$1,041,966,366	0%	\$ 886,363,813	\$13,987,432	2%
2010	32.592	0%	\$1,017,884,935	-2%	\$ 884,798,784	\$15,452,054	-2%
2011	32.849	1%	\$1,002,458,440	-2%	\$ 875,969,022	\$8,551,670	-2%
2012	32.928	0%	\$1,008,648,363	1%	\$ 883,236,614	\$12,832,621	-1%
2013	35.838	9%	\$1,000,498,593	-1%	\$ 872,122,132	\$9,551,287	-2%
2014	39.736	11%	\$1,026,203,325	3%	\$ 894,984,964	\$27,377,476	-1%
2015	39.733	0%	\$1,021,286,924	0%	\$ 895,572,657	\$7,585,167	-1%
2016	39.809	0%	\$1,042,886,553	2%	\$ 915,377,737	\$10,824,166	1%