

M I N U T E S

SPECIAL COMMITTEE ON LOCAL GOVERNMENT

September 9 and 10, 1976

Members Present

Senator Elwaine Pomeroy, Chairman  
Representative Vic Kearns, Vice-Chairman  
Senator Bill Mulich  
Senator Norman Gaar  
Senator Jim Parrish  
Representative Harold Beninga  
Representative Larry Erne  
Representative Francis Gordon  
Representative Max Mize  
Representative John Sutter  
Representative Joe Wicinski

Staff Present

Mike Heim, Kansas Legislative Research Department  
Roy Johnson, Kansas Legislative Research Department  
Robert Taylor, Kansas Legislative Research Department  
Alan Alderson, Revisor of Statutes Office

Others Present

Marian Warriner, League of Women Voters  
Mary J. Wiersma, Kansas Farm Bureau  
Mary Jane Rambo, University of Kansas  
Walt Plosila, Division of Planning and Research  
Ernie Mosher, League of Kansas Municipalities  
Harry Felker, Topeka Park Commissioner  
Ken Elder, Topeka Finance Commissioner  
John Decker, Wichita City Attorney  
James Donnell, Mayor, Wichita  
Gary Hunt, City of Overland Park  
Jack Walker, Mayor, Overland Park  
Tom Downs, City Manager, Leavenworth  
Fred Allen, Kansas Association of Counties  
Irving R. Niles, State Representative, District 13  
Ernie Garcia, Division of Planning and Research  
Gary Stotts, Division of Budget

September 9, 1976

Morning Session

The meeting was called to order shortly after 10:00 a.m. by Senator Elwaine Pomeroy, Chairman.

The motion was made and seconded to approve the Committee minutes for the August meeting. The motion carried.

Proposal No. 37 - Local Revenue

Staff reviewed a memorandum summarizing possible policy alternatives concerning Proposal No. 37 - Local Government Revenues. The memorandum deals with policy alternatives with respect to the property tax lid, local sales taxes, local earnings or income taxes, state-shared revenues, local vehicle taxes, insurance premiums taxes, real estate transfer taxes, local tobacco, liquor, and gasoline taxes and certain expenditure alternatives. A copy of this memorandum is in the Committee notebooks.

In response to a question, Mr. Roy Johnson noted that school districts are not under the tax lid and are able to levy whatever amount of property tax is required for their general fund. Cities, counties and junior colleges, however, are under the tax lid and may not levy an amount greater than the amount levied in either 1968 or 1969. The only growth in the property tax allowed under the tax lid is limited to increases in the valuation of improvements on real estate and added personal property.

Mr. Bob Taylor, while reviewing the local earnings and income tax portion of the memorandum, noted that a person's tax situs for income tax purposes is determined by his place of residence on the last day of the year. He said it would be very difficult to administer an earnings or income tax locally because of residency problems involving persons living in one county and working in another. Mr. Taylor stated that studies have concluded that there has been no significant migration effect in areas that have an earnings or income tax.

Mr. Taylor stated the primary objection to a local vehicle tax when the concept was defeated at the polls in Lawrence was that the rates were not graduated. In reply to a question, he said that lease cars would be registered under the situs of the title holder.

Mr. Mike Heim noted that an insurance premium tax had been suggested by Mr. Ernie Mosher of the League of Kansas Municipalities. A Committee member suggested this type of tax was discriminatory since it would affect only a small portion of the population.

After some discussion the Committee recessed at 12:00 noon for lunch.

Afternoon Session

The meeting was called to order shortly after 1:30 p.m. by Senator Pomeroy, Chairman.

Dr. Jack Walker, Mayor of Overland Park, presented a statement on behalf of the cities of Overland Park, Topeka, Kansas City and Wichita. Mayor Walker explained that the four cities had joined together to form the Kansas Urban Coalition in the hope of more effectively presenting the needs of larger cities of Kansas before the Legislature. A copy of Mayor Walker's statement is attached (Attachment I).

Mayor James Donnell of Wichita said that approximately \$4.3 million has been budgeted for the 1977 Sedgwick County Road and Bridge Fund. He noted that three-fourths of these funds will come from taxes paid by residents of Wichita but none of the road and bridge funds are being spent inside the city limits.

Mr. John Dekker, Wichita City Attorney, said that both Wichita and Topeka are vitally interested in the area of mass transportation. He said that financial aid is badly needed in this area.

In reply to a question, Mayor Walker said cities would welcome the authority to control the tax lid such as they have with the intangibles tax. He said he was not advocating the removal of the tax lid because he thought the people of Kansas want the tax lid retained to prevent large increases in property taxes. He said that he thought people wanted a different mix of taxes though. He stated that he thought cities should be able to impose taxes without a mandatory referendum. Mayor Walker noted that he favored a state revenue sharing kind of program but thought this approach was not feasible at this time due to the Governor's position that local units solve their financial problems locally.

Mr. Ken Elder, Topeka Finance Commissioner, said he favored increasing the tax options for local government. He noted that when the City Commission considered cutting back the police helicopter program in Topeka, a number of citizens petitioned against this action.

Mr. Harry Felker, Topeka Park Commissioner, said citizens are willing to pay more for the services they want. He noted that fees for the softball program and other

sports activities have increased significantly over the past several years. Participation in these sports activities has more than doubled despite the fee increases.

Mr. Tom Downs, Leavenworth City Manager, strongly endorsed the concepts presented by the Kansas Urban Coalition. He noted Leavenworth would probably join the Coalition in the near future. He stated that the property tax system in Kansas is a mess. He said the last property appraisal in Leavenworth was in 1959.

Mr. Ernie Mosher, Executive Secretary of the League of Kansas Municipalities, presented a statement before the Committee. (See Attachment II). He said the League is opposed to the tax lid. He noted that for many of the smaller cities in Kansas the property tax is the only significant tax source available. Mr. Mosher stated the League advocated both a short-term and a long-term legislative action plan. The short-term plan emphasizes increasing local options. The long-term plan calls for the establishment of a state-local revenue sharing plan. Mr. Mosher noted the League is requesting that a comprehensive interim study of local highway finance be undertaken next year.

The meeting adjourned at 4:30 p.m.

September 10, 1976

Morning Session

The meeting was called to order at 9:00 a.m. by the Chairman, Senator Pomeroy.

Mr. Fred Allen, Executive Secretary of the Kansas Association of Counties, said the Association was in the process of preparing their county platform and had no final recommendations at this time. He noted, however, that there was support from many county officials for a local earnings tax option and a countywide vehicle tax. He said that an insurance premiums tax had some merit and that a real estate transfer tax would be beneficial. He indicated that the county platform would advocate state aid to pay for increased costs due to court unification. Mr. Allen said he was in favor of the idea of an interim committee study of local highway finance. He said the Association's annual meeting will be held in November and that a copy of the Association's county platform would be mailed to each member of the legislature once finalized.

In response to a question, Mr. Allen stated he would prefer that local taxing authority be available subject only to a protest petition. He explained that he opposed a mandatory referendum on tax questions because a protest petition provided citizens an avenue to bring tax questions to vote.

Representative Irving Niles stated he favored granting cities the power to establish local income taxes. He said that he was opposed to any increase in sales taxes. Copies of the material Representative Niles presented the Committee are on file in the Legislative Research Department.

Senator Pomeroy noted that Mr. Wallace Buck, representing the Home Builder's Association of Kansas, Inc., would provide the Committee with copies of a proposed amendment to the planning and zoning statutes prior to the Committee's October meeting.

Mr. Al Alderson then reviewed two bill drafts concerning the imposition of local retailers' sales taxes. The first bill draft would allow cities in the 15 counties that have already rejected a sales tax increase to vote on the question without a second county-wide election. The second bill draft would allow any city, once the county commission declined to call an election on a sales tax question, to place the issue before city voters. The Committee by consensus agreed to continue their discussion by using the second bill draft as a vehicle.

Representative Kearns moved that the mandatory vote provision be retained in the bill draft. Senator Mulich seconded the motion. The motion failed.

Representative Kearns then moved that the bill draft be amended to provide a sales tax could be imposed by the city or county governing body subject to a protest petition of 10 percent of the qualified electors who voted at the last election. Representative Erne seconded this motion. After some discussion Representative Kearns withdrew his motion and moved that the sales tax be subject to a five percent protest petition of the qualified electors. Representative Erne seconded this motion. The motion carried.

Senator Parrish moved that the option of a referendum be included in the bill draft. Representative Beninga seconded the motion. The motion carried.

Senator Parrish moved that the bill draft be amended to require a two-thirds vote of the governing body to impose a tax. Senator Mulich seconded the motion. The motion carried.

Senator Parrish moved that the bill draft be amended to change the 30-day requirement that a county has to act if requested to hold a referendum to 60 days. Representative Mize seconded the motion. The motion carried.

The meeting recessed at 12:00 noon for lunch.

Afternoon Session

The meeting was called to order by Senator Pomeroy, Chairman, shortly after 1:00 p.m.

Representative Erne moved that the 180-day provision regarding the holding of an election once agreed to be retained. Representative Mize seconded the motion. The motion carried.

Representative Mize moved that K.S.A. 12-175 be amended by striking the words "on the effective date of this act", in order to protect cities which might impose a sales tax and later be pre-empted by a countywide tax. Representative Kearns seconded the motion. The motion carried.

After some discussion, Senator Parrish said he would like to see the sales tax issue simplified and more workable. He suggested that both counties and cities be given independent authority to impose a one-half cent sales tax.

Representative Parrish moved that both cities and counties be given the authority to impose a one-half cent sales tax independent of the other. Representative Erne seconded the motion. The motion carried.

It was pointed out that the motion included the idea that the sales tax base for these local taxes would be the same as the state sales tax base. Senator Pomeroy noted the previous policy decisions made by the Committee would still apply to this concept.

The meeting adjourned at 3:00 p.m.

Prepared by Mike Heim

Approved by Committee on:

Oct 14, 1976

Date

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JOINT STATEMENT .

By the Cities of Wichita, Kansas City, Topeka, and Overland Park  
on behalf of the

KANSAS URBAN COALITION

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Chairman Pomeroy and Members of the Special Committee on Local Government:

We are here today jointly to present recommendations for legislative action which we believe is essential to the health and well-being of the cities of Kansas. Collectively, we have met and discussed our problems in great detail. We have recognized that in the past--acting individually--we have not been particularly successful in finding a receptive audience with the Kansas Legislature and Governor in finding a solution to the problems of cities in Kansas. Accordingly, we have created the Kansas Urban Coalition--whose only purpose is to identify our common problems and to identify common, reasonable alternative solutions. It is our hope that by working closely with the League of Kansas Municipalities, the Kansas Legislature, and the Governor, we can arrive at a productive Legislative Program for 1977 that will result in a workable solution to most of the problems. We believe this report and the other testimony given to this Special Committee should leave little doubt that the problems we have been talking about are real and they are becoming increasingly more serious.

FINDINGS OF FACT

We recommend that this Special Committee on Local Government use the Overland Park Survey and the other testimony of local elected officials and prepare a comprehensive set of Findings of Fact for the 1977

Legislature which detail the problems of the cities as outlined. These findings will serve as the basis for legislative action needed by the cities, and provide your colleagues with a set of facts they can use to remove uncertainty which has clouded this issue for years.

You have a compelling responsibility to do this. The State of Kansas needs its cities to be vigorous and healthy. It needs cities able to provide markets, communication centers, and decent places to live for its citizens. It needs cities to serve as conduits for agricultural products and other resources our State has so everyone can be properly served.

The intent of this Statement is to outline a program of action which will give the cities of Kansas the authority they need to solve their own problems. We are here to ask for Legislative leadership and action to deal with the problems facing our cities, all the cities of Kansas, and the 80% of the State's population who live in them.

Throughout the summer this Committee has heard from elected officials across the State discuss the financial situation facing them in their home towns. You have received a comprehensive report from the City of Overland Park which not only profiled individual problems of selected cities, but outlined in its findings the realities facing cities in Kansas today. A copy of the summary of these findings has been presented to the Committee.

We hope we have impressed upon you the competence and ability of local elected officials to deal constructively with their own problems if given the authority and tools to do so. We hope you have been

convinced of the sincerity of our motives in helping all of the cities of our State--not just ourselves.

We also hope you recognize the difficulty that a lack of a clear State policy on urban areas is causing the more rapidly growing portions of the State. All of our cities are not alike. Each has its own needs, problems, goals, and approach which requires individualized planning and action. A single solution--at the State level--is not the answer. A variety of alternatives--any one or more of which can be applied to a single local city situation is obviously desirable.

The cities have been restricted to use of the inelastic Property Tax for years. The advent of the "tax lid" law has made that constraint unmanageable given inflation over the past decade, the rapid growth of some cities, and the increasing demands for more and better city services, better employee salaries, and mandated costs of State and Federal legislation and regulations.

The authorization of the Local Sales Tax has not provided the panacea for all the financial problems of the cities. For some parts of the State, namely the Southeast and Southwest, portions where trading areas cover ten or more counties the adoption of a Sales Tax which did not put one city or county in an unfavorable competitive position was virtually impossible. At the same time, the more recent requirement that a countywide attempt at a Local Sales Tax must be made rather than or before a city-only tax could be attempted also severely and unfairly hindered the use of this alternative to the Property Tax for many.

Additionally, the Committee should recognize by now that a Sales Tax is not right for every city in this State. Different alternatives would be much more logical, acceptable, and workable for many cities. Few alternative options exist today.

We are here today to make recommendations we hope you will accept, ask for bill drafts, and recommend to the 1977 Legislature for enactment. We are here today to offer a compromise from past attempts to get substantial direct State aid. We believe this approach we present today is consistent with Governor Bennett's philosophy that cities should help themselves. We want to do that but need the tools necessary to make that self-help realistic.

We ask your help in winning Legislative approval of actions to give us these tools so we can use them in the manner most appropriate for our communities. We are more than willing to accept the local responsibility to our constituents for the proper, judicious use of this authority. We ask for an opportunity to govern ourselves as the Home Rule Amendment provided.

The intent of these proposals is to offer to the local elected officials the widest possible set of alternatives from which to draw to develop a municipal financing package best suited to each community. Some cities may use more parts of this package than others, but in each case the revenue provided and the local authority needed to get the City's work done is available without the necessity for each city to come to Topeka before it can help itself.



Mr. Chairman, we know some of these things will be difficult. We have high expectations the members of this Special Committee will provide leadership to give these proposals a fair hearing. We hope each of you will join with the local delegations from each of the cities of the Kansas Urban Coalition to push for the local authority the cities need to get their jobs done.

KANSAS URBAN COALITION

September 9, 1976

Topeka, Kansas

KANSAS URBAN COALITION RECOMMENDATIONS ON  
MUNICIPAL FINANCIAL SELF-HELP AUTHORITY

Action is required to grant authority to the Governing Body of each city, subject only to protest petition, to enact any of the following measures without restriction for use by the city: (These are not in any order of priority. Each city would choose those most appropriate to it.)

1. HALF CENT CITY-ONLY SALES TAX regardless of whether a Countywide Sales Tax is used or has been tried.
  
2. UP TO ONE PERCENT EARNINGS TAX with a reciprocal agreement with neighboring jurisdictions and States, where such a tax exists, to share half the revenue at the place of residence and half at the place of employment.
  
3. REAL ESTATE CONVEYANCE TAX of up to \$2 per \$1,000 of sales price.

In addition, the Legislature should take the following actions to provide additional local revenue sources to all cities:

1. REPEAL OF SALES TAX EXEMPTION ON MOTOR FUEL PURCHASES with revenue returned to the point of collection.
  
2. INFLATION ADJUSTMENT TO THE TAX LID each year equal to the C.P.I. increase for the year.
  
3. EXEMPTING COSTS OF STREET LIGHTS FROM THE TAX LID.

4. REQUIRE THE DISTRIBUTION OF CITY TAXPAYER-PAID MONIES TO THE CITY FROM THE "COUNTY" ROAD AND BRIDGE FUND.
5. CLARIFY THE LAW ON ASSESSED VALUES TO ALLOW INCREASES IN LAND VALUES TO BE COUNTED FOR TAX LID PURPOSES.
6. CHANGE THE LAW ON INVESTMENT OF IDLE FUNDS TO GIVE CITIES AUTHORITY TO SET THEIR OWN PROCEDURES, AND REQUIRE COUNTIES TO PAY ALL TAXING UNITS THEIR APPROPRIATE SHARE ON INTEREST EARNED ON LOCAL MONIES COLLECTED OR HELD BY COUNTIES.
7. EXEMPT MASS TRANSIT FROM THE SPECIAL FUELS TAX.
8. EXEMPT MASS TRANSIT FROM THE TAX LID.

# League of Kansas Municipalities



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## Kansas Government Journal

TO: The Special Committee on Local Government

September, 9, 1976

FROM: E. A. Mosher, Executive Director

RE: Proposed Revenue Resources Program

Attached is a revenue resources program proposed by the Finance and Taxation Committee of the League. It is in the form of revisions to Section F on Revenue and Taxation of the League's annual Statement of Municipal Policy.

This section is subject to review by the League's State Legislative Committee at its meeting on September 17. It will then be reviewed by our Convention Resolutions Committee (League Governing Body) on October 3, and will be finally acted upon by city voting delegates at the policy session of our annual city convention on October 5.

The basic recommendations are in two parts. Part 1, set forth in Section F-7, recommends a 1977 state legislative action plan emphasizing the opening up of local options and placing comparatively little demand on existing state revenue sources. Part 2, set forth in Section F-8, calls for the initiation of actions leading to the establishment of a ten percent state-local revenue sharing plan and the increase of highway user revenue allocations to counties and cities.

## Section F. REVENUE AND TAXATION

F-1. Statement of Problem. The cities of Kansas, the residence of 79 percent of all Kansans, face a major financial dilemma. The growing municipal finance problem results from a combination of many factors, including the following: (a) increasing costs, to finance existing services as well as to make the city more "liveable"; (b) an unrealistic, state-imposed property tax lid which does not recognize varying local conditions, growing municipal needs, or the impact of inflation; (c) ~~increasing~~ state and federally mandated programs which are increasingly costly; (d) excessive reliance on one principal revenue source, the unpopular property tax, which is dependent on assessed valuations which do not adequately reflect private economic wealth nor the rising costs of governmental services; (e) continued inflation, with a CPI index increase from 116.3 in 1970 to ~~167.8~~ 169.2 as of ~~July, 1975~~ May, 1976; (f) proportionately decreasing state payments to cities when compared to the rising cost of city government; and (g) inadequate alternative local revenue sources. The municipal finance problem ~~is~~ has ~~reaching~~ reached critical proportions in many cities, ~~and the financial outlook for the future is even more serious~~, to the point that even basic public services ~~must be~~ have been curtailed. The financial outlook for the future is even more serious. Immediate action is essential if cities are to have the fiscal resources necessary to meet their present and future responsibilities.

F-2. Role of the State. The state has a major responsibility to foster vigorous, effective local government, which means it has a commensurate responsibility for maintaining the fiscal strength of local government. The state is the sum of its communities, and adequate financial resources are necessary to make our communities -- and this state -- the good place to live and work with the quality of life desired by Kansans. The state should awaken to its urban responsibilities and recognize that our growing problems cannot be solved by state tax lids or study alone, or by serving only as a "pass-through" agency for federal assistance. The real need is for meaningful and effective state financial participation, through the provision of revenue ~~resources~~ sharing and the authorizing of local option taxes, as recommended below.

F-3. Role of the Cities. Those elected and appointed to positions of legal authority to direct municipal affairs have a major responsibility to efficiently, effectively and responsibly spend the financial resources available to them, in accordance with local needs and local priorities. They also have a public responsibility to resolve local problems locally to the maximum extent possible, to work for securing an equitable mix of revenues adequate to meet long term as well as immediate public needs, and to advise their residents and taxpayers, and their state legislators, of municipal problems. Both local and state government actions, in a cooperative venture, are needed to fairly and adequately finance local government to meet their public responsibilities.

x F-4. General Policy Objectives. The general objectives of this series of policy recommendations is to propose a comprehensive revenue resources program which:

- (a) recognizes the present and future fiscal needs of cities generally, as well as the variations which exist among the 625 cities of Kansas;
- (b) provides a minimum, foundation level of support to enable the average city -- especially our smaller cities where some local option taxes may not be feasible -- to finance a basic level of public services with a reasonably moderate property tax and full use of fees, charges and other non-tax sources;
- (c) permits those cities of greater fiscal needs, those which want more than the minimum quantity

and quality of public services, and those cities which want to diversify their revenue sources and reduce their reliance on the property tax, to use local non-property taxes as deemed necessary.

(d) secures fiscal resources, through state assistance and local options, to develop a revenue base which is responsive to economic conditions and growing municipal needs in an inflationary economy.

This revenue resources program, we believe, recognizes the practical, political and economic realities confronting Kansas state and local government, at this time and in the foreseeable future. Implementation of the recommendations calls for an intergovernmental approach, requiring dedicated, cooperative state and local action as well as the continuation of federal general revenue sharing.

F-5. Need for Responsive Revenue Sources. The recommendations in this statement, requesting improved local non-property tax options, adjustments to the property tax lid, and a state-local revenue sharing plan, are designed to recognize the inflationary pressures on cities and the need to diversify the local revenue base. Unlike state government, largely supported by economically responsible tax sources, cities rely primarily on the stable property tax base and user charges with little built-in growth. Between 1971 and 1975, the CPI index increased from 121.3 to 161.2, an increase of 32%. The tangible property tax base of cities -- the total sum, only part of which is available for additional taxes under the tax lid -- increased 23.0 percent between 1971 and 1975. In contrast, for the comparable period between FY 1971 and FY 1975, the revenue from state sales and income tax collections increased by 94.4 percent, from \$267.2 million to \$519.5 million. The trend, in terms of percentage increase over the previous year, is as follows:

	1972	1973	1974	1975	1976
Consumer Price Index, Annual Average	3.3%	6.2%	11.0%	9.1%	6.0% Es.
GNP Price Deflator, Govt. Goods & Services	5.8%	7.5%	10.6%	7.1%	5.9% Es.
Total City Tangible Assessed Valuation	3.3%	5.6%	5.5%	6.9%	?
State Sales Income Tax Collections (FY)	14.86%	18.86%	25.61%	13.37%	11.62% Es.

F-6. Outline of Revenue Resources Program. We urge the legislature to enact a comprehensive revenue resources program for Kansas cities and counties, to resolve the problems and meet the policy objectives described above. We submit a two part program, calling for specific legislative actions in 1977 and a long term program to be initiated after further study.

The 1977 Action Plan, reviewed in Part 7 below, includes the following parts: (1) improving the local sales tax option; (2) authorizing a local income tax option; (3) broadening the city vehicle tax option; (4) revising the property tax lid law; (5) providing insurance premium tax revenue for law enforcement purposes; (6) providing some immediate highway finance support, with the initiation of further actions; and, (7) establishing an interim committee study to prepare a ten percent state-local revenue sharing plan.

The Future Plan, reviewed in Part F-8 calls for a ten percent state-local revenue sharing program, together with a program to address the highway financing needs of local units.

### F-7. 1977 Action Plan

The 1977 Action Plan presented below is designed primarily to open up the options available to help Kansas cities help themselves! It provides for minimal direct state financial assistance, with the levying of a comparatively minor new state tax and the sharing of a small portion of existing state general fund and highway user revenues.

F-7a. Local Sales Tax Option. Because of the varying local conditions in Kansas, the options under the local sales tax law should be expanded. The present provision permitting one or more cities to call a countywide referendum by formal petition to the board of county commissioners should be clarified

permit such city or cities to specify the rate at either the half cent or one cent level. Further, cities should be authorized to levy a city-only sales tax, subject to a county "first refusal option." Under the "first refusal option," a city would notify the county of its intent to levy a city-only sales tax, whereupon one of the following three actions could occur: (1) the county board could take no action, thus permitting the city to levy a half cent sales tax, or (2) the county could submit the proposition to a countywide referendum, and if approved by the voters, pre-empt the city from levying a sales tax, or (3) the county could submit the proposition to a countywide referendum, and if disapproved by the voters, the city could then levy a city-only sales tax of not to exceed a half cent. Cities should be authorized to levy such a half cent sales tax by ordinance under the home rule tax provisions of K.S.A. 12-137, with its notice and referendum petition procedure.

The statutory formula for the distribution of revenue from countywide sales taxes should be re-examined and consideration given to variations among the several counties.

F-7b. Local Income Tax Option. We recommend that a local income or earnings tax be authorized by the 1977 legislature, as was provided in the original Kansas tax lid law. We recognize that a variety of options are available, but generally favor a procedure whereby the locally determined rate may be applied to the individual's state reported taxable income or tax liability, with the local amount collected by the state and returned to the levying unit. Provisions should be made for both a city or countywide tax under a procedure similar to the levying of a local option sales tax, with the same modifications as to procedure proposed above. There should be a local option as to whether the tax applies only to resident individuals, or to residents and non-residents based on situs of earnings. Appropriate offsets should be provided for non-city or non-county residents who may be subject to taxation by two or more units. A formula for the equitable distribution of the revenue from any countywide income tax would also be required, balancing situs of income, place of residence, revenue need and other factors.

F-7c. City Vehicle Tax Option. State laws (K.S.A. 12-143) authorizing city motor vehicle taxes could be amended by the 1977 legislature to eliminate the mandatory referendum and permit the levying of a vehicle tax at varying rates, subject only to a voter petition for a referendum thereon, in accordance with the provisions of K.S.A. 12-137. The purposes for which such revenue may be used should be broadened to include the financing of public transportation systems. In future years, a procedure should also be established whereby a county and/or city vehicle tax may be levied, to be collected by the county treasurer at the same time as the state registration fee is collected, with the revenue from the local tax remitted to the city in the case of vehicles normally kept outside a city.

F-7d. Tax Lid Amendments. While we continue our opposition to the tax lid law, as discussed in Section F-12 below, its repeal by the 1977 legislature appears doubtful. Further, the enactment of a state revenue sharing plan in 1977 in the dimensions necessary to permit all cities to effectively function under the existing tax lid law also appears improbable. We therefore recommend the following for legislative action in 1977:

(1) The cost of utility services including street lighting should be made an exempt function, to recognize the substantial growth of the cost of this function and its largely uncontrollable nature.

(2) A cost of living adjustment factor should be included. Without adjustments, property taxes levied for covered purposes for 1978 and subsequent years will still be based on the amount of taxes levied in 1969 or 1969, while the consumers price index has increased from 116.3 in 1970 (annual average) to 169.2 as of May, 1976, and is expected to continue to increase. The growth in new assessed valuation, available for taxation under the tax lid law, does not increase proportionately to the rate of inflation.

(3) Cities should be authorized to levy additional taxes under the lid for law enforcement and urban mass transit purposes, and for any purpose mandated by state or federal law or administrative regulation, subject only to published notice with provisions for a referendum after protest petition. The elected governing bodies of cities should not be required to plead for an increase from an appointed state board of tax appeals, and mandatory referendums for tax increases for such purposes should not be required.

(4) Any additional or expanded functions or activities required of cities by the state or federal government should be financed by such government. In the absence of direct state or federal support, it should be made a lid-exempt function.

(5) The growth in assessed valuation for which additional taxes may be levied above amounts levied in 1968 or 1969, now limited to new improvements and added personal property, should be adjusted to reflect normal valuation increases in land. For example, the growth in valuation directly or indirectly occurring from the conversion of undeveloped land to a shopping or apartment complex should be recognized.

F-7e. Law Enforcement Insurance Tax. We urge the 1977 legislature to levy a statewide two percent premium tax on insurance for which law enforcement is a factor, to support the increasing cost of local law enforcement. Such a tax, on auto liability and physical damage, fidelity, burglary and theft insurance premiums, would yield about \$4.5 million annually. The revenue, after deducting an amount such as \$100,000 for law enforcement training purposes, should be distributed to cities and counties on the basis of the number of full-time law enforcement officers employed by each such unit, or employed jointly by two or more units, to be deposited in the fund from which law enforcement is financed. The act should specifically authorize the transfer of moneys in such fund for use in making employer contributions for police pension plans. [As an alternative to such a new tax, the revenue equivalent from existing state taxes on insurance premiums should be allocated for this purpose.]

F-7f. Highway Finance. As noted in Section H of this Statement, major state action is necessary to provide additional highway user funds for our growing local road and street needs. Kansas state government took a major step in 1976 by providing financing for the acceleration of our state highway construction and maintenance program, but none of the increased state highway user revenues were shared with our local governments, whose combined fiscal needs for local streets and highways exceed that of the state highway system. While local revenue needs are pressing, we acknowledge further study may be necessary in advance of major, long term state action. We therefore support 1977 action to:

- (1) broaden the city vehicle tax option as noted above;
- (2) increase the connecting link allotment or transfer option as proposed in Section H-2;
- (3) transfer the revenue from the property tax on motor carriers and rolling equipment of about \$2.5 million annually to the special city and county highway fund (this money, formerly paid to the state school foundation fund, is now paid to the state general fund);
- (4) eliminate the state tax on motor fuel used by urban transit buses; and,
- (5) establish a comprehensive interim study of local highway finance. This should include a study of appropriate methods of distributing the revenue, currently estimated at about \$25 million, which would result from repeal of the sales tax exemption on motor fuel sales.

F-7g. Revenue Sharing Plan Study. In Section F-8 of this Statement, the League urges future legislative adoption of a comprehensive Ten Percent State-Local Revenue Sharing Plan, which includes the elimination of present locally shared state taxes -- sales (LATRF), cigarette and liquor enforcement taxes. Because of the complexity of this program, we urge the 1977 legislature to establish a special study of this proposal, to include the preparation of specific legislation and an analysis of the fiscal impact of the plan on the state and local units.



## F-8. Future Plan

Ten Percent State-Local Revenue Sharing Plan. We urge the Kansas Legislature to establish a Ten Percent State-Local Revenue Sharing Plan, under which cities and counties would receive a continuing ten percent share of the long term net revenue from statewide income and sales taxes. Under this long term revenue sharing plan, the present county and city shares of state sales taxes distributed through the LATRF fund, and local shares of state cigarette and liquor enforcement taxes, would be eliminated. The objective of this proposal is to secure a sound, state-local financial partnership in Kansas, providing local units with revenue sources responsive to local needs and to changing economic conditions, especially for those cities and counties where local option taxes may not be feasible. The combined net county-city share under this proposal would have increased local revenues by approximately \$28.9 million had it been in effect in fiscal 1975. Sharing in the increased productivity of statewide income and sales taxes would have increased the local share in fiscal 1978 to about \$38.7 million. Each of the two elements of this proposal are reviewed below:

F-8a. Sharing of Income Taxes. The official name of the Kansas income tax should be changed to a state-local income tax. Counties and cities should be allocated ten percent of the income tax collections on individuals, less the 20 percent share now returned to unified school districts, and ten percent of the income tax collections on corporations and financial institutions.

It is tentatively proposed that the ten percent local share of the state-local income tax on individuals be allocated on the basis of the residence of the individual, with cities receiving payments from taxes paid by city residents and the county receiving the share from payments by non-city residents of the county. The ten percent share from corporations and financial institutions should be allocated to counties, based on the population of each such unit. Under this proposal, the amount counties and cities receive, as a group, would be approximately equal.

F-8b. Sharing of Sales Taxes. The official name of Kansas sales and compensation use taxes should be changed to recognize that they are state-local taxes. County and city sharing of moneys in the local ad valorem tax reduction fund (LATRF), now 4-1/2 percent of sales tax collections, should be eliminated. The present city-county share of LATRF is about 4 percent; the amount apportioned to the LATRF should be reduced to 1/2 percent of collections, with the amount restricted to use by taxing districts other than counties, cities and unified school districts, such as townships and special districts.

It is tentatively proposed that the revenue from retail sales tax collections should first be apportioned to each of the 105 counties, in proportion to the actual tax revenue collected from within each county. Of the amount apportioned, 50 percent would be distributed to cities according to their relative proportion of the population of the entire county, with the county receiving the share credited to the proportion of non-city residents of the county. The remaining 50 percent would be apportioned on the basis of origin of the sales tax collections, with each city receiving a share based on retail sales collections occurring therein, with the county receiving the revenue from retail transactions occurring outside of incorporated cities. All of the 10 percent share of compensating use tax collections would be apportioned to counties, based on population. Payments would be made quarterly by the state department of revenue directly to each city and county.

F-8c. Fiscal Impact of Sharing Plan; State Study. As noted above, we request the 1977 Legislature to establish a special committee to study this revenue sharing plan proposal, to include the preparation of legislation and an analysis of its fiscal impact on the state and its local units. For the current fiscal year ending June 30, 1977, the plan would have provided cities and counties about \$35.0 million of net additional revenue. The 10 percent share of income taxes would produce about \$27.3 million, of which \$17.0 million would be obtained from taxes on individuals (after deducting the 20 percent share apportioned to unified school districts) and \$10.3 million from income taxes on corporations and financial institutions. The 10 percent share of sales and compensating use taxes would amount to about \$32.0 million, with \$28 million derived from retail sales tax collections and \$4 million from compensat-

use tax collections. However, from these gross amounts of \$59.3 million would be deducted the following apportionments totaling \$24.3 million, to be retained in the state general fund: (a) \$12.8 million of sales tax revenue, representing a discontinuation of city-county sharing of the LATRF, through a reduction of the present statutory amount from 4-1/2 to 4 percent; (b) \$8.0 million, representing the elimination of the present 25 percent city-county sharing of state cigarette tax revenue; and (c) \$3.5 million, representing the elimination of the present 60 percent city-county sharing of state liquor enforcement tax revenues.

The fiscal impact of this revenue sharing plan on individual counties and cities, or as a group, requires detailed analysis. The adoption of the plan will reduce state general fund revenue in direct proportion to the net increase of local revenue. While the currently estimated state general surplus on June 30, 1977, in the amount of \$120.1 million, may be sufficient to initiate the program, it is acknowledged that future state tax increases may be necessary to fund the program, since state general fund expenditures have been substantially exceeding receipts in recent years. For this reason, the recommendation is made above that the Kansas income and sales taxes be legally and officially recognized as state-local taxes. The officials of local governments, which share the revenue, should appropriately share the responsibility.

F-8d. Restrictions on Revenue Sharing. We recognize that wide variation exist in the financial condition of the 625 cities and 105 counties of Kansas. Special local conditions exist, such as comparatively high intangible tax receipts or per capita assessed valuations, as well as examples of extreme need. To assure some equalization of payments, it is suggested that a limitation on the amount received from state revenue sharing moneys be established to apply to units with comparatively low financial need, as a companion proposal to the optional sales and income tax authority for cities of special need recommended above. We generally support a proposal which allocates revenue sharing moneys only to those cities which levy total property taxes of more than three mills for all city purposes. Further, the amount of revenue sharing moneys should not exceed the amount of local property, sales or income taxes levied or received for all city purposes. Any amount earned but not paid to a city under this limitation should be paid into the county general fund.

F-8e. Sharing with Cities. The revenue sharing plan herein proposed is weighed in favor of the residents and taxpayers of cities, representing over 79 percent of the population of Kansas. We believe this is proper since this is where the primary need exists, both in terms of additional revenue as well as holding the line on property taxes. Property taxes levied by cities increased \$25.9 million between 1972 and 1975, while county levies increased \$22.9 million. The average total tax rate within the cities of Kansas is 39.4 mills higher than in the townships of Kansas. The assessed valuation of tangible taxable property of Kansas townships is equal to \$8,318 per capita. But in cities, the valuation per capita is only \$2,045. While the economic wealth of rural areas exists primarily in property, the large share of economic wealth in urban areas exists in forms requiring the use of taxes based on sale or income, rather than on property. The financial problems of cities exist in large part because of the absence of the ability of cities to tap urban economic wealth.

#### F-9. State Aids and Shared Taxes, General.

F-9a. 1977 Action Plan and Future Plan -- see Part F-7 and F-8.

F-9b. Subject to enactment of the Ten Percent State-Local Revenue Sharing Plan described in Part F-7, we recommend changes be made in the local ad valorem tax reduction fund (LATRF). Consideration should be given to: (1) the equity of the present distribution formula, and (2) increasing the present 4-1/2 percent sales tax share under such an equitable formula.

F-9c. We strongly oppose the diversion of locally-shared revenue to state purposes, such as appropriating a portion of the local liquor enforcement tax fund to state agencies -- see Section G-1f.

F-9d. Highway Aids -- see Section H-7f and H-6.

F-10. Local Nonproperty Taxes, General.

F-10a. Sales, Income and Vehicle Tax Options -- see Part F-7.

F-10b. Home Rule Taxes. The constitutional home rule financial powers of cities should be made fully effective, with the provisions of K. S. A. 12-137 retained to guarantee the voters the right to compel a referendum on the levying of such home rule taxes. This provision for a referendum by petition, tied with the voting booth power to remove members of the governing body, is adequate protection for the citizenry to prevent or secure elimination of taxes considered unreasonable by the public.

F-10c. Mobile Homes. Cities should have clear authority to levy monthly municipal service charges on mobile homes used as residences, because of their transient nature, with such charges continuing until such time as property taxes are actually paid thereon for the use of the city.

F-10d. Room Taxes. Cities and counties generally should be authorized to levy room taxes, based on gross receipts, on hotels, motels and other businesses offering temporary occupancy.

F-10e. Real Estate Transfer Taxes. Real estate transfer taxes, collected by the register of deeds with information made available to the county appraiser, should be authorized in all counties. Such a tax should be authorized to take effect by either voluntary action of the board of county commissioners or by mandatory board action on receipt of joint petitions from the governing bodies of one or more cities and townships which contain at least half the population of the county. The rate of tax should be discretionary, and determined by county board action or by the joint petitions. After deduction of a reasonable handling charge, the revenue should be apportioned to each city or township according to the situs of the real estate transfer, with the county retaining the township share in county road unit counties.

F-11. Property Taxes.

F-11a. The property tax should be used primarily for financing basic local public services, those services of particular benefit to tangible property, and general debt. We believe that city property taxes now levied and used by cities are generally not excessive. However, further increases should be avoided wherever possible, requiring additional state assistance and local alternative sources, as recommended above. Since taxable property constitutes a decreasing of the economic wealth of cities, an increasing share of the municipal budget should come from sources that recognize urban wealth -- sales and income.

F-11b. Kansas must secure improved administration of the property tax. We oppose any constitutional amendment or legislation which permits or requires the use of various factors to the exclusion of market value as the basis for assessment, when the result would be to shift the burden of taxes to urban property. We deplore the trend whereby in 97 104 of our 105 counties, according to the state real estate assessment ratio study, urban property is assessed at a higher level than rural property. The state should take immediate steps to compel the equalized assessment of urban and rural property, intracounty and statewide, and both land and improvements should be assessed at the same ratio to true market value. Assessments should be annually adjusted to reflect current values as provided by law; the provisions of K. S. A. Supp. 79-1436b, requiring the property valuation director beginning January 1, 1979, to order reappraisals when the coefficient of deviation of assessments exceeds 20, should not be further extended. City officials are urged to study assessment practices within their county and to take appropriate action to insure proper assessments.

F-11c. We urge an interim legislative study of the equity of the present method of assessing and

buting the valuation of state-assessed public utilities among cities and townships. We believe that insufficient valuation is being allocated to cities, the situs of most utility sales, which effectively determines the market value of a utility.

F-11d. We oppose the imposition of additional mandatory functions or activities on local governments by the state unless the state also provides the means to finance such functions from revenue other than property taxes --see Section F-7d. The property tax levy rates of cities should be continued as a matter of home rule.

F-11e. The legislature should ~~require state agencies to contract with cities for in-lieu-property tax payments and for the receipt of municipal services.~~ provide for state payments to cities for municipal services rendered to state-owned tax exempt property.

F-11f. We oppose state legislation the reduction or elimination of ~~to reduce or eliminate~~ the intangibles tax unless the equivalent revenue, with equal growth potential, is provided to cities.

F-11g. We oppose the granting of tax exemptions to private property, including homesteads, merchants' inventory and property used for pollution control, unless the state also provides funds to replace the loss of local tax revenue, with similar growth potential.

F-11h. In view of the financial needs of cities, we oppose in lieu property taxes on motor vehicles unless the allocation of revenue therefrom to cities at least equals the revenue presently received from the property tax on vehicles and has similar future growth potential.

#### F-12. Tax Lid Law.

F-12a. We continue to oppose the tax lid law; we believe such state-imposed controls to be in conflict with the clear intent of constitutional home rule, which provides for the determination of local affairs by locally elected governing bodies, directly responsible to the citizens of the affected community. We believe the state should undertake a positive program to help strengthen local governments by providing them with the financial resources and means to do the job, rather than frustrate effective local governments by state-imposed property tax controls without meaningful alternatives: revenue sources.

F-12b. Continuation of the tax lid must be accompanied by a state revenue sharing plan and the authorization of alternative revenue sources which respond to economic conditions, as recommended above. In addition, some modifications to the lid law are essential, as proposed in Section F-4A(4). (NOTE: Balance of 1976 Statement incorporated in Section F-4A(4).)

F-13. Federal Revenue Sharing. ~~The enactment of federal revenue sharing in 1972 constituted a revolution in national state local fiscal relations. For the first time, local governments began receiving a formula share of the revenue productivity of our national economy. Revenue Federal general revenue sharing has helped restore fiscal balance to our federal system by increasing the financial resources of local governments, and it has helped restore a balancing of power by decentralizing decisions from the national to the local level. We believe this program has worked well in Kansas. For some of our communities, faced with inflation, a state tax lid and no inadequate alternative local revenue sources, it has meant their survival as decent places to live. We believe the continuation of general revenue sharing is imperative and plead to Congress to commit themselves to its extension. In view of the current end of inflation, we recommend that the amount made available to local governments should be based on a percentage share of the national individual income tax, rather than a fixed annual appropriation. We commend the Congress for its recent extension and commit ourselves to its effective use and to secure a similar state-local revenue sharing plan in Kansas.~~