THE LEAGUE OF KANSAS MUNICIPALITIES

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To: Senate Assessment and Taxation Committee

From: Erik Sartorius, Executive Director

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Re: Opposition to Senate Bill 316

The League of Kansas Municipalities appreciates the opportunity to submit written testimony in opposition to Senate Bill 316.

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. However, SB 316 would place unworkable expectations on cities and counties to maintain their same level of public services under the numerous fiscal constraints to which this bill would introduce.

Several cities and counties have submitted testimony to you in opposition to SB 316. While their testimony will focus on detrimental consequences that stand to arise because of this legislation, the League is concerned context could be missing to appropriately weigh the information provided by the proponents of this bill. As you consider the proponents information and rationale, we believe it is important to remember a few key elements to their information.

- **Understanding the Property Tax Increase** – Proponents of 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. Proponents 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 base tax revenue. 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** – Proponents 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 Policy[1]. However, this study only compares cities against other cities – not states. The study examines 2 (Wichita and Iola) of the 626

[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 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 proponents 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, the proponents 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** – Proponents 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 average rate of inflation was (2.2%)[4].

  Yet another concern is that there are state mandated costs to which the municipality is required to pay regardless of whether cost increases above inflation – such as contribution rates to KPERS. All of these costs that commonly increase above inflation are not something that municipalities can merely cut from their bottom line.

- **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 assessments[5].

- **State Aid and Workable Solutions** – With the end of demand transfers and the emergence of the Machinery and Equipment exemption, the restraints found in SB 316 would offer little viable means from which counties and cities could work from. The Lincoln 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

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[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

on public services the most[6]. The exemptions proposed to be eliminated under this bill would make for a property tax lid that is simply not viable, nor workable in the status quo and would merely add to the fiscal constraints already experienced by municipalities.

- **Keeping the Effective Date of January 2018** – When other states have implemented tax lid, evidence suggests that the financial burdens imposed on cities and its residents are best served through a delayed implementation date[7]. A delayed implementation date would afford municipalities the time to make difficult decisions about what services to fund and how best to do so under the restraints of a tax lid. Most importantly, more time is needed to determine a workable election timeline and procedure. As noted in other testimony, the current proposed change date for the election implementation would still put an undue burden on cities and counties in which to comply with the law.

- **Workable Solution** – There is a workable solution being discussed currently in the House Taxation Committee with HB 2609. This bill would change the measurement of inflation to an instrument – the Municipal Cost Index – that would measure goods bought by municipalities. It would require 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. It would also ensure that municipalities had the appropriate exemptions in which to work under the lid to fund law enforcement, mental health services, new construction, economic development, employer contributions to healthcare and retirement, district court operations, and others that meet the definition of basic core functions of local government.

Based on the context and concerns discussed above, the League of Kansas Municipalities respectfully requests that the committee not recommend SB 316 for passage.

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[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.lincolninst.edu/pubs/dl/1412_986_Property%20 Tax%20Limits%20rev.pdf

[7] 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.lincolninst.edu/pubs/dl/1885_1200_Wallin_Zabel_WP11BW1.pdf