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To: Chairman Les Donovan, Senate Assessment and Taxation Committee

Subject: Written Testimony Opposing SB 316

The City of Newton has remained a good steward of City resources and cognizant of the burden of property taxes on taxpayers. Yet at the same time, the City must continue to provide essential services while not only keeping up with the cost of doing so but also with the increased demand for services. The City has been able to accomplish this while grappling with reduced aid from the State and as mandates from the State and Federal government have increased. These range from storm-water and water quality requirements, traffic control changes and body cameras to name a few. The City has been challenged to keep up with the cost of services. Cities should continue to have their constitutional right to Home Rule authority and be allowed to make sound financial decisions at the local level without interference from the State. As evidenced in the information provided with this letter, Newton's elected officials have done just that. Without interference from the State, since 1999 Newton elected officials have maintained property tax rates and property revenues below the proposed CPI-U rate.

Unlike private sectors and households, cities provide "essential services" serving the public health, safety and welfare. Tying cities hands by limiting their ability to fund these services has a direct and dangerous effect on cities' abilities to provide for essential services. Additionally, cities need year-to-year flexibility to react to the needs of their taxpayers because:

- Cities must be able to build the necessary infrastructure to engage in pro-growth activities
- Some decisions or events are outside of a city's control, such as natural disasters, above-inflation increases in the cost of maintaining qualified personnel, or state-mandated and other costs
- Cities need flexibility to react to decreasing populations and assessed valuations.

- Cities remain accountable to bond holders and rating agencies for their financial management therefore need to have control of their own finances

The City of Newton vehemently opposes Senate Bill 316 and any other attempt to limit the City's ability to self- govern.

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City of Newton Property Tax Lid Analysis

BACKGROUND OF THE PROPERTY TAX LID

Since 2015 there have been a number of bills introduced by the Kansas Legislature that impact local governments in Kansas.

HB 2142 (Current Law in Effect)

Effective January 1, 2018 cities are required to adjust the amount of property taxes levied over the previous year by the Consumer Price Index for all Urban consumers (CPI-U) published by the United States Department of Labor. The bill does provide for certain exemptions to the increase including if the increase was the result of infrastructure improvements, bond payments, special assessments and a number of other items. If the threshold for raising property revenues are not met, a citizen vote is required.

SB 316 (under consideration)

Senate Bill 316 seeks to make some changes to House Bill 2142, mainly:

- Moves the effective date for the implementation to July 2016
- Eliminates road construction costs exemptions
- Eliminates exemptions judgements and expenses for legal counsel fees
- Eliminates exemptions for expenditures mandated by federal or state law
- Eliminates exemptions for costs for new infrastructure or improvements to existing infrastructure that is exempt from property taxation

HB 2609 (under consideration)

House Bill 2609 seeks to make some changes to House Bill 2142, mainly

- An election is only required if at least 10% of the local government's electorate file a petition for a vote.
- Changes the inflation measurement to the

Municipal Cost Index (MCI). The MCI 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).

- Exempts principal and interest on state infrastructure loans and short term borrowing
- Exempts increase in property tax revenue due to expiration of property tax rebate programs
- Exempts employer contributions for employer share of benefits (social security, workers compensation)
- Exempts district court operational expenses
- Exempts essential services such as law enforcement, bonds for securing industries, mental health, economic development programs
- Exempts expenses related to natural disasters
- Exempts non taxing jurisdictions for which the city has no taxing control over

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 to elect an informed governing body that has direct oversight and control of local tax control policy. The property tax lid is an

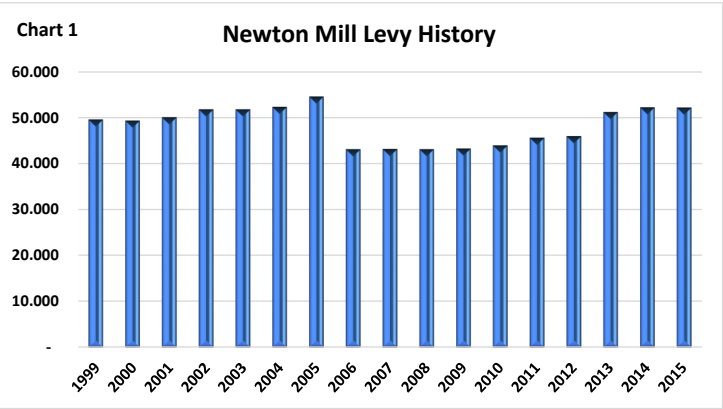
City of Newton Property Tax Lid Analysis

example where the State continues to infringe on local control.

NEWTON, KANSAS TAX POLICY

Property Taxes

According to the US Census Bureau, in 1999 the median home value in Newton was \$67,800. By 2015 it was \$99,500 a 46.75% increase. However, correspondingly the mill levy in 1999 was 49.248 and in 2015 it was 52.091, a 5.28% increase. (See Chart 1)



The chart 2 shows selected home values and their annual property tax rates from 1999-2015.

Chart 2

Yearly Taxes Based on Home Value			
	\$50,000	\$75,000	\$100,000
Tax Year	Actual	Actual	Actual
1999	\$285	\$427	\$569
2001	287	431	575
2003	297	446	594
2005	313	470	626
2007	248	372	496
2009	248	372	496
2011	262	393	524
2013	294	441	588
2015	300	449	599

Property taxes support City services such as police, fire, municipal court, streets, parks, streets, debt service and general administration of the City. From 1999-2015 the needs for City services have continued to increase, whether it is Fire/EMS call volume, miles of streets patrolled by the Police Department, acres mowed by the Park Department, bond and interest payment obligations or miles of road paved and maintained. In 1999 the City of Newton covered 9.61 square miles, by 2015, the City was 14.55 square miles a 51.8% increase.

The development along South Kansas has necessitated additional infrastructure improvements including expansion of roadways, streets, sidewalks, traffic lights and playgrounds.

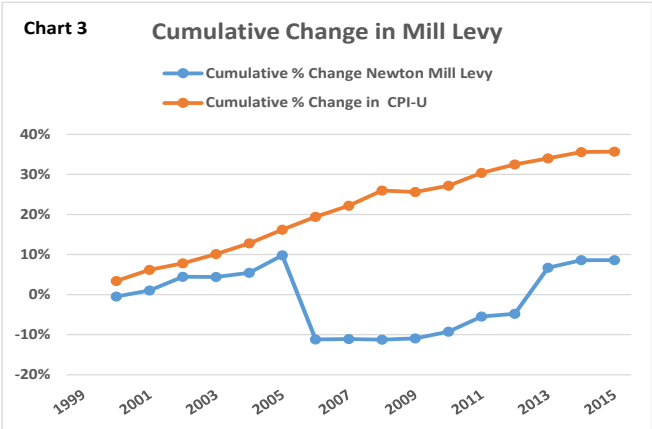
THE CONSUMER PRICE INDEX- URBAN (CPI-U)

The current tax law (HB 2142) requires cities to hold a public vote if they wish to raise property tax revenue by more than the Consumer Price Index for all Urban consumers (CPI-U) with the relevant exemptions. However, as stated the CPI-U only measures the rising costs of household items (i.e., food, clothes and housing). CPI-U does not take into account the type of products local governments spend money on. Local governments purchase items such as cement, bullets & ammunition, construction supplies, uniforms and playground equipment. These are items that are not equally weighted in the CPI-U. However, even with the challenges of using CPI-U as a benchmark, when comparing from 1999 to 2015 City property tax revenue and property tax rates increases are lower than when adjusted for CPI-U. Following are some specific examples.

Comparing the Newton Mill Levy to the CPI-U

From 1999-2015, the cumulative change in the total mill levy was 8.59%, less than what the 35.7% CPI-U adjusted mill levy for the same period would have been. This modest increase in the mill levy is largely accounted for the fact that in 2006 the City lowered approximately 10 mills in exchange for a voter approved sales tax in order to provide a more balanced revenue approach for the provision of City service. This means the growth of the mill levy is less than

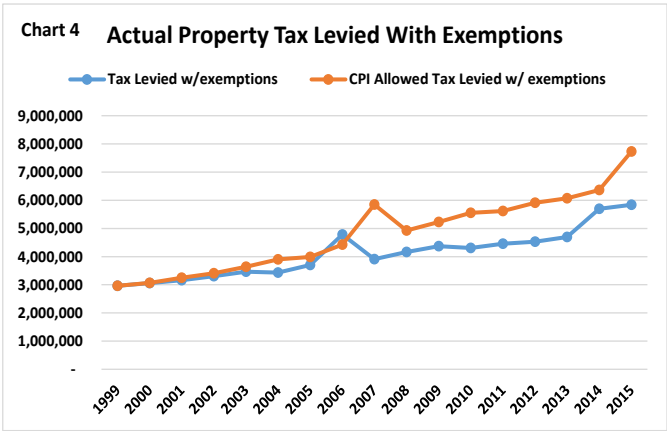
City of Newton Property Tax Lid Analysis



what it would have been had we adjusted for the CPI-U. (See Chart 3)

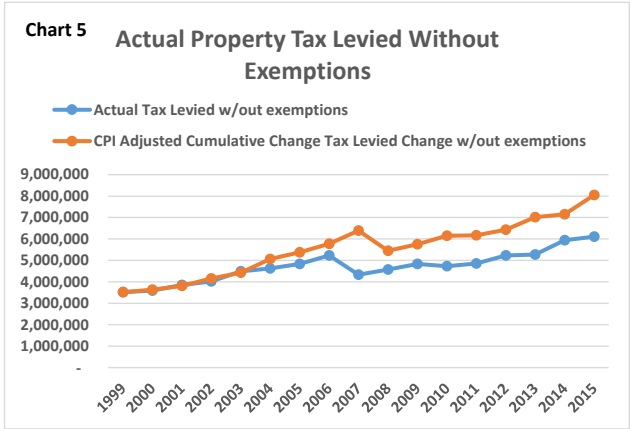
Comparing the Newton Property Taxes Levied and the CPI-U

As stated, House Bill 2142 allows for certain exemptions, such as the levy resulting from construction or for the payment of debt service. Between 1999-2015 with the allowable exemptions, the City's actual cumulative property taxes levied increased 73.6%, whereas the CPI-U adjusted cumulative property taxes would have increased 129.1%. This means that the growth of revenue from property tax levies



with exemptions in Newton grew by less than what they would have been had it been adjusted for CPI-U. (See Chart 4)

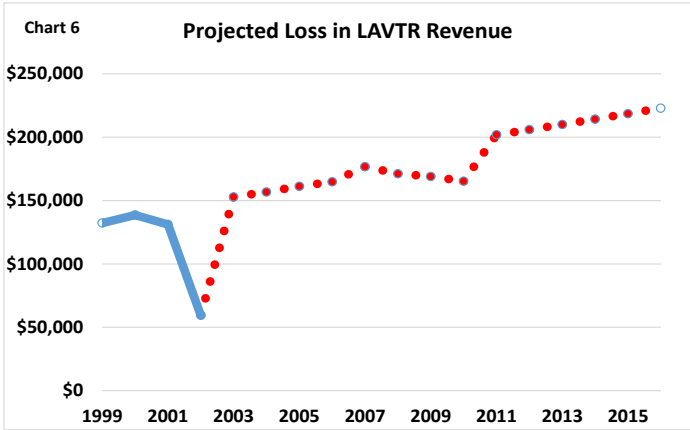
Without allowable exemptions, the City's cumulative actual property taxes levied increase during this period was 97%, where as the CPI-U adjusted increase would have been 160.8%. This means actual property taxes revenue collec-



tions without the allowable exemptions grew by less. (See Chart 5)

OTHER FACTORS TO CONSIDER

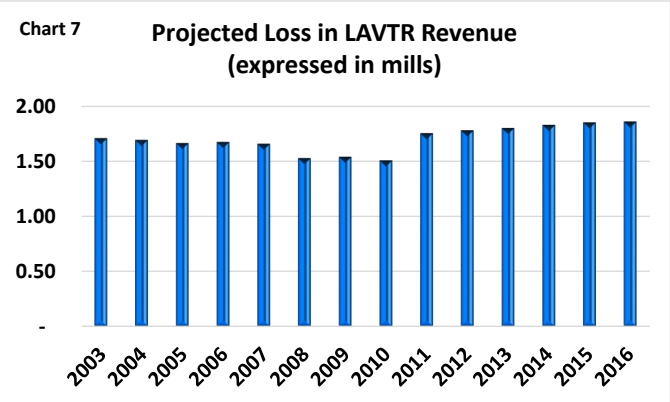
During the period 1999-2015, the State changed taxing laws and reduced revenue share with local governments. The Local Ad Valorem Tax Reduction (LAVTR) allowed the State to share sales tax dollars with local governments which were directly applied to lowering property tax levies. This time-tested partnership, cancelled in 2003, provided dollar for dollar reductions in property tax bills. Since 2002 (when the State only made half a payment to the City of



Newton), the City of Newton has lost a cumulative estimated \$2,650, 369 which has had to be made up from existing resources. The red dotted lines are projected lost revenue. (See Chart 6)

City of Newton Property Tax Lid Analysis

The mill levy equivalent of this translates to an average of 1.7 mills each year since 2003. (See Chart 7)



HAVE WE BEEN GOOD STEWARDS? (HOW WOULD WE HAVE LOOKED IF WE NEEDED A PUBLIC VOTE 1999-2015)

If a bill similar to HB 2142 had been in place from 1999-2015, the City would have had to hold a vote only three of the last eleven budgets, namely 2006, 2014 and 2015. (See Chart 8)

In 2006, although the mill levy was not raised, the City Commission reallocated existing tax revenues from the Bond & Interest Fund to the General Fund, resulting in an increase in the tax levy allocated to the General Fund, although not an overall increase, but under the existing law, this action would have required a public vote. After going 10 years without a property tax increase, the City Commission raised

Chart 8

Would an Election Have Been Required?	
Year	Election Required
2005	No
2006	Yes
2007	No
2008	No
2009	No
2010	No
2011	No
2012	No
2013	No
2014	Yes
2015	Yes

the mill levy in 2014 and 2015, which would have required an election.

In summary, the City of Newton has kept the property tax rates and the revenue it receives from property tax within, and in some years below the CPI-U.

CONCLUSION

The City of Newton has remained a good steward of City resources and cognizant of the burden of property taxes on taxpayers. Yet at the same time, the City must continue to provide essential services while not only keeping up with the cost of doing so but also with the increased demand for services. The City has been able to accomplish this while grappling with reduced aid from the State and as mandates from the State and Federal government have increased. These range from storm-water and water quality requirements, traffic control changes and body cameras to name a few. As evidenced in the information provided in this analysis, the City has been challenged to keep up with the cost of services. Cities should continue to have their constitutional right to Home Rule authority and be allowed to make sound financial decisions at the local level without interference from the State.

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