Approved: January 16, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 15, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Bond, Senator Goodwin, Senator Hardenburger, Senator Harris., Senator Karr, Senator Lee, Senator Praeger, Senator Sallee and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Shirley Moses, Director of Accounts and Reports
Barbara Butts, Division of Accounts and Reports
Chris McKenzie, League of Kansas Municipalities
Randy Allen, Kansas Association of Counties

Others attending: See attached list

The minutes of January 14, 1997, were approved.

SB 7--Relating to property taxation; concerning tax levy rate limitations on certain governmental units.

Senator Langworthy noted that the bill extended the tax lid for four years and repealed antiquated fund levy limits. She also reminded the committee that the current tax lid for local units of government was a one-year extension from last year, therefore, it must be addressed this session.

Shirley Moses, Director of Accounts and Reports, Department of Administration, testified in regard to the background and technicalities of **SB 7.** She explained that the purpose of the bill was to simplify the accounting and budgeting systems for cities, counties and townships by reducing the number of tax levy authorities and handling the related functions out of the General Funds and to extend the tax lid until the year 2001. Expansion of the use of General Funds would eliminate unneeded special levies. (Attachment 1)

Senator Praeger expressed concern that county public health departments would fall under the tax lid and asked if public health departments were included in the provisions of **SB 7.** Barbara Butts, Division of Accounts and Reports, clarified that public health departments would fall under the tax lid, but mental health clinics would not. Senator Langworthy confirmed for Senator Karr that counties would still have the authority to charter out.

Senator Lee began a discussion regarding tax levies not covered by the tax lid. Ms. Moses provided a list of functions excluded from the tax lid. (Attachment 2)

Chris McKenzie, League of Kansas Municipalities, testified in support of **SB 7**, noting that his organization has a long-standing opposition to tax lids, however, felt that support of the bill was necessary and appropriate since it would eliminate some obsolete fund levy rate limits and offer a very needed exemption for criminal justice information system improvements. (Attachment 3)

Senator Lee questioned why the bill did not eliminate all obsolete county levies. Ms. Moses responded that inclusion of all would have made the bill too lengthy. She added that the levy limits that would be eliminated included 26 for counties, 17 for townships, and 10 for cities. She agreed to update information regarding which statutes would be affected and which would not.

Senator Karr asked Mr. McKenzie how many cities have attempted to do some chartering out. Mr. McKenzie answered an excess of 100 cities had attempted to charter out. He clarified that the bill preserves the flexibility for cities which they have had since 1989 to use fewer funds and is a status quo for the next four years with the exception of one additional exemption for criminal justice. Those cities that have not chartered out will continue to have the option to charter out in the future, and those that have chartered out will retain the authority that they were grated earlier by that charter ordinance. Cities will have the authority to levy, but the aggregate lid is retained for four more years. Mr. McKenzie commented that his long-term agenda, was to persuade the Legislature that local elected officials should be empowered to make local taxing decisions.

Randy Allen, Kansas Association of Counties, testified in support of **SB 7** because it improves the long-term ability of county officials to raise and spend property taxes according to the needs of their respective jurisdictions. (Attachment 4) With this, the hearing on **SB 7** was concluded.

The meeting was adjourned at 11:50 a.m.

The next meeting is scheduled for January 16, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: January 15, 1997

NAME	REPRESENTING
Judy Moler	KAC
Randy Allen	KAC
Betty Swanwick	League of KS Municipalities
Chris McKenzie	League of KS Municipalities
Barbara Butts	Dept of Admin
Shirley Moses	" " "
Kelly Kultala	City of Overland Park
[illegible]	Ks Lodging Assn
Dave Holthaus	Western Resources
Tom Bruno	Allen & Assoc.
Tom Bell	Ks. Hosp. Assn
Arlan Holmes	Division of Budget
Anne Spiess	Peterson Public Affairs Group
JASON PITSENBERGER	BRAD SMOOT
Ashley Sherard	Overland Park Chamber

TESTIMONY REGARDING SENATE BILL 7
SENATE ASSESSMENT AND TAXATION COMMITTEE
January 15, 1997, Room 519-S

Presented by Shirley Moses
Director of Accounts and Reports

Madam Chairman, Members of the Committee:

Thank you for the opportunity to present testimony on Senate Bill 7. I did not see a copy of this bill until yesterday so I preface my comments by the fact that we have not had sufficient time to thoroughly study the entire bill. These comments assume that Senate Bill 7 is the same as Bill Draft 0037 which we discussed with the Special Committee on Property Taxation in October, 1996.

The purpose of Senate Bill 7 is to simplify the accounting and budgeting systems for cities, counties and townships by reducing the number of tax levy authorities and handling the related functions out of the General Funds and to extend the tax lid until 2001. This is very similar to 1994 SB 447 and 1995 SB 253.

Over the past 20 years, there has been a growing awareness that municipalities have too many funds and levies. Cities and counties both have at least 125 statutorily authorized funds. Of these authorized funds, cities can levy in 83, and counties can levy in 123. Counties have nine authorized levies for their road function! Townships have 44 authorized levies! This proliferation has resulted, in my opinion, from: (1) creating a new fund for most every new function that comes along, and (2) creating a new levy to provide the financing for this new function. Although there is a certain appeal to maintaining special funds with specific functions to segregate money, municipalities who have used it extensively pay a heavy price by complicating their accounting systems and tieing up moneys in special funds.

Senate Bill 7 paves the way for cities, counties and townships to expand the use of their General Funds and eliminate unneeded special levies. This would enable governing bodies to simplify their accounting and budgeting systems and to manage their resources more efficiently. The scenario for this simplification would be: (1) Senate Bill 7 repeals the authority for many of the individual levies; and (2) the cities, counties and townships fold the operation of the functions into their General Funds.

In 1989, the reappraisal values were used for the first time in building budgets. The Legislature, anticipating a "windfall" of ad valorem tax that many might experience with reappraisal values, suspended rate levy limits in 1989, see K.S.A. 79-5022. This provided encouragement to municipalities to reduce the number of funds.

If the Tax Lid Law is not extended, the rate levy limits would be reinstated. Originally, the 1989 tax lid law was to sunset on July 1, 1991. Subsequent amendments have extended the sunset until July 1, 1997. With the sunset of the tax lid law, the fund rate limits would apply causing major disruption in the fund structure for municipalities.

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Attachment 1

Although Senate Bill 7 is a revival of 1994 SB 447 and 1995 SB 253, there are two major additions: (1) the extension of the tax lid law until July 1, 2001, see Sec. 54; and (2) another tax lid exemption for expenses incurred by municipalities to interface with the state criminal justice information system, see Sec. 53.

* * * * *

I would be happy to respond to questions at your pleasure.

The Tax Lid - A Current Legislative Issue

BACKGROUND
In 1933 the Legislature enacted three major laws affecting municipal financial management: a cash basis law, a budget law, and a tax limitation law. These laws were the first statewide attempt to limit budgets and levies. The 1941 Legislature made substantial changes in these laws.

The tax lid (referred to in Kansas law as the "aggregate levy limit") is a means of limiting the amount of ad valorem taxes that municipalities levy. Generally, all levies are subject to the tax lid unless the law specifically exempts them. Notable exemptions to the tax lid have been levies for bond and interest payments and employee benefits. Kansas has used a tax lid for cities and counties in some form for decades. A budget lid, which limited expenditures, was also used in the 1970s, but it was repealed many years ago.

Municipalities other than cities and counties have had fund levy limits on all of their tax levy funds.

Anticipating the tax levy effects of reappraisal, the tax lid law was substantially amended in 1985 and 1988. The two major purposes of the 1985 and 1988 amendments were to: (1) prevent a "tax windfall," and (2) extend the tax lid to cover almost all municipalities for the 1989 levy when reappraisal values were first used. There was a one year freeze on tax levies in 1989, and it was extended for two additional years during the 1990 session. In 1990, the tax lid was also substantially revised to eliminate numerous exemptions.

FEATURES OF THE CURRENT TAX LID LAW
The tax lid limits tax levies for certain functions. It is an aggregate dollar limit, not a limit on the individual fund levies. (The individual fund levy limits for cities, counties, townships, and community colleges were suspended by the 1985-1989 law changes.) The current tax lid law includes a base year provision, using taxes levied in 1988 or 1989, which is rarely decreased. However, the base is increased for (1) annexed territory, (2) increased personal property, using 1989 valuations as the base year, and (3) new improvements to real property. The current law expires on June 30, 1997.

Tax levies for the following functions are excluded from the tax lid:

- principal and interest on loans, bonds, notes, and no-fund warrants;
- judgments, settlements, and tort liability expenses;
- employer contributions for employee benefits, including FICA, health insurance, workers compensation, unemployment, and retirement;
- district court and expenses for juvenile detention;
- out-district tuition to community colleges and municipal universities;
- mental health centers and community facilities for mentally retarded; counties contracting with community mental health centers;
- establishment of mental health clinics and joint boards of mental health;
- county hospital expenses;
- homes for the aged expenses;
- levies for financing of budgets for subdivisions that lack taxing powers such as public libraries and recreation commissions K.S.A. 79-5032; and
- levies to make up for decreasing motor vehicle tax revenue.
- city program to prevent JV Delinq & Crime
- rebates to owners of property in neighborhood revitalization program under K.S.A. 12-17,114

USDs are not included in the tax lid law. Instead, USDs have an expenditure limit based on $3,648 per pupil as adjusted for special circumstances. USDs levy 33 mills for the General Fund in the 1997-98 budget.

Other districts, including fire districts, cemetery districts, and other special districts, have fund levy limits (in dollars, not mill levy rates) imposed in K.S.A. 79-5022. These are based on what was authorized to have been levied in the 1989 budget.

As of February 1996 about 150 cities have adopted some type of exemption from the tax lid.

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1-15-97
Attachment 2

League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 300 S.W. 8TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: **Senate Assessment and Taxation Committee**
FROM: Chris McKenzie, Executive Director cm
DATE: January 15, 1997
SUBJECT: SB 7--Tax Lid Legislation

Thank you for the opportunity to appear today on behalf of the 529 member cities of the League of Kansas Municipalities in general support of SB 7. This past interim the League worked with the Special Committee on Property Taxation on the question of future policy directions concerning property tax lids, and we recommended the legislation that has been drafted as SB 7. As you will hear from other conferees, SB 7 does two basic things:

First, SB 7 would repeal most of the individual fund levy rate limits applicable to counties, cities and townships which were suspended by the legislature in 1989 and which have grown obsolete since with the restructuring of local financial systems in accordance with modern municipal accounting practices. The only practical reason for keeping these levy limitations by fund on the books in the future would be to act as a deterrent to ever revising the aggregate tax lid that has been in effect since 1989.

Second, SB 7 would extend the provisions of the aggregate tax lid law, K.S.A. 79-5021 to 79-5036, inclusive, an additional four (4) years (i.e., July 1, 2001). It also would add an additional, but very narrow, exemption to the list of tax lid exemptions. This is the provision found on line 37 of page 37, exempting *"(h) Expenses incurred by any taxing subdivision necessary to interface with the state criminal justice information system."* As you may know, the plans being laid now by the KBI, Koch Crime Commission, and other agencies to substantially enhance the criminal justice information system will take comparable local investments in order to have a truly integrated and well-functioning Kansas criminal justice information system. This would remove local expenses for this purpose from the limitations of the aggregate tax lid.

Our support of this measure is difficult because of the League's long-standing opposition to tax lids of all kinds. In the final analysis, however, we felt our support is both necessary and appropriate since the bill will eliminate some truly obsolete fund levy rate limits in the short run and offer the potential for the possible elimination of the aggregate tax lid in the long run along with a very needed exemption for criminal justice information system improvements..

Last summer one legislator described our position on this measure as being akin to telling your daughter she can go out with a young man about whom you have some objections--as long as she is home by 9:00 p.m. I think this is an accurate comparison. We recommend your support of this measure. Thank you. I would be happy to answer any questions you may have.

Senate Assessment + Taxation
1-15-97
Attachment 3

TESTIMONY
concerning Senate Bill No. 7
Senate Assessment and Taxation Committee
Presented by Randy Allen
Executive Director, Kansas Association of Counties
January 15, 1997

Thank you, Chairperson Langworthy, for the opportunity to provide comments on Senate Bill No. 7 on behalf of the Kansas Association of Counties.

The Kansas Association of Counties supports enactment of Senate Bill No. 7. The bill would have the following major impacts on counties:

1) SB 7 would extend the aggregate tax lid limitation for an additional four years, to July 1, 2001;

2) SB 7 would recognize an emerging shared priority of the State, county and city governments in developing an integrated state criminal justice information system and exempting local costs incurred by counties in linking with the new system; and

3) SB 7 would abolish various individual fund levy limitations on counties which have been in statute for many years, but which have been temporarily suspended in recent years with imposition of the aggregate tax lid.

The membership of our association unanimously endorsed this proposed legislation in November, 1996 despite ongoing reservations about the need for and purpose of the aggregate tax lid. Our Association has long advocated placement of ultimate and total control for County property taxes and spending in the hands of those who are most directly accountable to County constituents - i.e. the boards of county commissioners. Despite our continued opposition to the aggregate tax lid, the Association views the impact of individual fund levy limits (currently suspended pursuant to K.S.A. 79-5022) as even more onerous than the aggregate tax lid and therefore supports this legislation.

Senate Assessment + Taxation
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Attachment 4

Over the years, the number of statutorily authorized funds for county governments has proliferated. Currently, counties can conceivably levy taxes in 123 funds. Many of these funds, including the counties' general funds, have associated levy limits expressed in mills. With the advent of the aggregate tax lid following statewide reappraisal, the individual fund levy limitations were suspended. In their place remained the aggregate tax lid, which limits dollars levied for purposes not exempt from the tax lid to those levied in 1988, with increased taxes possible based only on 1) new improvements on real estate; 2) added personal property; or 3) the use of a home rule resolution adopted by a board of county commissioners and subject to protest petition or election.

As shown in supporting exhibits (attached), as of February, 1996, 32 counties had acted to exempt taxes for all purposes from the aggregate tax lid while an additional 18 counties had taken actions to exempt taxes levied for certain purposes from the aggregate tax lid. Counties with partial exemptions chartered from the tax lid were largely concentrated in road/bridge, public safety, and emergency medical service expenditures.

In the absence of individual fund levy limits over the past few years, counties' budgeting and accounting practices have been streamlined with increasing evidence of fund consolidation and appropriations collapsed into fewer funds, including (for example) a general fund, perhaps a road/bridge fund, and usually a debt service fund. This consolidation activity has been encouraged by the State's Division of Accounts and Reports, but it has made sense anyway as County spending and taxing priorities have been increasingly seen as an integrated decision package rather than as a set of separate decisions as was often the case with many separate fund levies - each with their own statutory authority. In counties in which funds have been consolidated, county commissioners now have much greater flexibility to reallocate and transfer funds when the need arises.

As long as the individual fund levy limits are contained in statute, there remains the possibility that their reimposition could occur and wreak havoc on the budgeting and accounting improvements of county governments over the past few years. For example, K.S.A. 79-1946, now suspended, would if reactivated limit the mill levies in county general funds on the basis of their assessed valuation or population, as shown below:

Counties with:	General fund levies limited to:
Less than $13,000,000 assessed val. or with a population of less than 3,500	6.50 mills
$13,000,000 - $30,000,000 valuation	4.25 mills
Over $30,000,000 to $140,000,000 val.	3.50 mills
Over $140,000,000 val.	4.25 mills

To illustrate the potential impact of reimposing the individual fund levy limits, provided below is a comparison of actual 1996 general fund levies imposed by a sampling of counties, compared with each county's general fund levy limitation under K.S.A. 79-1946 ***if it were currently in effect,*** as well as the number of 1996 tax levy funds in each respective county:

County	1996 Levy Rate expressed in mills	Max. mills Levied under K.S.A. 79-1946	# of 1996 Levy funds
Butler	18.345	4.25	9
Cowley	4.289	4.25	18
Edwards	24.351	3.50	6
Johnson	8.846	4.25	10
Pottawatomie	23.695	4.25	4
Shawnee	30.889	4.25	2
Wyandotte	11.525	4.25	20

All of the counties cited above have general fund levies, expressed in mills, which exceed the maximum rate under the statute which is currently suspended. By returning to the old, individual fund levy limits, counties would regress by a necessity to reinstitute individual funds. This would set back the clock on streamlining county budgeting and accounting practices when the taxpayers' greatest concern is the aggregate tax levies and their impact on individual property taxes, rather than on individual fund levies which are part of the total tax levies.

In summary, the Kansas Association of Counties urges your support of Senate Bill No. 7 because it improves the long-term ability of county officials to raise and spend property taxes according to the needs of their respective jurisdictions. I would be happy to respond to questions at your pleasure.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to the KAC by calling (913) 233-2271.

Kansas County Study Project: A Partnership of the Kansas Association of Counties and the Hugo Wall School, Wichita State University

Counties Exempted From Tax Lid As of February 1996

Thirty-two counties had exempted all funds from the tax lid. *Source: State of Kansas, Department of Administration, Division of Accounts and Reports, 1996 County Budget Documents on File.*

County	Tax Lid Charter (2/1/96)	Chartered From:
Anderson	Yes	Lid
Butler	Yes	Lid
Chautauqua	Yes	Lid
Edwards	Yes	Lid
Finney	Yes	Lid
Franklin	Yes	Lid
Gove	Yes	Lid
Grant	Yes	Lid
Gray	Yes	Lid
Greeley	Yes	Lid
Hodgeman	Yes	Lid
Jewell	Yes	Lid
Johnson	Yes	Lid
Kearny	Yes	Lid
Kiowa	Yes	Lid
Labette	Yes	Lid
Logan	Yes	Lid
Osborne	Yes	Lid

Kansas County Study Project: A Partnership of the Kansas Association of Counties and the Hugo Wall School, Wichita State University

Counties Exempted From Tax Lid As of February 1996

Thirty-two counties had exempted all funds from the tax lid. *Source: State of Kansas, Department of Administration, Division of Accounts and Reports, 1996 County Budget Documents on File.*

County	Tax Lid Charter (2/1/96)	Chartered From:
Pawnee	Yes	Lid
Pottawatomie	Yes	Lid
Republic	Yes	Lid
Rooks	Yes	Lid
Rush	Yes	Lid
Russell	Yes	Lid
Scott	Yes	Lid
Sheridan	Yes	Lid
Stevens	Yes	Lid
Sumner	Yes	Lid
Wabaunsee	Yes	Lid
Wichita	Yes	Lid
Wilson	Yes	Lid
Woodson	Yes	Lid

Kansas County Study Project: A Partnership of the Kansas Association of Counties and the Hugo Wall School at Wichita State University

Counties Partially Exempted From Tax Lid As of February 1996

Eighteen counties had exempted some funds from the tax lid. **Source: State of Kansas, Department of Administration, Division of Accounts and Reports.**

County	Tax Lid Charter (2/1/96)	Chartered From:
Atchison	Yes	Law Enforcement
Barton	Yes	Ambulance: 3 mills
Clay	Yes	Historical Society: 5 mills
Ellsworth	Yes	Road Exemption
Hamilton	Yes	Road & Bridge, Appraisal Costs, and Capital Outlay
Jefferson	Yes	Law Enforcement & Ambulance
Kingman	Yes	General Fund
Lincoln	Yes	Road & Bridge
Marion	Yes	Ambulance & Sheriff
Miami	Yes	Emergency Medical Costs, & Reappraisal Costs
Mitchell	Yes	Ambulance, Elderly, & Extension Council
Nemaha	Yes	Law Enforcemnt & Solid Waste
Ottawa	Yes	Ambulance
Pratt	Yes	Ambulance
Riley	Yes	Riley County Police Department
Sherman	Yes	Roads
Smith	Yes	Road & Bridge
Stafford	Yes	Amublance & Services To Elderly