

Approved: 3-4-99
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:00 a.m on March 2, 1999, in Room 519-S of the Capitol.

All members were present except: Senator Corbin

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator Dick Bond
Chris McKenzie, League of Kansas Municipalities
Dale Dennis, Kansas State Department of Education
Don Seifert, City of Olathe

Others attending: See attached list.

The minutes of February 22 and 23, 1999, were approved.

SB 226-Property taxation; requiring certain actions relating to levying.

Senator Dick Bond, sponsor of **SB 226**, noted that the concept has been around for three years. No action was taken on the bill last session simply because the Legislature was approaching property tax cuts on a much larger scale. Senator Bond believes the bill has merit; however, it is in need of some clarifying amendments. He explained that the two issues the Committee must consider are: (1) whether to extend it to school districts and community colleges and (2) whether to impose it in terms of a statewide mill levy.

Senator Bond said school districts were not included in the bill as drafted because of the complexity of the issue. With regard to the issue of community colleges, he noted that Washburn University would like to be treated as a community college. He commented, if the consensus of the Committee is not to include educational institutions, an explanation must be given as to why they were not included. With regard to the second issue, Senator Bond prefers not to include the state because 95 percent of the statewide mill levy is returned to localities on a per pupil basis which is, in effect, a demand transfer. He noted that there is some need for those dollars to increase as pupils increase. In addition, Senator Bond pointed out that the statewide mill levy has dropped greater than the increase in appraised values.

Chris McKenzie, League of Kansas Municipalities, testified in qualified support of **SB 226**. He noted that the policy question addressed by the bill is: What, if any, restrictions should the state legislature place on the levy of property taxes by locally elected officials serving on thousands of governing bodies around Kansas? He noted further that tax limitations actually discourage proper management of public resources, and **SB 226** would simplify the process for local clerks and finance officers. With the aid of a chart drawn on the black board regarding personal property and real estate taxes, he explained that the "peanut" of the bill regards the previously appraised and taxed property which goes up in value due to revaluation by the county appraiser due to market forces. Mr. McKenzie discussed the three qualifications the League has in its support for the bill and offered two amendments for the Committee's consideration. Despite the qualifications, Mr. McKenzie urged the Committee's favorable consideration of the bill as a step in the right direction of allowing local elected officials to be accountable to the voters for their taxation and spending decisions. (Attachment 1)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE, Room 519-S Statehouse,
at 11:00 a.m. on March 2, 1999.

Dale Dennis, Kansas State Department of Education, commented on reasons why unified school districts should be exempt from **SB 226**. He noted that, by statute, school districts must levy 20 mills in their general fund. If the dollars levied are frozen to the preceding year with the exception of new or new improvement to property, there could be problems in determining the general fund mill levy. He also noted that statutes currently governing the local option budget for school districts are extremely complicated. If school districts were included, it would add another legal provision that schools would have to adopt in addition to those already in statute. (Attachment 2)

Don Seifert, City of Olathe, expressed qualified support of **SB 226**. He noted that, without a state mandate, almost every governing body in Johnson County publicly discloses its intention on the mill levy rollback. He said the City of Olathe has a very responsible record of rolling back its mill levy in five of the last seven budget years. The City of Olathe could accept this bill if the current aggregate property tax lid is allowed to sunset as scheduled under current law and if no further mandates are imposed. (Attachment 3)

Senator Langworthy called attention to written testimony submitted by Randy Allen, Kansas Association of Counties. The Association supports **SB 226** only if relief is granted to counties through the enactment of **SB 252**, which has already been approved by the Senate. Without the relief elsewhere, **SB 226** is unattractive to counties in that certain other taxing entities, including community colleges and school districts, are exempt from its provisions. (Attachment 4)

Senator Bond commented that if **SB 226** passes the Senate, it might be very helpful in terms of carrying through the clear sentiment of the Senate to remove tax cuts. He feels that the bill has merit by itself, but, additionally, it may be an important negotiating tool with the House.

Senator Langworthy announced that the hearing on **SB 226** would continue on March 3.

Senator Bond informed the Committee that he plans to offer amendments as suggested by Chris McKenzie and as suggested by Dale Dennis to exempt the 20 mill statewide levy and the bond and interest levies. He noted that perhaps other amendments are also needed.

Senator Langworthy announced that the hearing on **SB 335**, relating to registers of deeds, is scheduled for March 3.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for March 3, 1999.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST


DATE: March 2, 1999

NAME	REPRESENTING
Chris McKenzie	League of Ks. Municipalities
Mark Zink	KDOR
Jayna Johnson	KDOR
Ed Mah	Senators
SCOTT SCHNEIDER	MGA
Erik Sartorius	Johnson Co. Board of Realtors
Don Seifert	City of Olathe
MIKE Taylor	City of Wichita
Tom Schacht	City of Lenexa
Tim Sullinger	KC STAR
Don Schwach	KIOGR
George Petersen	Ks Taxpayers Network
Harland Riddle	Riddle & Assoc.
Stacy Farmer	KS ASSN of School Boards
Kelly Kutala	City of Overland Park
David G. Monical	Washburn University
Ashley Sherard	Overland Park Chamber
Christy Caldwell	Topeka Chamber of Commerce
Debbie Bergin	KCCI



**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 300 S.W. 8TH TOPEKA, KS 66603-3896 (785) 354-9565 FAX (785) 354-4186

TO: Senate Committee on Assessment and Taxation
FROM:  Chris McKenzie, Executive Director
DATE: March 2, 1999
SUBJECT: Qualified Support for SB 226

Thank you for this opportunity to appear today on behalf of the 530 member cities of the League in qualified support for SB 226. This bill comes at an important time in our political history as the House is poised to consider SB 252 (repealing the obsolete fund levy rate limits) and the aggregate tax lid is set to expire. The policy question addressed by SB 226 is: What, if any, restrictions should the state legislature place on the levy of property taxes by locally elected officials serving on the thousands of governing bodies around Kansas?

Kansas has had many decades of experience with micro-managing the financial operations of local governments. While observers at the state level may at times take comfort from such laws, assuming they act as an impetus to keep property taxes low, most local officials know they actually encourage inefficiency and deferral of important maintenance expenses.

Writing in the February, 1941 issue of the *Kansas Government Journal*, El Dorado City Manager Frank L. Seymour described the nightmare of managing the **103 separate funds** that the fund levy rate limits repealed by SB 252 required. (Thank you again for passing SB 252 and bringing us another step closer to repealing these illogical laws). Writing about El Dorado, Mr. Seymour described how tax limitations actually discourage proper management of public resources:

Here is a city having over two million dollars invested in public improvements, not including waterworks, and it is supposed to provide police protection, fire protection, and health protection, clean the streets, light the streets, dispose of the sewage, garbage, and trash, provide parks and recreational facilities, regulate all the trades, taxicabs, etc., and maintain this two million dollars of property economically for \$75,000, of which only \$54,000 can be raised by property taxes. It just isn't being done, and there will be a day of reckoning when a great many of these improvements will have to be reconstructed by bond issues and special assessments. If there is any economy in a tax limitation law, the best local administrators have never discovered it.

Where does SB 226 fit into this puzzle? In lieu of any complicated set of tax lid forms local clerks and finance officers must fill out each year, in lieu of maintaining dozens of funds that only county and city clerks and treasurers might come close to understanding, and in lieu of recharacterizing local expenses to meet the definitions of the latest tax lid law, SB 226 requires one simple step. It requires that before any local government (to which it applies) derives any more property tax revenue from real property that has increased in value over the prior year as a result of revaluation (or reappraisal) by the county appraiser, a majority of the governing body needs to pass a simple resolution stating so. It is that simple.

Senate Assessment & Taxation
3-2-99
Attachment 1

I stated at the outset that the League is in qualified support of SB 226. The qualifications are really for three reasons:

- We can only support this legislation if the aggregate lid law is not renewed. Adding even one additional step to the already ridiculously complex, burdensome and ineffectual set of budget requirements is contrary to the principle of good government.
- Your elected colleagues at the local level are elected by the same voters to supervise the local budget and tax levies. Be that as it may, we can support SB 226 as a less intrusive and possibly more effective type of tax limitation.
- SB 226 either explicitly or implicitly exempts some entities that levy property taxes. I can think of no compelling reason to do so. Please note from the attached excerpt from the 1997 PVD *Statistical Report of Property Assessment and Taxation* that the bill exempts the taxing units responsible for the largest share of the property tax.

Recommended Amendments. We have two suggested amendments for the Committee's consideration. The first would be to insert "or ordinance" in line 13 after the word "resolution" to give cities the option of making such a finding by ordinance or resolution. The second would be to strike the words "~~is to~~" in line 15 and replace them with the word "may". This amendment would recognize that at the time the local budgets are adopted that local governments have relied on the July 1 preliminary tax abstract of assessed values. At this point in the process a governing body and staff will not have the absolute knowledge that the taxes levied on property in the current year will exceed the taxes on the same property in the prior year because final valuations have not been established by the county government.

Remember the state budget laws require that the budgets be adopted and filed with the county clerks on or before August 25th of each year. Final valuations are not known until October 1st or later. As a result, a governing body acting in August cannot accurately declare that the budget "...is to be funded with such revenue in an amount exceeding that of the next preceding year..." since the final valuations may eliminate the need to do so.

RECOMMENDATION: Despite the foregoing qualifications, we urge your favorable consideration of SB 226 with our suggested amendments. It is a step in the right direction of allowing local elected officials to be accountable to the voters for their taxation and spending decisions.

- Encl. (1) "Practical Tax and Budget Laws Suggested," Frank L. Seymour, *Kansas Government Journal*, League of Kansas Municipalities, February, 1941, pp. 9 - 11.
 (2) Page 4 of 1997 PVD *Statistical Report of Property Assessment and Taxation*

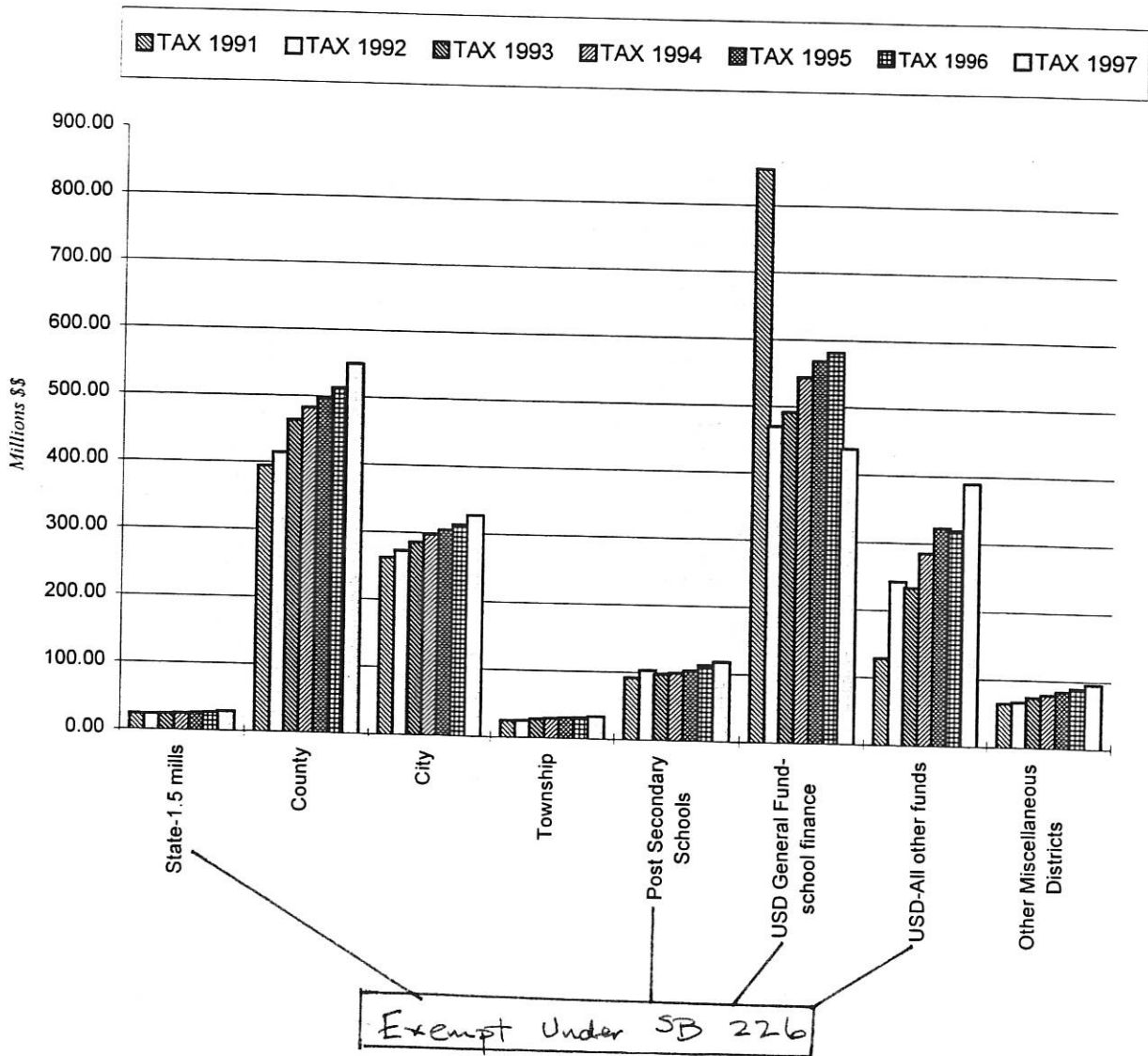
TOTAL STATEWIDE PROPERTY TAXES REPORTED BY TAXING SUBDIVISIONS

TAX DOLLARS EXPRESSED IN MILLIONS

(Includes personal property late filing penalty tax for all years.)

Does not include motor vehicles taxed pursuant to K.S.A. 79-5100 *et. seq.*

TAXING SUBDIVISION (DISTRICT)	TAX 1991	TAX 1992	TAX 1993	TAX 1994	TAX 1995	TAX 1996	TAX 1997
State-1.5 mills	21.95	21.90	22.31	23.25	24.29	25.06	27.22
County	392.83	413.55	462.25	481.16	495.72	511.39	548.30
City	260.61	271.42	284.39	296.60	303.52	311.21	326.28
Township	23.44	24.05	26.62	27.83	29.14	29.90	31.76
Post Secondary Schools	90.62	101.53	96.42	98.66	102.61	110.81	116.17
USD General Fund-school finance	852.78	468.36	490.23	542.07	566.36	579.98	436.65
USD-All other funds	126.82	241.31	232.05	283.73	321.79	318.12	387.85
Other Miscellaneous Districts	63.61	65.60	73.05	77.08	82.14	87.21	93.48
Total Property Tax Dollars	1,832.66	1,607.73	1,696.38	1,830.38	1,925.57	1,973.68	1967.71





Kansas State Department of Education

120 S.E. 10th Avenue
Topeka, Kansas 66612-1182

March 2, 1999

TO: Senate Committee on Assessment and Taxation
FROM: Dale M. Dennis, Deputy Commissioner of Education
SUBJECT: 1999 Senate Bill 226

My name is Dale M. Dennis, Deputy Commissioner of Education. Senators Langworthy and Bond have asked me to comment on reasons why unified school districts should be exempt from 1999 Senate Bill 226.

Kansas Statutes Annotated 72-6431b provides that all school districts shall levy 20 mills in their general fund. This levy becomes a source of revenue for the school districts which has direct impact on the amount of state aid received by the district. If the dollars levied is frozen to the preceding year with the exception of new or new improvement to property, there could be problems in determining the general fund mill levy. For example, if the mill levy declines, which is currently taking place in some district such as those in the oil patch, the school district is still required to levy 20 mills. If they levied the amount of the preceding year, it will result in an increase in the mill rate which is in direct conflict with the 20-mill levy. On the other hand, if the school district valuation increased due to reappraisal and they were required to levy the same amount as the preceding year, it could result in the mill levy going down to produce that levy. Over a period of time, this could result in different levies in the general fund, disparity in mill rates, and potential litigation.

Listed below is an example of two school districts that possibly would show the effect of setting the mill levy on the preceding year.

EFFECTS FOR U.S.D. GENERAL FUND

Table with columns for School District A and B, and rows for Assessed Valuation, Mill Rate, Taxes Raised, and Mill Rate to Raise Same Amount of Taxes as Previous Year for 1997 and 1998.

(OVER)

Senate Assessment & Taxation
3-2-99
Attachment 2

SUPPLEMENTAL GENERAL FUND (LOCAL OPTION BUDGET)

Statutes currently governing the supplemental general fund (local option budget) for school districts is extremely complicated. Certain limitations and constraints apply to use of local option budget authority:

- Below average spending districts (general fund budget and LOB combined) gain LOB authority in accord with a formula applicable to them.
- Above average spending districts that had an LOB in 1996-97 are entitled to a specified percentage of the LOB authority the district was authorized to adopt in 1996-97.
- Additional LOB authority can be gained by a school board through adoption of a resolution. The resolution is subject to a 5.0 percent protest petition and election procedure (or, in one instance, a board initiated election).
- A district may operate under LOB authority adopted prior to the 1997-98 school year until the LOB authority specified in that resolution expires.

In addition, there are three types of resolutions a board of education may adopt. Unless a school district is spending below the average, a board of education must adopt a resolution and give the taxpayers up to 30 days to protest and if a valid petition is submitted, it will require a vote of the people.

Attached is a copy of the local option budget statutes and an local option budget computation form.
72-6433

If school districts were included, it would add another legal provision that schools would have to adopt in addition to those already in statute. See examples below.

LOCAL OPTION BUDGET EXAMPLES

<u>EXAMPLE</u>	<u>LOCAL OPTION BUDGET PERCENTAGE</u>	<u>BUDGET</u>	<u>STATE AID</u>	<u>MILL LEVY</u>	<u>MILL RATE</u>
A	6.42	\$ 128,798	\$ 57,354	\$ 71,444	5.36
B	25.00	301,585	0	301,585	22.16
C	0	None	None	None	0

FORM 155
1998 - 99 LOCAL OPTION BUDGET

LOB AUTHORITY DUE TO RESOLUTIONS IN PRIOR YEARS (1997-98 AND BEFORE)

- 1. Authorized percent of LOB in 1996-97 (GRANDFATHER PROVISION):
School year expires/expired _____ (See attached pages) = _____ %
- 2. Authorized percent of LOB due to a new resolution published and approved for 1997-98
PRIOR 7/1/97 (replaces a resolution which expired in 1996-97 or was a new resolution.)
Must be effective for 1998-99 school year. Expires _____ = _____ %
- 3. Authorized percent of LOB due to a new resolution published and approved for 1997-98
AFTER 7/1/97 (See attached pages).
Must be effective for 1998-99 school year. Exp*** _____ = _____ %
- 4. AUTHORIZED PERCENT OF LOB DUE TO PRIOR RESOLUTIONS
(HIGHER OF 1 OR 2) + 3) = _____ %

LOB AUTHORITY DUE TO SPENDING UNDER THE AVERAGE 1997-98

- 5. LOB percent authorized for 1997-98 under average (see attached pages) = _____ %
- 6. 1997-98 TOTAL Authorized LOB percentage (Line 4 + Line 5)..... = _____ %

LOB AUTHORITY DUE TO SPENDING UNDER THE AVERAGE 1998-99

- 7. 1997-98 General Fund \$ _____
- 8. 1997-98 LOB (Amount authorized) (Line 6 X Line 7) \$ _____
- 9. TOTAL (General Fund + LOB) (Line 7 + Line 8) \$ _____
- 10. 9/20/97 FTE enrollment _____ FTE
- 11. Budget per pupil (Line 9 / Line 10) \$ _____
- 12. Budget per pupil (see attached pages) \$ _____
- 13. Difference of budget per pupil (Line 12 - Line 11) If negative put in zero..... \$ _____
- 14. Potential LOB authority [Line 13 x Line 10 (FTE)]..... \$ _____
- 15. Potential LOB authority percent (Line 14 / Line 7) (round to 2 decimal places) = _____ %
- 16. LOB authority under this provision for 1998-99 (Line 15 x 40%)
(round to 2 decimal places)..... = _____ %
- 17. 1998-99 Authorized LOB percent due to spending under average (Line 5 + Line 16) = _____ %

2-3

18. Adjustment due to phase-down of 1996-97 LOB authority (If Line 16 is EQUAL to Zero, Multiply Line 1 X _____ %*) -- Otherwise if Line 16 GREATER than Zero use Line 1) = _____ %

LOB AUTHORITY DUE TO RESOLUTIONS BEGINNING IN 1998-99

19. Authorized percent of LOB due to a NEW resolution published and approved beginning with the 1998-99 school year. School year it expires*** _____ %

20. Authorized percent of LOB due to an INCREASE in a current resolution which begins in the 1998-99 school year. School year it expires _____ %

LOB AUTHORITY FOR 1998-99

21. Line 2 OR Line 18 Whichever is Higher (cannot exceed 25%)..... = _____ %

22. Line 3 _____ %+ Line 17 _____ % + Line 19 _____ % + Line 21 _____ 3 % (Cannot exceed 25%)..... = _____ %

23. Line 3 _____ %+ Line 17 _____ % + Line 20 _____ % + Line 21 _____ 3 % (Cannot exceed 25%)..... = _____ %

24. LOB Percentage authority for 1998-99 (higher of Lines 22 or 23) = _____ %

25. MAXIMUM LOB FOR 1998-99 (1998 -99 General Fund \$ _____ 5,741,076 X Line 24) \$ _____

26. ADOPTED LOB FOR 1998-99 IF LESS THAN Line 25 \$ _____

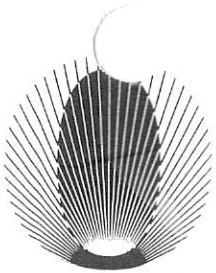
* If expired PRIOR to 1998-99 school year use 95% otherwise use 100%

*** If resolution is continuous and permanent use 9999-99.

Table 1

0 - 99.9	\$9,336
100 - 299.9	\$9,336 - 12,995 (**E - 100)
300 - 1,799.9	\$6,737 - 1,3287 (**E - 300)
1,800 and over	\$4,744

**E is defined as 9/20/97 FTE enrollment (does not include declining enrollment amount).



City of Olathe

MEMORANDUM

TO: Members of the Senate Assessment and Taxation Committee
FROM: Donald R. Seifert, Management Services Director *DRS*
SUBJECT: **SB 226** - Property Tax; Requiring Certain Action Before Levying
DATE: March 2, 1999

On behalf of the city of Olathe, thank you for the opportunity to comment today on **SB 226**. Headlines about dramatic increases in appraised value and the "reappraisal windfall" are again making their annual appearance in Johnson County. This bill would require the governing body of a city or county to adopt a resolution before approving a budget that includes property tax revenue attributable to reappraisal growth. The bill's purpose is to encourage governing bodies to "roll back" mill levies to offset market value increases in real property.

As a practical matter, without a state mandate almost every governing body in Johnson County publicly discloses its intention on the mill levy rollback. Governing bodies do so because they are used to setting budgets in public and media coverage of this issue is intense. The city of Olathe has a very responsible record of rolling back its mill levy in five of the last seven budget years. Please understand it is not always possible to roll back every dollar of tax resulting from valuation increases. The same inflationary pressure that drives real estate values also increases the cost of providing local government services.

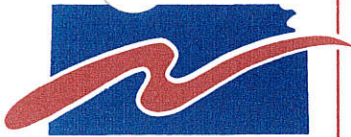
The city of Olathe would ordinarily not support another mandate on the annual municipal budget process as contained in **SB 226**. However, the city could accept this bill if the current aggregate property tax lid is allowed to sunset as scheduled under current law on July 1, 1999. On home rule principles, cities have always opposed the tax lid and the fundamental mistrust of local government officials it implies. Not only is **SB 226** preferable to the lengthy budget calculations of the tax lid, it is far more preferable than imposing an artificial cap on property appraisals which is again being discussed in this building. Artificial limits on property values would only serve to move the state away from the concept of market value and shift property taxes to older, slower growing areas.

The city recognizes that rapidly increasing appraised values cause political headaches for elected officials. However, we suggest that since local government relies most heavily on the property tax, this is largely a local issue. We ask members of the Legislature to trust local governing bodies to set their budgets in a responsible manner and be accountable to their constituents. The city can live with **SB 226** if it replaces the tax lid and no further mandates are imposed.

Thank you for the opportunity to comment on this bill.

rc

*Senate Assessment & Taxation
3-2-99
Attachment 3*



KANSAS
ASSOCIATION OF
COUNTIES

TESTIMONY
concerning Senate Bill No. 226
Submitted by Randy Allen
Senate Assessment and Taxation Committee
March 2, 1999

Madam Chair and members of the committee, I regret that we are unable to present testimony in person to the committee concerning this bill. However, we respectfully request consideration of the following comments.

SB 226 would require the governing bodies of taxing subdivisions, including cities and counties, to state their intention to use property tax revenue resulting from market-based increases in assessed valuation on existing property before adopting budgets which require such additional revenue. In such case, a majority vote of the governing body to adopt a resolution indicating such intention would comply with the spirit of the bill.

SB 226 requires disclosure of a governing body's local tax policy for the ensuing year's budget. Considered in isolation, SB 226 has merit as it merely requires a governing body to explicitly state the assumptions behind the revenues required to fund the annual budget. However, if SB 226 were simply layered on to the already existing restrictions of the aggregate tax lid as well as the existing requirement to produce a property tax information form (KSA 79-2002), we would object due to the cumulative weight of the disclosures and the redundancy with certain aspects of the aggregate tax lid.

Counties already publish their proposed budgets and provide advance notice of their budget hearings. The Notice of Budget Hearing compares the current year and budget year expenditures as well as the prior year and proposed tax levies and tax levy (mill) rates for the current and ensuing budget years. The property tax information form provides the assessed value of real property for the current and prior year, the mill levies for the current and prior years, the tax due and an itemization of each taxing unit's mill levy for the current and prior year, and the percentage change in the amount of revenue produced therefrom, if any.

If relief is granted to counties through the enactment of SB 252 (already approved by the Senate), we would support SB 226. Otherwise, we object to the bill in that it would represent yet another mandate on county commissioners when counties' budgeting and taxing decisions should be vested solely in the boards of county commissioners. Without relief elsewhere, SB 226 is particularly unattractive to counties in that certain other taxing entities, including community colleges and unified school districts, are exempt from the provisions of SB 226.

700 SW Jackson
Suite 805
Topeka KS 66603
785•233•2271
Fax 785•233•4830
email kac@ink.org

Senate Assessment & Taxation
3-2-99
Attachment 4

Concurrent enactment of SB 226 with SB 252 would offer a means of providing accountability for local tax policy while affirming commissioner responsibility to respond to local needs and preferences at the county level. Therefore, our support of SB 226 is contingent upon positive legislative action to remove the aggregate tax lid and individual fund levy limitations as envisioned in SB 252.

Thank you for the opportunity to comment on SB 226. We think there is common ground shared by the state and counties in this regard and we look forward to working with you to achieve some resolution to these issues.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-26990, provides legislative representation, educational and technical services and a wide range of informational services to its members. Inquiries concerning this testimony can be directed to the KAC by calling (785) 233-2271.