

To: House Taxation Committee

From: Erik Sartorius, Executive Director

Date: March 9, 2016

Re: Supporting Testimony to HB 2609

The League of Kansas Municipalities appreciates the opportunity to submit written testimony in support of HB 2609.

Local governments strive to balance the needs and values of residents with their ability to provide quality public services. Much of these public services have been an influential factor in sustaining a high quality of life for Kansas residents. HB 2609 would provide a workable framework in which to allow cities and counties to operate from under the restraints imposed by a property tax lid.

Several cities and counties have submitted testimony to you in support of HB 2609. While their testimony will focus on the necessity of these changes to the current property tax lid law, the League is concerned that context could be missing to appropriately weigh the information provided by those in opposition to this bill. As you consider testimony offered in opposition and their supporting evidence, we believe the following context is important to consider.

- **Understanding the Property Tax Increase** – Opponents to this bill contend that between 1997 and 2014, property tax revenue has risen 119%. However, this figure only examines tax revenue over this time frame. It does not measure the increase in property tax rates. Opponents fail to mention that this 119% includes all new construction that has been put onto the tax rolls since 1997, which alone means an increase in the tax revenue base. However, it would not immediately mean an increase in tax rates. Additionally, that figure of 119% also includes numerous fiscal streams that are either exempt under current law or speak to a city's growth: all new territory through annexation, improvements to existing property, property coming off abatement, property having changed tax classification, and population growth.
- **Evidence of the Comparatively High Tax Rates** – Opponents of this bill continue to iterate that Kansas has the highest property taxes of any state in our region based on results from a 2015 study by the Lincoln Institute of Land Policy¹. However, this study only compares

¹ *Lincoln Institute of Land Policy & Minnesota Cent for Fiscal Excellence. 50-State Property Tax Comparison Study. Retrieved from https://www.lincolninst.edu/pubs/dl/3550_2891_Pay_2014_PT_Report.pdf*

cities against other cities – not states. The study examines 2 (Wichita and Iola) of the 626 cities in Kansas. Equating 2 cities to be representative of all cities in Kansas would be ill advised. Alternatively, the Tax Foundation, a source commonly used by opponents of this bill, lists Kansas as the 19th best state in its *2016 State Business Climate Index: Property Tax Component*². Regardless of where Kansas ranks, opponents offer little context as to what the tax environment of the comparing states might look like. For instance, surrounding states might have a higher local sales tax and higher median values than what Kansas does. As a result, they do not rely on property taxes to the same extent and lack of comparative traits.

- **Cities and Fixed Costs** – Opponents of this bill have commonly stated that cities are only dealing with incremental cost increases each year. This is simply not true. Costs to road maintenance, law enforcement, fuel and health insurance premiums – basic components in running a local government – continue to rise faster than the rate of inflation. For instance, between 2000 and 2015, health insurance premiums increased by 123%³. During that time, inflation increased by only 35%. Another example is fuel. The cost of fuel rose at an annual rate (5.7%) of more than double what the annual rate of inflation was (2.2%)⁴.

Yet another concern is that there could be state mandated costs to which the municipality is required to pay regardless of whether cost increases above inflation – such as contribution rates to KPERS. Workability through exemptions and the use of the Municipal Cost Index (MCI), instead of the Consumer Price Index, is needed to ensure cities are able to meet such mandated costs to which they have no control.

- **Property Valuation Assessments and Inflation** – Proponents have commonly blamed the increase in property taxes to inflated property valuation assessments. The Division of Property Valuation in the Department of Revenue has a three-tier process in place to ensure that valuations are not being inflated. The division measures each county's median assessments made to market-value prices, their confidence interval of the assessed value, and a level of uniformity of the assessed value. In 2013, it was found that 104 of the 105 counties were in substantial compliance with their valuation assessments⁵.
- **State Aid and Workable Solutions** – With the end of demand transfers and the emergence of the Machinery and Equipment exemption, the restraints of the current property tax lid law would offer little viability from which counties and cities could work from. The Lincoln

² Walczak, J., Drenkard, S. & Henchman, J. (2015). 2016 State Business Tax Climate. *Tax Foundation*. Retrieved from <http://taxfoundation.org/article/2016-state-business-tax-climate-index>

³ Henry J. Kaiser Family Foundation. (2015). Employer Health Benefits Survey. Retrieved from <http://kff.org/health-costs/report/2015-employer-health-benefits-survey/>

⁴ U.S. Department of Energy – Energy Information Administration. (2015). Petroleum and Other Liquids: gasoline and Diesel Fuel Update. Retrieved from https://www.eia.gov/petroleum/_gasdiesel/

⁵ Harper, D., Hamm, R. & Waters, B. (2014). Property Value Trends in Kansas. *Division of Property Valuation, Department of Revenue*. Retrieved from <http://www.kansascounties.org/DocumentCenter/View/1792>

Institute of Land Policy explains that a lid on local tax revenue, without state aid, will stand to penalize already frugal jurisdictions and will impose new burdens on the residents who are dependent on public services the most⁶. The proposed exemptions to add to the current law and use of the MCI would merely allow local governments to maintain their fiscal ability to fund basic core functions to serve their residents.

- **Public Override Process** – The Lincoln Institute of Land Policy explains that when property tax limitations are implemented, override options have must be practical for them to work⁷. If such override requirements are not done responsibly, disparities between communities in their quality of public services stand to arise and put a long-term burden on the state to address such disparities. Other states – such as California, Colorado and Massachusetts – have provided support to the notion that more affluent municipalities with a higher income per capita are the communities which choose to vote and raise the property tax lid in a given year. Alternatively, less affluent cities are increasingly less likely to pass an override, despite the larger need to do so.⁸

The requirement for a petition to be filed that provides proof that 10% of a municipality's electorate want to hold an election, prior to spending thousands of taxpayer dollars to do so, offers a viable first step towards a workable solution to such a concern as noted above.

Based on the context and positions discussed above, the League of Kansas Municipalities respectfully requests that the committee recommend HB 2609 for passage.

⁶ Haveman, M. & Sexton, T.A. (2008). Property Tax Assessment Limits: Lessons from Thirty Years of Experience. *Lincoln Institute of Land Policy*. Retrieved from https://www.lincolnst.edu/pubs/dl/1412_986_Property%20Tax%20Limits%20rev.pdf

⁷ Id.

⁸ Wallin, B. & Zabel, J. (2010). Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2 ½ in Massachusetts. Working paper submitted and printed by the Lincoln Institute of Land Policy. Retrieved from https://www.lincolnst.edu/pubs/dl/1885_1200_Wallin_Zabel_WP11BW1.pdf