



**TESTIMONY IN OPPOSITION TO SB 316 – An act concerning a property tax lid;
effective date; exemptions**

To: Senator Les Donovan, Chairman
Members of the Senate Committee on Assessment and Taxation

From: City of Lenexa, Kansas

Date: March 9, 2016

Honorable Chairman and members of the Senate Committee on Assessment and Taxation, the City of Lenexa respectfully opposes SB 316.

We can agree that irresponsible government spending is a bad thing. The local property tax lid enacted by the legislature was meant to reign in out-of-control municipal spending. The common rhetoric is that rogue city councils are wildly raising mill levies with no control by local voters. We cannot speak for other communities, but we can assure you that this characterization cannot be farther from the truth in Lenexa.

A usual critique of local property taxes is that they are ever-increasing. The City of Lenexa has actually decreased each citizen's property tax burden. In the past decade, the City has reduced per capita property tax revenue by 8.3% (adjusted for inflation). In FY 2016, the City will collect \$396 per capita in property tax revenue adjusted for inflation. In FY 2006, that figure was \$432.

The generalization that municipal tax collections and spending are out of control is absurd. The City of Lenexa has consistently demonstrated fiscal responsibility and in measurable ways. Through sound fiscal management, the City has earned Triple-A bond ratings from each major bond rating agency. In 2015, 77% of Lenexa residents indicated they were satisfied with the value they received for their tax dollars. Only 6% indicated they were not. These figures are considerably higher than the national average. Furthermore, the rate of satisfaction has steadily increased over the past decade.

The property tax lid enacted in 2015 is scheduled to take effect in 2018. This date was agreed to so local governments would have time to prepare for the transition and inform the public as to how new budget election processes would work. SB 316 needlessly accelerates the effective date and strips away several exemptions to the law that are crucial to providing the level of service our citizens have come to expect.



Although the City supports repeal of the local property tax lid, the implementation timeline and exemptions in current law are preferable. Therefore, we oppose SB 316 for these reasons:

1. The timeline for any required election is unworkable.

- The City does not operate on the State's fiscal year. Moving the tax lid to take effect in the middle of a municipal budget year (the calendar year) creates uncertainty around tax revenues already collected by the city. A January 1, 2017 implementation makes more sense. We begin the annual budget process early in the year. However, a final budget cannot be adopted until the City receives its valuation estimates from the County Clerk on July 1. Under this bill, we would have to finalize our budget by June 1 to include any proposed increase on the August ballot for FY 2017. Opponents argue the City could finalize its budget before it receives valuations, but that means our citizens will not be fully informed of the taxes assessed to their property at the time the City holds hearings on the budget. Approving a budget before valuations are received on July 1 is impractical, unfair, and misleading to our citizens who will not know how the budget truly affects their tax bill. Furthermore, this process would require cities to build two budgets – one if a public vote is successful, a second if it is not.

2. The property tax lid creates uncertainty for businesses and will stifle economic development.

- Making long-term commitments contingent upon public votes creates a lack of confidence in funding for programs, services, and economic development initiatives, which suppresses growth. Many local developers have expressed concern that the property tax lid will negatively affect economic development. The uncertainty in this legislation will make it extremely difficult for the city to make commitments or to responsibly invest in economic development and job growth. In FY 2015, the City Council levied a two mill budget increase to pay for the development of Ridgeview Road. This investment in the future of Lenexa is meant to help the private sector create hundreds of permanent and construction jobs in the community over the next few years. Proposed private development totals in the hundreds of millions of dollars and will be a boon to State coffers through increased sales tax revenue. The mill levy needed to support the design and construction of this road may not have been raised were the tax lid in place.

3. Lenexa's triple-A bond ratings will face potential downgrades.

- The City's financial advisor advised us that our bond ratings could be negatively affected when the property tax lid takes effect. Regardless of the bond and interest exemption included in the legislation, a potential downgrade means we will spend more taxpayer money on interest when financing projects. The City has worked diligently to achieve Triple-A bond ratings. To potentially have them downgraded despite our sound fiscal management is problematic.

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4. The exemptions removed from current law will inhibit the City's ability to effectively serve citizens.

- We are content to see that three important exemptions, the bond and interest, new construction, and tax abatement expiration provisions were not stricken in the proposed legislation. However, one was that may negatively affect the governance and finances of the City. The removal of the provision for new expenditures mandated by State or Federal law, is particularly troublesome. Whether it is increased KPERS contributions or otherwise, compelling local governments to provide services without accompanying funds is tantamount to the Federal government mandating that the State run a program with no funding to implement it. Having to wait for the results of a referendum to address these time-critical issues means that the City will likely have to fund these mandates with cuts elsewhere – limiting the City's ability to provide the high quality services our citizens expect.

5. The city's budget will be determined by poor metrics.

- Structuring the tax lid around the consumer price index for all urban consumers (CPI-U) is not a realistic benchmark of tax revenue growth. The City does not purchase the same items urban consumers purchase. The CPI-U gauges increases in food, apparel, rent, etc. We purchase items such as asphalt, snow plows, police cars, personnel services, and health care. These goods and services require a different metric. Rates of inflation for these items are much different than an individual consumer's "basket of goods." The Municipal Cost Index (MCI) is a more appropriate benchmark.

There are several fundamental issues with applying a property tax lid to responsible and effective local governments. The version of the property tax lid passed in 2015 was not optimal. Accelerating it and removing exemptions will not serve the long-term economic or fiscal interests of our community or the State of Kansas. We oppose SB 316 and urge the committee members to oppose it as well.