Approved WED. 5-6-92
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by SENATOR DAN THIESSEN at
Chairperson

11:30 a.m.~~p.m.~~ on Wednesday, April 8, 1992 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Bill Edds, Revisor's Office
Don Hayward, Revisor's Office
Chris Courtwright, Research Department
Tom Severn, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:
Jim Mayer, KS Association of Realtors
Senator Jack Steineger
Jack Holland, B.C. Christopher Securities Co., K.C. MO
Chris McKenzie, Executive Director, League of KS Municipalities
Nancy Zilkie, Finance and Budget Director, K.C. KS
Roger Kroh, Budget Director, Johnson County
Ron Cousineau, Finance Director, Johnson County
Charles Holt, City Controller, City of Topeka

Chairman Dan Thiessen called the meeting to order at 11:40 a.m. and said the agenda is regarding **SCR1640**, and he said the last hearing we had on the bill, there was some discussion and questions brought up regarding, caps on property taxes and the effect on bonds, so this meeting was called to get information from experts in this field.

SCR1640:Constitutional amendment classifying property for taxation purposes, aggregate limitations.

The Chairman said we have heard a lot of support for caps on property taxes, from our constituents, and some questions as to how local governments, cities and counties would be affected, and he said, this meeting should help to clarify these questions.

He said, also at a previous meeting Senator Fred Kerr had requested information in regards to meetings that have been heard around the State, on the issue of caps on property taxation. The Chairman recognized Jim Mayer, KS Association of Realtors.

Jim Mayer said he would provide the committee with information regarding their meetings across the State of KS, discussing property tax caps. He said, the reason for his appearance is, because he attended most of the meetings across the State.

He said, they held 17 town-hall meetings, and he said the feedback they received, was the people want some sort of cap on their property taxes, if not the one and one ½%, they do want some sort of cap, because they are frustrated with the on-going escalation of property taxes over the past several years.

He said, the issue of bond ratings did not come up, and he said, they can only guess that it was because the people were not worried about it at that time, and he said, they can only guess, that their main concern is the escalation of property taxes.

He said, if the legislature wants the local governments to live within their means, cut their spending.

Mr. Mayer said in a memo from Legislative Research, Chairman Dan Thiessen said,"14 other states have either statutory or constitutional caps on property taxes". He said, evidently, those states don't have a problem with their bond rating. He said, they did address at the meetings, replacement revenues needed, and where they should come from. He said, they advocated either, a statewide sales tax, income tax, or the replacement of revenue could come from local option taxes, such as additional sales tax capabilities, or earned tax capabilites, or more important for many rural areas, the ability to vote in excess of caps, if their economy could not utilize other means of revenue.

He said, they have always pointed out, that replacement revenue was going to be needed.

He said, after they received the results of their statewise survey, they discussed the results at the town-hall meetings with the people in attendance. He said, 65% said they wanted funding of schools from local governments shifted from real property tax, 62% said, they would vote for a constitutional amendment on real property taxes, 67% said

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

they would be willing to pay an increased statewide sales tax, to replace the revenue lost in ad valorem property taxes, and 60% said, they thought local government should be permitted to levy other kinds of taxes if local voters approve, in order to replace the revenue lost by levying property taxes.

He told, the committee it was going to be necessary to replace the lost revenue in some manner.

Mr. Mayer urged the committee to pass **SCR1640** favorably out of committee so the full senate could debate it. (**NO WRITTEN TESTIMONY**)

After committee discussion with Mr. Mayer Chairman Thiessen recognized Chris McKenzie, Executive Director, League of KS Municipalities.

A committee member requested, in the essence of time, to have Jack Holland testify 1st, because he is an independent expert which the committee had requested, to attend this meeting. Chairman Thiessen recognized Jack Holland, B.C. Christopher Securities Co., Kansas City, Mo.

Senator Jack Steineger requested to ask Mr. Holland questions and receive his answers, in order to expedite the committee's time schedule. Chairman Thiessen recognized Senator Steineger, saying that is what the committee had intended for this informational meeting.

Senator Jack Steineger asked the following questions, answered by Mr. Holland.

(1) How long have you been in the municipal bond business? 16 yrs.
(2)Approximately how many billions of dollars of municipal bonds have you been involved in, and how many local units of governments have you worked with? Several billions and hundreds of different local issues around the country.
(3)Are there 2 rating agencies in New York that rate bonds? Yes.
(4)Is it customary when a new bond issue is coming out, to go to New York and meet with these rating agencies and have the budget director, and individuals from local units of government attend those meetings, and you discuss how the bonds are going to be paid? Yes, or in the alternative, many times the rating agency personnel come out to the local issurer and do a field survey.
(5)Based on those meetings, they assign a rating to the bonds? That is correct.
(6)What is the purpose of that rating and what affect does it have on the amount of interest that the municipality has to pay on those bonds? The rating is a valuation of the credit involved, of the particular issue, whether it is a city, county or school district, and the rating assignment is a vehicle for comparing what issurers in what state, the higher the credit quality, the higher the rating assigned will lower the interest rate that the issue is debt solvent.
(7)How many ratings meetings have you attended? Hundreds.
(8)Have you attended many, where K.S.A. bonds are involved? Yes, and Mr. Holland said he had also, conducted surveys where the rating agency personnel come to KS i.e. Johnson County or Parsons and actually look at the local graduation.
(9)In general, how are KS bonds regarded in the general national market? Very highly, both those issued by the State and those by Local Units of Government, have solid interest rates substantially below other issurers of their peer group throughout the Country.
(10)Of every KS general obligation bond issued, what is the pledge behind the repayment of those KS bonds? Full face of credit against the tax base.
(11)Is that unlimited taxing authority of the local unit of government to repay those bonds? Yes.
(12)Is that what causes KS paper to command a premium or a lower interest rate, as compared with any other cities? That is one of the reasons.
(13)What are the other reasons? The flexibility that the local units of government have in structuring their financial structure, and this goes for counties and school districts as well, specifically he said, he thought **SCR1640** would reduce that flexibility significantly, and would have a negative impact on the credit in general.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:30 a.m.~~p.m.~~ on Wednesday, April 8, 1992

(14)Do you have an opinion, if we pass these caps, what affect it would have in terms of ratings with the municipal rating agencies? He said, he believes it would have a negative impact that would generally result in higher costs for local officials.
(15)Could you give this committee your best estimate, how much the credit rating would be reduced? He said, to remember that many Muncipalities in KS don't get their bonds rated, because of their size or whatever, a size of an issue, or size of the issurer, so we are talking about the general preception in the market-place in KS, debt vs other debt, and he said, the more restrictions you put on local governments ability to fund or finance their activities, the preception of the market-place is, that it becomes less credit worthy, and you could have for some issurers, it could mean instead of a AA rating they could have an A1 rating, and some an A, and others an A-. He said, for some issurers that don't have ratings, it may mean that they borrow from 6.25% instead of 6.1%.
(16)Do you have any knowledge on how many general obligation bonds are issued in the State of KS? The State Treasurer has that information.
(17)You are talking about an A rating to an A-1 rating, is that maybe a one grade reduction? For some issurers it would impact on a case by case basis, and for some it would be greater than others, some may have a broader tax base and have a less impact.

Senator Steineger said, we would like to get some kind of general fix, in terms of increased borrowing costs, for all local units of government across the state, or some fix on how much money we may be talking about on increased borrowing costs on over the next 30 years.

Mr Holland said that is a number that could be arrived at, basically with some additional research.

After committee discussion The Chairman recognized Chris McKenzie, Executive Director, League of KS Municipalities.

Chris McKenzie, said in his opinion if **SCR1640** were to be passed you would see a movement toward other forms of higher cost borrowing. He said, some cities borrow with their general obligation authority as opposed to issuing what is called utility revenue bonds, because it is cheaper, and he said, he thinks you would find it encourages higher cost of borrowing in that area also. He said, from their point of view, they do not believe cities are causing the problem. He said, they do not believe that the mandates are going to stop, and he said, you cannot stop Congress from mandating them on you, and he said, they have not been able to stop Congress from mandating them on cities, and those costs keep going up, and he said, we can't set tax limits in a vacumn, and we have to be aware that the costs keep increasing, and the legislature passes mandates and in some cases on to cities and counties. (**ATTACHMENT 1**)

Nancy Zilkie, Finance and Budget Director, K.C.KS said they experienced during the year of reappraisal, they had to go to New York and make a formal rating presentation. She said, questions frequently asked of local units of governments is; your ability to tax. She said, Local Units of Government in KS rely very heavily on property tax, sales tax, user fees, and franchise taxes. She said, these taxes representing usually 60% to 70% of the money that comes in to fund local units of government.

She said, two rating agencies took a look at the tax base, and their ability to raise taxes, and they look at the statuory mandates on local sales tax. She said, currently local units only levy up 1% city and 1% county tax, and she said, they were very concerned that cities did not have the capability to raise their revenue to support the bond.

She said, several cities have already capped out, and she said Kansas City, KS is looking at almost a 30% loss of their tax dollars. (**NO WRITTEN TESTIMONY**)

Roger Kroh, Budget Director, Johnson County said, financially the impact on Johnson County would be approximately 26% of the revenues that were levied in 1992, and the estimated revenue to the County Government alone would be $17.M which is a substantial portion of the $64.M that was levied in 1992, and he said, the $17.M would be 75% of their $23.M general fund.

He said, before **SCR1640** would go into effect, he would like to see a good deal of

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thought given to how they would pro-rate the aggregate limits, and how much the school districts, and counties and cities could each raise their taxes, and secondly, before it would go into legislation, he would encourage the committee to spend more time looking at alternative revenues sources. (**NO WRITTEN TESTIMONY**)

Ron Cousineau, Finance Director, Johnson County said over the last 8 to 10 years there has been a major shift at Federal and State levels to push the service delivery systems to the cities and counties. He said, some of the services that have been pushed down, have increased the need for building new buildings to accommodate the service delivery systems.

He said, there have also been mandatory regulations from E.P.A. to develop and operate existing plants to identify new plants, and those are mandatory requirements that he said, they have had to establish, so these are new capital requirements that they have to pay for.

He said, the concerns that the county has with **SCR1640** is, (1) issuing debt, is not a function of a percent of valuation, and is also not a function of voter approval, or an order of approval of just making it a 1,2 or 3 year exemption, it is sometimes a means of mandatory policy changes that local governments have to face. (2)They are concerned with the ratings on bonds, and the effect it might have. (3) He said, currently there is a referendum provision in the KS Statutes which allow and provides citizens participation in cities and counties issuing bonds. He said, each bond they issue is a referendeum period, that citizens can give input as to whether or not we can issue those bonds, and he said there is a lot of time for that input to be provided to the county or city commissions. (**NO WRITTEN TESTIMON**)

Charles Holt, City Controller, City of Topeka said Topeka does not fit the mold, he said Topeka is the only city in the state, currently levying property tax at 1.8M under the lid imposed in the statutes. He said, they have a much more severe lid from their governing body than the state has imposed on the City. He said, Topeka has a charter ordiance in place which enhances the statutory requirement for a vote by the people or a petition to vote on the issuance of bonds. He said, it goes beyond what the state statute requires, and he said every project that they propose is subject to a vote of the people.

He said, Topeka has either reduced or maintained their property tax levy for 3 years, and 1 of 3 cities, funding the 1992 budget actually reduced the property tax levy, and he said for the past 9 years they have issued about $79.M in bonds, and there were a lot of capital improvements involved, almost 200 individual projects and many of them were small neighborhood benefit district type projects, and about 50% of these 200 projects were joint-ventures with the State of KS, and the Federal Government, which in turn paid a portion of the cost. (**NO WRITTEN TESTIMONY**)

Chairman Dan Thiessen thanked the conferees for bringing this information to the committee today and he adjourned the meeting at 12:55 p.m.

THE LEAGUE OF KANSAS MUNICIPALITIES

Municipal Legislative Testimony

AN INSTRUMENTALITY OF KANSAS CITIES 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

TO: Senate Assessment and Taxation Committee
FROM: Chris McKenzie, Executive Director, League of Kansas Municipalities
RE: SCR 1640
DATE: April 8, 1992

I appreciate this opportunity to point out just a few of the major policy issues raised by SCR 1640 in its current form:

1. **No Replacement Revenue.** It would reduce property tax capacity statewide 30% ($542 million) without any identified source of replacement revenue.
   (a) Without replacement revenue there will be fundamental changes in the level and type of services that cities can deliver.
   (b) Replacement revenue should be specified in state law and available without need for additional elections.

2. **Constitutional Limit Unknown for State Taxes.** It locks into the constitution a property tax cap that will be virtually impossible to change in the future.
   (a) This is not done for any state revenue sources since unduly restricts legislature's taxing powers. It should not be done to local governments either.
   (b) It will increase pressure on legislature to grant new or greater local sales, income and earnings tax authority.

3. **Increased Local Bond Costs.** It will increase the cost of local bond issues.
   (a) SCR 1640 would require an election on every project to be financed with bonds. Most statutes authorizing bond issues do not require it now, but do include protest petition requirements.
   (b) With requirement for voter approval of every project financed with general obligation bonds, increasing number of projects will be financed with revenue bonds (e.g., utility projects) which attract a 0.2 - 1.0% higher interest rate since there is no pledge of the property tax authority of the city.
   (c) Cities that now finance multiple (e.g., 15-75) improvement projects per year with temporary notes and retire such notes with one to two general obligation bond projects each year will experience significant delays and cost increases in order to schedule elections on each individual project and increased costs due to inflation.

4. **Tax and Debt Lids Exist Now.** SCR 1640 ignores the fact that the current statutory tax lid and debt limits effectively control local expenditures now.
   (a) There will be no school levy "windfall" for cities because city officials have been and will continue to be responsible and the tax lid and debt lid exists.

5. **Proration Details Not Spelled Out.** SCR 1640 will require legislative action to prorate the limitations among the taxing districts. Such a proration scheme should be devised before the voters are asked to vote since the effects of the proration will determine its impact.

SENATE ASSES & TAX
4-8-92 ATT. 1-1

6. **Mandates Will Continue.** SCR 1640 ignores the harsh reality of increasing state and federal mandates on local governments. The legislature should not order new expenses on the one hand and deprive local governments of the means to raise revenues to comply with mandates on the other. To do otherwise is unfair and potentially disastrous to local governments and taxpayers. What is really needed is a constitutional limit on state mandates.