

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:40 A.M. on February 13, 2007, in Room 123-S of the Capitol.

All members were present except:

Senator Chris Steineger- excused

Committee staff present:

Jill Wolters, Senior Assistant, Revisor of Statutes
J. G. Scott, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Audrey Dunkel, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Melinda Gaul, Chief of Staff, Senate Ways & Means
Mary Shaw, Committee Assistant

Conferees appearing before the committee:

Mike Santos, on behalf of Kristy Stallings, Deputy Manager of the City of Overland Park
Larry Baer, Assistant General Counsel, League of Kansas Municipalities
Bud Burke, City of Olathe
Matt Shatto, Assistant City Administrator, Lenexa (written)
Judy A. Moler, General Counsel/Legislative Svcs. Director, Kansas Assoc. of Counties (written)
Jim Langford, Budget and Finance Director, City of Topeka (written)
Carol Gonzales, City Manager, City of Shawnee (written)

Others attending:

See attached list.

Bill Introduction

Senator Schodorf moved, with a second by Senator Kelly, to introduce a bill creating the Kansas long-term care bill of rights. Motion carried on a voice vote.

Copies of the Kansas Legislative Research Department Budget Analysis report for FY 2007 and FY 2008 were available to the committee.

Subcommittee report on:

Kansas Department of Revenue (Attachment 1)

Subcommittee Chair Jean Schodorf reported that the subcommittee on the Kansas Department of Revenue concurs with the Governor's recommendation in FY 2007 with notations and concurs with the Governor's FY 2008 recommendation with adjustment and notations. Copies of the Kansas Advisory Council on Intergovernmental Relations 2006 Annual Report were distributed to the committee (Attachment 2).

Senator Schodorf moved, with a second by Senator V. Schmidt, to amend the subcommittee budget report on the Kansas Department of Revenue in FY 2007 to consider Item No. 8 (Kansas Advisory Council on Intergovernmental Relations) at Omnibus. Motion carried on a voice vote.

Senator Schodorf moved, with a second by Senator Betts, to adopt the subcommittee budget report on the Kansas Department of Revenue in FY 2007 as amended. Motion carried on a voice vote.

Senator Kelly moved, with a second by Senator Wysong, to amend the subcommittee budget report in FY 2008 to review at Omnibus the cost involved regarding conceal/carry and implementation of 2006 SB 418 (Family and Personal Protection Act). Motion carried on a voice vote.

CONTINUATION SHEET

MINUTES OF THE Senate Ways and Means Committee at 10:40 A.M. on February 13, 2007, in Room 123-S of the Capitol.

Senator Schodorf moved, with a second by Senator Betts, to adopt the subcommittee budget report on the Kansas Department of Revenue in FY 2008 as amended and include any technical corrections. Motion carried on a voice vote.

Chairman Umbarger opened the public hearing on:

SB 232--Municipalities; postemployment benefits other than retirement; authorization

Staff briefed the committee on the bill.

The Chairman welcomed the following conferees:

Mike Santos, on behalf of Kristy Stallings, Deputy City Manager, City of Overland Park, testified in support of **SB 232** (Attachment 3). Mr. Santos explained that the City of Overland Park requested and supports the legislation which would create the authority for governmental entities to establish and contribute to a trust in order to fund future liabilities for other post-employment benefits for its retirees. He noted that currently the authority to create such a trust does not exist.

Larry R. Baer, Assistant General Counsel, League of Kansas Municipalities, spoke in support of **SB 232** (Attachment 4). Mr. Baer mentioned that the bill would allow a city to either establish its own trust or trusts or join with others to do so; provide for management and investment of the trust; and, provide for the organization of the members of the management team. It was explained that although the bill would be applicable to a few cities in Kansas, it is needed by those cities to allow them to completely comply with changes noted in Mr. Baer's written testimony and for that reason, the League supported the bill.

Bud Burke, City of Olathe, testified in support of **SB 232** (Attachment 5). Mr. Burke addressed the problem of unfunded liabilities into the future for cities. He also mentioned that while the Other Post Employment Benefits does not require governmental units to fund these obligations, those that choose not to fund them run the risk of lower credit ratings making the cost of borrowing money much more expensive.

Written testimony was submitted by the following:

- Matt Shatto, Assistant City Administrator, Lenexa (Attachment 6)
- Judy A. Moler, General Counsel/Legislative Svcs. Director, Kansas Assoc. of Counties (Attachment 7)
- Jim Langford, Budget and Finance Director, City of Topeka (Attachment 8)
- Carol Gonzales, City Manager, City of Shawnee (Attachment 9)

The meeting adjourned at 11:25 a.m.

**SENATE WAYS AND MEANS COMMITTEE
GUEST LIST**

Date February 13, 2007

Name	Representing
Julia Thomas	DOB
Quane Boomer	DOB
Mavis Cockrell	KDOR
Jim Conant	KDOR
ERIK SARTORIUS	City of OVERLAND PARK
Mike Santos	City of OP
Bud Burky	City of Olathe
Larry R. Bazer	LKW
Geoff Stanford	Wichita East Darfur Action Group
Matthew Vines	Wichita East Darfur Action Group
Karen Lickteig	" "
Sahdia Khan	" "
Lindsey Douglas	Hein Law Firm
MARK BORANYAK	CAPITOL STRATEGIS
KIM THI TRAN	WICHITA EAST DARFUR ACTION GROUP
Riley Bruce	Wichita East Darfur Action Group
MARK HANDSHY	ACCOUNT/REPORTS
Roger Basinger	Accounts & Reports
Casa D'ave	KAMU
Katie Gubow	Vearney & Associates
Katie Welf	LBR

FY 2007 and FY 2008

SENATE WAYS AND MEANS SUBCOMMITTEE

Department of Revenue



Senator Jean Schodorf, Chair



Senator Donald Betts



Senator Vicki Schmidt



Senator Ruth Teichman

Senate Ways and Means
2-13-07
Attachment 1

Senate Subcommittee Report

Agency: Department of Revenue **Bill No.** SB --

Bill Sec. --

Analyst: Deckard

Analysis Pg. No. Vol.-

Budget Page No. 335

Expenditure Summary	Agency Estimate FY 07	Governor's Recommendation FY 07	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 20,467,235	\$ 20,479,458	\$ 0
Other Funds	73,191,163	73,033,163	0
Subtotal - Operating	\$ 93,658,398	\$ 93,512,621	\$ 0
Capital Improvements:			
State General Fund	\$ 0	\$ 0	0
Other Funds	0	0	0
Subtotal - Capital Improvements	\$ 0	\$ 0	\$ 0
 TOTAL	 \$ 93,658,398	 \$ 93,512,621	 \$ 0
 FTE Positions	 1,146.0	 1,146.0	 0.0
Non FTE Uncl. Perm. Pos.	15.5	15.5	0.0
TOTAL	1,161.5	1,161.5	0.0

Agency Estimate

The Department estimates FY 2007 operating expenditures of \$93,658,398, including \$20,467,235 from the State General Fund. The estimate is an all funds increase of \$2,806,908, or 3.1 percent, above the amount approved by the 2006 Legislature. This increase includes an increase of \$104,385, or 0.5 percent, above the amount approved for State General Fund expenditures. The increase in State General Fund expenditures include: \$47,892 from the State General Fund for a supplemental request for the Kansas Advisory Council on Intergovernmental Relations; \$40,251 from the State General Fund to annualize the pay plan approved by the 2006 Legislature; and \$14,742 in KSIP expenditures. The increases in all other funds are due to: \$266,280 increase in aid to local units due to revised revenue estimates; \$270,802 in rent increases; \$910,420 for the performance and registration information system management; \$544,914 in increased legal expenditures; the remaining differences are due to increased operational costs.

Governor's Recommendation

The Governor recommends \$93,512,621, including \$20,479,458 from the State General Fund, for FY 2007 operating expenditures. The recommendation is an all funds increase of \$2,661,131, or 2.9 percent, below the approved amount. The recommendation is an all funds decrease of \$145,777, or 0.2 percent, below the amount estimated by the agency. The recommendation includes the addition of \$47,892 from the State General Fund for the supplemental

request for funding for the Kansas Advisory Council on Intergovernmental Relations; reduces the expenditures from the Special County Mineral Production Fund by \$158,000; and a reduction of \$28,028 in increased operating expenditures.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation with the following notations:

1. The Subcommittee notes that the results of the increased presence in the field for tax operations are encouraging. As of December 31, 2006 the field staff have collected \$29.4 million, which is an increase of \$3.9 million, or 15.07 percent over the same time period last year.
2. The Subcommittee notes that the Department indicated that over 60 percent of the total tax collections in FY 2006 were received electronically. The Department indicated that this accounted for 56.0 percent of the number of returns. The Department's target for electronic returns is 65.0 percent. The Department indicated that there are ongoing efforts being made to encourage individuals, corporations, and tax professionals, specifically the Certified Public Accountants, to file electronically. These efforts include one last year of planned public service announcements.
3. The Subcommittee notes that the Department indicated the feasibility study regarding the upgrade of the Vehicle Information Processing System (VIPS) should be completed in June 2007. The Subcommittee commends the Department for receiving a grant from the Information Network of Kansas (INK) to complete the feasibility study.
4. The Subcommittee notes the existence of the federal Real ID Act, and the potential challenges that the Department faces regarding the implementation of this, especially the potential costs of implementation.
5. The Subcommittee notes the Department's efforts to increase the compliance rate to meet the federal level for underage tobacco and liquor sales. The Subcommittee notes that the level the Department's required to meet by the federal government will increase every year. The Subcommittee notes the Department's success and requests that the Department remain diligent in terms of enforcement.
6. The Subcommittee notes that the Department was required to implement the provision of 2006 SB 432 regarding individual income tax check offs. The 2006 Legislature appropriated \$160,000 from the State General Fund in FY 2007. The Department indicated that these funds were used to hire contract programmers for the maintenance of the tax systems while Department of Revenue employees were reassigned to design and implement the checkoffs. The Department indicated that checkoffs were implemented with the start of the filing season in January 2007. The Department indicated that as of December 31, 2006 expenditures to contractors totaled \$111,381.

7. The Subcommittee notes that the 2006 Legislature appropriated \$150,000 from the Division of Vehicles Operating Fund to implement identification card provisions of 2006 SB 506 regarding registered offenders and 2006 SB 418, the Family and Personal Protection Act. The Department noted that the actual cost paid to the vendor for the new card types was \$169,567.

8. The Kansas Advisory Council on Intergovernmental Affairs was created by the 2002 Legislature in KSA 12-4001- 4008. The Council is to engage in continuous study of the services provided by the various types and levels of government within the state among other items. The Council is composed of 15 members, of which 11 are appointed by the Governor and 4 are legislative appointments. The members of the Council serve without compensation but may be reimbursed for expenses. The current chair of the Council is the Secretary of Revenue. The Subcommittee concurs with the Governor's recommendation to provide funding of \$47,892 from the State General Fund for this Council and the salary of a part time associated staff member in FY 2007.

Senate Subcommittee Report

Agency: Department of Revenue **Bill No.** SB --

Bill Sec. --

Analyst: Deckard

Analysis Pg. No. Vol.-

Budget Page No. 335

Expenditure Summary	Agency Request FY 08	Governor's Recommendation FY 08	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 20,572,118	\$ 21,117,317	\$ (583,651)
Other Funds	73,912,993	75,536,507	(1,292,223)
Subtotal - Operating	<u>\$ 94,485,111</u>	<u>\$ 96,653,824</u>	<u>\$ (1,875,874)</u>
Capital Improvements:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal - Capital Improvements	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL	<u><u>\$ 94,485,111</u></u>	<u><u>\$ 96,653,824</u></u>	<u><u>\$ (1,875,874)</u></u>
FTE Positions	1,146.0	1,146.0	0.0
Non FTE Uncl. Perm. Pos.	15.5	15.5	0.0
TOTAL	<u><u>1,161.5</u></u>	<u><u>1,161.5</u></u>	<u><u>0.0</u></u>

Agency Request

The Department requests FY 2008 operating expenditures of \$94,485,111, including \$20,572,118 from the State General Fund. This request is an increase of \$826,713, or 0.9 percent, above the FY 2007 revised estimate. The request includes a State General Fund increase of \$104,883, or 0.5 percent, above the FY 2007 estimate. The request includes two enhancement packages totaling \$548,508, including \$173,267 from the State General Fund. Without the enhancement packages, the request would be an increase of \$278,205, or 0.3 percent, above the FY 2007 estimate.

Governor's Recommendation

The Governor recommends FY 2008 operating expenditures of \$96,653,824, including \$21,117,317 from the State General Fund. This is an increase of \$3,141,203, or 3.4 percent, above the FY 2007 recommendation. The FY 2008 recommendation is an increase of \$2,168,713, or 2.3 percent, above the amount requested by the agency. The Governor recommends a portion of the enhancement requests submitted by the agency. The Governor recommends \$48,187 for the Kansas Advisory Council on Intergovernmental Relations and \$250,160, including \$86,634 from the State General Fund, for the purchase of twenty vehicles. The Governor's FY 2008 recommendation includes the addition of \$1,875,874, including \$583,651 from the State General Fund for the 1.5 percent base salary adjustment and a 2.5 percent step movement for classified employees, a 4.0

percent merit pool for unclassified employees, and the longevity enhancement. Additionally, the Governor recommends an increase of \$543,000 in expenditures from the Special County Mineral Production Fund.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation with the following adjustment and notations:

1. Delete \$1,875,874, including \$583,651 from the State General Fund, for the 1.5 percent base salary adjustment and a 2.5 percent step movement for classified employees, a 4.0 percent merit pool for unclassified employees, and the longevity enhancement. Funding for pay plan adjustments and longevity payments will be considered later.
2. The Subcommittee notes the near depletion of the agency's fee funds. The fee fund balances will be minimal at the end of FY 2008 and have the potential to create a funding issue for this agency. The Subcommittee notes that in the last six fiscal years, over \$12.0 million from the VIPS/CAMA and Electronic Databases Fee funds have been expended for agency operating expenditures.
3. The Subcommittee notes that vehicle replacement continues to be an issue, and the Subcommittee notes its concern at the cost of continual use of rental vehicles. The Subcommittee notes the vehicle cost analysis provided by the agency during the 2006 Session regarding the comparison of owning a vehicle, renting a vehicle and paying mileage. The Subcommittee notes the value of the information and that the agency indicated there were benefits of the Enterprise contract for occasional, limited travel. Additionally, the backlog of vehicles needing to be replaced has resulted in increased maintenance costs. The Subcommittee wishes to review the overall issue of vehicle replacement during Omnibus.



Kansas Advisory Council on Intergovernmental Relations

2006 *Annual* *Report*

Senate Ways and Means
2-13-07
Attachment 2

Table of Contents

- 1 KACIR Statutory Charge and Membership**
- 2 KACIR Roster**
- 3 Report of Meetings**
- 5 Reports of the KACIR**
- 17 Report of Summit on Consolidation**
- 21 Conclusions of Summit on Consolidation**
- 22 KACIR Policy Recommendations**

Statutory Charge and Membership

Statutory Charge (K.S.A. 12-4001 - 4008)

The 2002 Kansas Legislature created the 15-member Kansas Advisory Council on Intergovernmental Relations (KACIR). The Council has the duty to engage in continuous study of the services provided by the various types and levels of government within the state, the division of responsibility for providing and financing governmental services, possibilities of improving the organizational structure and operational efficiency of the various governmental units serving the citizens of the state; and the state and local tax structure and the revenue requirements and fiscal policies of the state and its local units of government.

The KACIR is required to give particular attention to modernization of the structure of Kansas local government, the impact of urbanization on the organization and functions of local government, the impact of technology on the organization and functions of local government, and the relationships between state and local governments.

In addition, the KACIR is required to make an annual report in writing to the Governor and Legislature.

Membership

The Governor appoints 11 of the 15 members:

- Two members shall be elected county officials of which, one shall be a member of a board of county commissioners
- Two members shall be elected city officials
- One member shall be an elected township official
- One member shall be an elected school board member
- Two members shall be executive branch officials
- Three members shall be private citizens

The remaining 4 members are as follows:

Two members of the Council shall be members of the Kansas Senate – one shall be appointed by the President of the Senate and one by the Senate Minority Leader.

Two members of the Council shall be members of the Kansas House of Representatives – one shall be appointed by the Speaker of the House and one shall be appointed by the House Minority Leader.

Members shall serve without compensation but may be reimbursed for expenses. No more than seven members may be from the same political party.

KACIR Roster

KACIR Position	Term End	Last Name	First Name	Title
School Board Member	June 30, 2008	Campbell	Carolyn	Member, USD 501 BOE
Township Official	June 30, 2008	Finney	Tom	Zeandale Township Officer
House Min Ldr Apptee	Jan 2005	Gatewood	Doug	Representative District 1
Exec Branch Official (1 of 2)	June 30, 2008	Harkins	Joe	Nat Resources Policy Advisor
Private Citizen (1 of 3)	June 30, 2010	Hixson	Warren	Retired
City Official (1 of 2)	June 30, 2008	Jackson	Richard	Mayor Pro Tem, City of Ottawa
Private Citizen (1 of 3)	June 30, 2010	Kinser	Sandi	Board member, Cloud Co. CC
City Official (1 of 2)	June 30, 2010	Lawless Jr.	Patrick	Mayor, Osage City
County Official (1 of 2)	June 30, 2008	Norton	Tim	Sedgwick Co Commissioner
House Maj Ldr Apptee	Jan 2005	Owens	Tim	Representative District 19
Private Citizen (1 of 3)	June 30, 2007	Pisciotte	Joe	Professor, Wichita State University
Sen President Apptee	January, 2009	Reitz	Roger	Senator District 22
Senate Min Ldr Apptee	Jan 2005	Steineger	Chris	Senator District 6
County Official (1 of 2)	June 30, 2010	Traster	Matt	Grant County Commissioner
Exec Branch Official (1 of 2)	June 30, 2010	Wagnon	Joan	Secretary of Revenue

The following people also served as members of the KACIR in Calendar Year 2006:

Michael Boehm, Mayor of Lenexa
Laverne Courtney, Instructor, Seward County Community College

Report of Meetings

The KACIR convened five (5) times during Calendar Year 2006. The venues for these meetings were Topeka (Congressional District 2); Kansas City (Congressional District 3); Wichita (Congressional District 4); and Concordia (Congressional District 1). In addition, the Council held a Local Government Consolidation Summit in Salina (Congressional District 1).

The final meeting for 2006 was held by teleconference on December 21, 2006 to discuss this report and upcoming KACIR business.

All meetings were staffed by Lynn Robinson.

February 9, 2006 – Topeka, KS – Congressional District 2

Council members present: Michael Boehm, Tom Finney, Joe Harkins, Richard Jackson, Sandi Kinser, Tim Norton, Tim Owens, Roger Reitz, and Joan Wagon.

Other interested parties in attendance: Nickolaus Hernandez, Dr. John D. Wong, and Dr. Bart Hildreth from Wichita State University, Representative Kenny Wilk and Don Moler, League of Kansas Municipalities.

The Council discussed local government consolidation issues. The Chair invited Representative Kenny Wilk to the meeting to share his views on consolidation.

The Council listened to two presentations. The first presentation was by Dr. John D. Wong – Kansas Tax Incidence Study: Who Pays Kansas Individual Income, Retail Sales, and Residential Property Taxes. The second presentation was by Dr. Bart Hildreth – State of Kansas Debt Affordability Report.

The Council reaffirmed its continued support of the consolidation bills introduced last session, as well as Senate Bill 379, which was introduced this session. The group discussed ways to educate the people of the state on consolidation.

April 20, 2006 – Kansas City, KS – Congressional District 3

Council members present: Carolyn Campbell, Doug Gatewood, Richard Jackson, Sandi Kinser, Tim Norton, Matt Traster, and Joan Wagon.

Other interested parties in attendance: Randall Allen, Kansas Association of Counties; Don Moler and Kimberly Winn, League of Kansas Municipalities; and Senator Dave Kerr.

Randall Allen and Don Moler gave the group an update on the progress of consolidation legislation of interest to KACIR (SB 379, HB 2093, and HB 2809).

Senator Dave Kerr gave his presentation showing the excessive number of local governments in Kansas. He expressed the need for gateway legislation to allow local units of government to consolidate without legislative approval.

The Council agreed to push its support forward for local government consolidation legislation. The group continued discussion on ways to educate the people of the state on consolidation.

Report of Meetings (cont)

June 29, 2006 – Wichita, KS – Congressional District 4

Council members present: Carolyn Campbell, Tom Finney, Sandi Kinser, Tim Norton, Tim Owens, Matt Traster, and Joan Wagon.

Other interested parties in attendance: Randall Allen, Kansas Association of Counties; Ben Cleaves, Budget Division; Chris Courtwright, Legislative Research; Richard Cram, Department of Revenue; Pete Davis, Department of Revenue; Martha Dorsey, Legislative Research; Ann Durkes, Budget Division; Tony Folsom, Department of Revenue; Roger Hamm, Department of Revenue; Mark Hixon, Shawnee County Appraiser, Lana McPherson, city of DeSoto; and Don Moler, League of Kansas Municipalities.

The Council was given the following presentations: Kansas Tax Incidence Study: Who Pays Kansas Individual Income, Retail Sales, and Residential Property Taxes, by Dr. John D. Wong; Erosion of the Property Tax Base, by Dr. Glenn Fisher and Ms. Crystal Gile; Erosion of the Sales Tax Base, by Dr. John D. Wong and Mr. Nickolaus Hernandez; and Local Debt Affordability Study, by Mr. Anthony Swartzendruber, Dr. Bart Hildreth, and Mr. George VanRiper. Dr. Ed Flentje distributed Policy Choices for Discussion, outlining a variety of policy choices on state tax, property tax, and sales tax for policy matters.

The members discussed how to educate the people of Kansas on local government consolidation.

September 22, 2006 – Concordia, KS – Congressional District 1

Council members present: Tom Finney, Joe Harkins, Warren Hixson, Richard Jackson, Sandi Kinser, Tim Norton, Matt Traster, and Joan Wagon.

Other interested parties in attendance: Dr. Glenn Fisher and Dr. Ed Flentje from Wichita State University; Lana McPherson from city of DeSoto and Don Moler from League of Kansas Municipalities.

The Council discussed the studies that were presented to them on June 29, 2006 at Wichita State University as well as the Principal Findings and Policy Choices report from the September 2006 interim tax committees.

The members discussed having a local government consolidation summit in Salina. The purpose of the summit is to provide local government officials and community business leaders the opportunity to learn more about the recent legislation passed regarding local government consolidation and to discuss possible efficiencies gained by consolidating local governments throughout the state of Kansas. The summit will also provide the chance to extend an invitation from KACIR members to visit areas within the state that are interested in learning more about local government consolidation.

Reports of the KACIR

Together, the Kansas Advisory Council on Intergovernmental Relations and the Kansas Department of Revenue determined a need for the State of Kansas to produce comprehensive tax studies that inform legislators and the public how the state tax burden is distributed among the population. Analyses of such studies can provide information regarding how specific proposals might change that burden.

Three studies were conducted by faculty of the Kansas Public Finance Center, a part of the Hugo Wall Center of Urban and Public Affairs at Wichita State University. The studies were funded by the Kansas Department of Revenue. The studies are as follows: Erosion of the Kansas Property Tax Base, Dr. Glenn Fisher, Principal Investigator; Erosion of the Kansas Sales Tax Base, Dr. John Wong, Principal Investigator; and Local Debt Affordability in Kansas, Dr. Bart Hildreth, Principal Investigator.

The Executive Summaries for these studies are included in this annual report. The complete studies are located on KACIR's web page at: <http://www.ksrevenue.org/kacir.htm>

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Property Tax Base Dr. Glenn W. Fisher

The principal investigator for this project was Dr. Glenn W. Fisher. Dr. Fisher received his PhD in Economics from the University of Wisconsin. He came to Wichita State University as Regents Professor of Urban Affairs in 1970 and became Professor Emeritus in 1993. Dr. Fisher is an honorary member of the International Association of Assessing Officers and was recently awarded the Wildavsky Award by the Association for Budgeting and Financial Management "for lifetime contributions to public budgeting and finance."

Principal Findings

- The Kansas property tax is evolving into a real estate tax, and residential real estate is becoming a more important part of taxable real estate. Real estate made up 44 percent of the total ad valorem base in 1988 and 65 percent in 2005. Residential real estate made up 22 percent in 1988 and 40 in 2005.
- The original constitutional exemptions of property used for educational, governmental, religious and similar purposes have been clarified and expanded by statute and total \$20 billion, but now are smaller, in relation to all taxable property, than they were fifteen years ago. In 1989, the real estate exempted under this provision equaled 20 percent of the value of taxable property but by 2005 had declined to 15 percent.
- Beginning in the 1970s, the exemption of personal property, especially business and agricultural property, has accelerated. Most exempt personal property is neither listed nor appraised, but the number of exemptions has risen greatly.
- Local option exemption of real and personal property deemed important for economic development is common in Kansas. In 2005, \$3.4 billion in appraised value, two percent of total appraised value, was exempted by cities and counties as IRB property or under the constitutional provision allowing exemption of certain property for economic development. Since 1993, total economic development exemptions have fluctuated from a low of 1.5 percent of the appraised value to a high of 2.8 percent.
- The assessment of locally assessed real estate, the fastest growing category of property, is closely monitored by the state and is appraised close to market value. In 2005, the statewide ratio of appraised value to sale price was 96 percent.
- State assessed utility property values are not subject to sales-ratio studies nor auditing by outside firms, and appraised value of this property is growing less rapidly than locally assessed real estate. In 1988, public utility property made up

Reports of the KACIR (cont)

Executive Summary
Erosion of the Kansas Property Tax Base
Dr. Glenn W. Fisher
(continued)

18 percent of assessed value, but dropped to 16 percent after the 1992 constitutional amendment and has since declined to 10 percent.

- The value of vehicles appraised by the statutory formula is close to that which would be produced by market-value appraisal, but the phase-in of a reduced assessment ratio in the 1990s resulted in a \$1.5 billion reduction in assessed value. Current motor vehicles make up 11 percent of assessed value, as compared with 14 percent in 1988.
- Use-value appraisal of agricultural land has resulted in appraised value far below market value. Statewide, agricultural land was sold at a median of 12 percent of use-value assessment. In some large counties, agricultural lands sell for more than one-hundred times their use-value appraisal. Detailed, county-by-county analyses have not been made, but much of the benefit of use-value appraisal does not go to those continuing in the farming business. Residential property owners in most agricultural counties pay much higher taxes as the result of use-value assessment.
- County appraisers report “abuse” or difficulty caused by exemptions of farm equipment, neighborhood revitalization property, and industrial property. Taxpayers often claim agricultural exemption on equipment that is used largely for uses other than agriculture. Exemption for repairs and additions to complex industrial properties are often granted at several different times for the same building. Neighborhood revitalization property is not exempt, but taxes on the incremental increase in value are earmarked for uses that benefit the property owner by cash refund or repayment of bonds. Keeping track of these many increments and property owners greatly complicates the appraiser’s job.

Policy Choices

The property tax began as a simple tax on all wealth. Since it was adopted in Kansas in the mid1800s, statutory and constitutional changes have transformed it into a tax that is largely a real estate tax supplemented by a tax on utility property and motor vehicles, both of which are declining in relative importance. In view of the importance of the property tax as a source of local government revenue, Kansas faces painful choices. Among the possible policies are the following.

- Continue on the current path. This choice will undoubtedly make financing local government more difficult and will raise the burden on residential property. This choice may eventually spark a taxpayer revolt that could lead to the kind of arbitrary tax or expenditure limitations that have hampered the provision of government services in California and many other states.

Reports of the KACIR (cont)

Executive Summary
Erosion of the Kansas Property Tax Base
Dr. Glenn W. Fisher
(continued)

- “Clean up” the property tax laws and develop rational policy for exemptions and then examine all present and proposed exemptions in light of the policy. This approach has severe limitations since some needed changes would likely require constitutional amendments and any attempt to repeal existing statutory or constitutional exemptions would meet fierce opposition.
- Return toward “uniform and equal.” Drafting and passing such an amendment would require the agreement of major interest groups and might require a commission or some kind of “mini”constitutional convention.
- Repeal all taxes on personal property and reconfigure local government and government functions so that local governments finance only property-related services from the property tax. For example, social services now funded with local property taxes would have to be financed by state revenues or other revenue sources.
- Authorize local government broader access to sales and income taxes. This choice might be done by consolidating small governments or by creating taxing districts that could more effectively levy income or sales taxes. More governmental functions, for example, schools, could be shifted to the state level.

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Sales Tax Base Dr. John D. Wong

The principal investigator for this project was Dr. John D. Wong. Dr. Wong is a Professor in the Hugo Wall School of Urban and Public Affairs at Wichita State University. He received his Bachelor of Business Administration and Master of Arts in Economics degrees from WSU, a Juris Doctorate from Washburn University, and a Doctor of Philosophy degree from Northeastern University. Professor Wong served the Kansas Governor's Tax Equity Task Force as a consultant on the distributional impact of tax reform and the effect of taxation on economic development. He has also previously served as a consultant for several cities and counties.

Principal Findings

- Although the sales tax is generally perceived by many to be a broad-based tax on final consumption, in most states it is neither broad-based nor limited to final consumption.
 - Economic changes and policy decisions have coalesced to accelerate changes in the sales tax base in recent years.
 - The principal causes of erosion of the sales tax base include:
 - Legislated statutory exemptions,
 - Attempts to tax services,
 - Cross-border shopping, and
 - Technological change.
- One important reason for the erosion of the Kansas sales and use tax base is the passage of a large number of statutory exclusions and exemptions to the tax.
 - Since 1937 there have been 71 original exemptions and exclusions from the sales and use tax, 53 expansions in exemptions or exclusions, 20 restrictions in exemptions and exclusions, and 62 other changes in the sales and use tax statutes, for a total of 206 legislative enactment or changes in the Kansas sales and use tax statutes.
 - In 1938 the total value of exclusions and exemptions from the sales and use tax base was \$121.4 million of sales.
 - By 2005 this had mushroomed to \$68,633.8 million of sales.
 - The value of the exclusions and exemptions is actually nearly twice the size of the actual sales and use tax base in 2005 of \$35,706.0 million.
 - In 1938 the total value of exclusions and exemptions was \$2.4 million.
 - By 2005 this had mushroomed to \$3,637.6 million.
 - The value of the exclusions and exemptions is actually nearly twice the size of the actual sales and use tax collections in 2005 of \$1,892.4 million.
 - The largest increases in exemptions and exclusions in the sales and use tax base occurred during the early 1970s and the early 1990s.
- The most significant exclusion is for component parts and items consumed in the

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Sales Tax Base Dr. John D. Wong (continued)

production process.

- In 2005 this item alone accounted for \$43,787.0 million of sales that were not taxed.
- The exclusion of component parts and items consumed in production alone amount to a sales and use tax loss of \$2,320.7 million.
- The second largest exclusion is for government and nonprofit purchases.
- This exclusion resulted in the loss of approximately \$299.9 million in state sales and use tax revenue in 2005.

- The statutory exemption of specifically enumerated services resulted in the loss of approximately \$258.0 million in state sales and use tax receipts in 2005.
 - One study estimated that extending the sales tax to all readily-taxable services would increase state sales tax revenues by approximately \$500 million or 29 percent.
 - Overall if all services broadly construed were included state sales tax revenue could be increased by as much as \$1,944.6 million.
 - This value is actually higher than 2005 sales and use tax receipts which were \$1,892.4 million.

- Almost as significant the exclusion of agricultural and land use related transactions resulted in the loss of approximately \$251.7 million in sales and use tax revenue in 2005.
 - Another significant exemption is the exemption of items otherwise subject to specific excise taxes.
 - In 2005 the total value of this exemption was \$202.6 million in sales and use taxes.
 - Finally the exemption of the transactions of benevolent organizations resulted in the loss of approximately \$181.7 million in sales and use taxes in 2005.

Policy Choices

- In addition to actual sales and use tax receipts of \$1,892.4 million in FY 2005, the State of Kansas could anticipate as much as:
 - \$3,637.6 million in additional revenue from the elimination of the identified exclusions and exemptions,
 - \$1,994.6 million in additional revenue from the comprehensive taxation of services, broadly defined, and
 - \$286.2 million in additional revenue from the taxation of remote sales.
 - All total, theoretical sales and use taxes for fiscal year 2005 could be as high as \$7,760.8 million, approximately 4.1 times present sales and use tax collections.

- The future of the sales tax is tied to addressing four problems (Fox, 1998):

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Sales Tax Base Dr. John D. Wong (continued)

- Avoiding proliferation of sales taxes on business inputs,
- Keeping household purchases of tangible personal property inside the tax base,
- Bringing household purchases of services into the tax base, and
- Getting Congress to help states enforce use taxes.

- Problems with legislative statutory exemptions
 - The cumulative fiscal impact of the exemptions is huge.
 - Tax exemptions that may benefit only a few shift the burden, either by taking money away from the vital services or by forcing others to pay higher taxes to compensate for revenue losses.
 - Exemptions are adopted piecemeal, often in response to specific industry requests, without being weighed against each other or against needs for public programs.
 - Once adopted, exemptions are rarely evaluated or repealed, even though economic pressures and needs change dramatically over time.
 - Public revenues are growing more slowly than the demand for public services, since the tax system is based on the economy of the 1930s, rather than on the economy of the twenty-first century.

- The Hodge Committee (1970: 10) recommended that the retail sales tax should remain focused on consumption rather than on production. This is consistent with contributing to the long-run economic development of the state by putting Kansas in a better position competitively in seeking to attract new industry.
 - The committee recommended that the component part rule be retained and refined.
 - The committee suggested that it would be more desirable to exempt “consumables” as a class than to continue the policy of selective exemption through listing specific items.
 - However, the committee concluded that a general exemption for machinery and equipment used in production was not warranted.

- Arguments for inclusion of services in the sales tax base
 - The sales tax should be as broadly applicable to consumer expenditures as possible and therefore the tax should be imposed on services as well as tangible property because both satisfy personal needs and wants.
 - Taxation of services makes the sales tax less regressive because expenditures for services tend to increase as personal income rises.
 - Revenue from the sales tax is more responsive to rising levels of personal income and economic activity if services are taxable, because under such conditions expenditures for services increase relatively more than purchases of basic commodities.

Reports of the KACIR (cont)

Executive Summary
Erosion of the Kansas Sales Tax Base
Dr. John D. Wong
(continued)

- Administration of the sales tax is simplified if the tax is applicable to services rendered in conjunction with sales of tangible personal property, i.e., it is not necessary to separate the amount charged for services from the amount charged for such property.
- The Hodge Committee (1970: 16) recommended that the sales tax should not be extended to include personal and professional services.
 - The committee concluded that if additional services were to be taxed, the most practical approach would be to start with services associated with the sale of tangible property and performed generally by firms already registered under the sales tax act.
 - One of the difficulties of taxing services is determining the situs of intangible services, their allocation, and the application of the *use* tax to such services.
- Without the use tax, purchases from out-of-state sources would be encouraged to the disadvantage of local suppliers.
- Thus, it would be difficult to apply the use tax to purchases of services.
- The Hodge Committee (1970: 12) recommended that the educational exemption should be retained because to remove it would merely mean an increase in property taxes. Further, the committee suggested that expenditures constituting a legitimate part of the school program should be exempt and that the same rules should apply to public and private non-profit schools at all levels of education.
- The Hodge Committee (1970: 12) recommended that that the exemption of purchases by hospitals operated by religious or other non-profit organizations should be continued. It was concluded that a general exemption of purchases by non-profit hospitals would be consistent with the granting of an exemption for purchases of prescription drugs and prescribed medical devices.
- The Hodge Committee (1970: 11) recommended that the exemption of purchases by religious, charitable, and benevolent organizations should be repealed.

Reports of the KACIR (cont)

Executive Summary Local Debt Affordability Dr. W. Bartley Hildreth

(Note: This report is in the process of editing and a final executive summary will be included in Dr. Hildreth's full report.)

The principal investigator for this project was Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance in the Hugo Wall School of Urban and Public Affairs and the W. Frank Barton School of Business. Dr. Hildreth received his Doctorate in Public Administration from the University of Georgia (1979), Masters in Public Administration from Auburn University (1975), and Bachelors of Arts degree in political science from the University of Alabama (1971). Dr. Hildreth served on the Kansas Development Finance Authority from 1998 to 2003, and in 1999 served as an advisor to the Governor on structuring a second comprehensive transportation program.

Purpose of Study

- To provide a better understanding of the debt levels of Kansas' local governments, and the debt's impact on overlapping and underlying jurisdictions, in addition to the impact on the citizens within these jurisdictions.
- To promote fiscal policies that will protect the credit quality of local government debt instruments and ensures the sustainability of these jurisdictions' financial position.

Overview of All Kansas Local Government Debt

- All Kansas Local Government Debt increased from \$2.67 billion in 1990 to \$7.90 billion in 2005, at a compound annual growth rate of 7.50%.
- Local government debt per capita rose from \$1,259 per person in 1993 to \$2,865 in 2005, or an annual growth rate of 7.10%. Given wide variation, the county mean (or average) is \$1,688 and the medium is \$1,521.
- By the debt burden measure of debt per capita as a percentage of Kansas personal income per capita, local government debt increased from 5.95% in 1990 to 8.76% in 2005. The county mean is 6.55% and the medium is 5.80%.

Profile of Selected Categories of Debt

- **School District Debt:** Comprised 18.48% (or \$493.5 million) of all local debt in 1990, but its share rose sharply to 39.25% (or \$3.10 billion) in 2005. For the entire period, the annual growth rate was 13.03%, while from 2000-2005, the annual growth rate was 8.46%. The largest increase occurred between 1993 and 1994 as debt increased 28.73%, reflecting the start of the 1992 School District Bond Principal and Interest Obligation

Reports of the KACIR (cont)

Executive Summary Local Debt Affordability Dr. W. Bartley Hildreth (continued)

State Aid Payments program. As a result, school debt is the most significant factor in the growth of Kansas local government debt.

- **County General Debt:** Comprised 12.4% (or \$331.1 million) of all local debt in 1990, but its share declined to 6.61% (or \$522.3 million) in 2005. For the 15-year period, it grew at an annual rate of 3.08%, but for the last five years, debt decreased by 1.23% per year. The largest increase was between 1992 and 1993 (by 21.67%) and the greatest decline was between 2003 and 2004 (by -15.14%).
- **City Debt:** Comprised 35.03% (or \$935.3 million) of all local debt in 1990, but declined to a 28.90% share (\$2.3 billion) in 2005. The amount grew at an annual growth rate of 6.13% over the entire period. City debt only decreased one time during this 15 year period, and the largest increase (14.55%) occurred between 2003 and 2004.
- **Revenue Debt:** As the category that includes enterprise operations (e.g., water and sewer bonds) and selected dedicated tax-backed debt, revenue debt declined from 22.56% of all local debt in 1990 to 16.66% in 2005. The annual growth rate was 5.35%.

Profile of Industrial Revenue Debt

- **Industrial Revenue Debt** increased from \$4.51 billion in 1990 to \$8.60 billion in 2005, or an annual growth rate of 4.40%. It is inappropriate to include Industrial Revenue Bonds in local government debt because the local government is only the conduit for the private business to access the capital market and the local government does not have any legal liability for the debt.

All Local Government Debt Per Capita, By County, 2005

- The highest amount of all local government debt per capita is found in Wyandotte County (\$5,101), Butler (\$4,833), Sumner (\$4,284), Scott (\$4,259) and Johnson (\$4,047). The lowest amounts per capita are in Meade (\$82), Jewell (\$198), Woodson (\$223), Smith (\$237) and Sheridan (\$273).

School District Debt Per Capita and Per Student, 2005

- Highest aggregate school debt per capita is Scott County (\$3,458), Butler (\$2,755), Johnson (\$2,108), Sumner (\$1,996) and Wabaunsee (\$1,974). Mean is \$679 per capita.
- Highest aggregate school debt per student is Scott (\$17,772), Wabaunsee (\$13,896), Johnson (\$13,078), Butler (\$12,442), and Sumner (\$12,327). Mean is \$3,977 per student.

Reports of the KACIR (cont)

Executive Summary
Local Debt Affordability
Dr. W. Bartley Hildreth
(continued)

- There is no School District Debt in 25 counties.

Debt of Individual Municipalities

- A comparison of Kansas cities with comparable data reveals many with higher levels of overlapping debt (especially by School Districts). Despite higher debt ratios, few cities enjoy a more diverse local economy as measured by the top 10 property taxpayers as a percentage of the tax base. These trends affect credit quality.

State Debt compared to Local Government Debt

- State Debt Per Capita for 1993 was \$363 and \$1,435 in 2005, representing an annual growth rate of 12.12% [Data from: State of Kansas 2005 Debt Affordability Report].
- Local Debt Per Capita for 1993 was \$1,259 and \$2,865 in 2005, a 7.10% growth rate.

Policy Choices

- Monitor the growth. Although Kansas local government debt has grown faster than the growth in state population and Kansas personal income, current debt levels remain in the moderate range by certain aggregate credit measures. School debt reflects significant growth consistent with state policy.
- Weigh tighter limits. Just as state lawmakers prefer to have flexibility to respond to state needs, local government officials prefer similar flexibility. Efforts to tighten tax limits, impose spending limits, or constrain debt issuance can adversely hinder elected officials from responding to citizen demands for local services and needed capital assets at affordable rates.
- Preserve bond security. Eroding local revenue sources through more exemptions to the property and sales taxes or imposing new mandates can negatively impact the ability of local governments to repay current or future obligations and borrow at the lowest possible interest rates.
- Promote debt coordination. Local governments could be encouraged to coordinate their debt plans when they share the tax base.
- Enhance transparency. On each debt transaction, locally elected officials have determined that the debt is needed for public purposes, citizens have the opportunity to express disapproval at the next election, and the market has determined that the debt

Reports of the KACIR (cont)

Executive Summary
Local Debt Affordability
Dr. W. Bartley Hildreth
(continued)

issuer can repay and afford the debt. Still, local governments could formally address the details of each debt transaction through a timely and easy-to-understand “Truth in Borrowing” information statement.

- Enable taxpayer comparison shopping. The State could compile detailed financial records on each local government and provide timely and easy public access through a single electronic database, thereby promoting accountability by helping taxpayers vote with their feet if they are not satisfied with a local government and its finances.

* By WSU Public Finance Center authors, Dr. W. Bartley Hildreth (bart.hildreth@wichita.edu) and Anthony Swartzendruber (alswartzendruber@wichita.edu), 316-978-6332. Date of this draft summary is September 12, 2006

Report of Summit on Consolidation

On November 1, 2006 the Kansas Advisory Council on Intergovernmental Relations held a Local Government Consolidation Summit in Salina, KS at the Salina Area Chamber of Commerce.

Council members present: Warren Hixson, Richard Jackson, Tim Norton, Tim Owens, Matt Traster, and Joan Wagon.

There was considerable attendance at the Salina Summit. Over eighty (80) attendees came to listen to the scheduled speakers talk about tools for local government. Those attending came from an array of organizations - city and county managers and administrators; city and county clerks, treasurers, council members, and registers of deed; professors, lobbyists, members of the business community, and interested citizens.

Chairperson Joan Wagon gave the introduction and closing, and facilitated the question/answer and discussion period.

The keynote address was given by Terry Woodbury. Since 2004, Mr. Woodbury has served as President of Kansas Communities, LLC. While at Kansas Communities, LLC, Mr. Woodbury works with cities and counties on community building, delivers keynote addresses across the state, and attends numerous leadership seminars.

He has served as President/CEO for United Way of Wyandotte County and other positions in the Kansas City, Ks area, including positions as a Business and Community Consultant; Co-founder/Executive Director of Franklin Center, Inc.; and Management Specialist for the National Institute on Drug Abuse.

In Mr. Woodbury's presentation, he discussed how his approach to the issue of consolidation grows from two core values - 1) personal and community assets vs problems; and 2) placing the ultimate value on strategies and actions, which strengthen the fabric of a community.

In three separate stories, he demonstrated how the same core values emerge: specific personal and institutional assets are identified, affirmed and multiplied by the community. And, extraordinary examples of "consolidating" assets, or people, or services, or institutions take place. He explained that in each case, the process is "bottoms-up" and organic - driven by the genuine behavior and unique desires of citizens.

He left the audience with two recommendations to consider about consolidation:

- 1) Focus on the assets - on what is good in your community.
- 2) Keep "the community" engaged from day one to day last. He stated that bottoms-up citizen-driven democracy produces hope and enthusiasm and creativity.

Report of Summit on Consolidation (cont)

Representative Ward Loyd from the 123rd District gave a presentation about Thinking and Promoting Regionally. Mr. Loyd is a lawyer in Garden City, KS where he maintains a private law practice. He received his B.A. from Southwestern College at Winfield in 1965 and his J.D. with Honors from Washburn University Law School in 1968. Mr. Loyd has served 8 years as a state representative, is active in many professional organizations, is on the Board of Governors of Washburn University Law School Alumni Association, a member of the Kansas Bar Association, and a Fellow of the Kansas Bar Foundation.

Representative Loyd discussed ways to think and promote on a regional basis. He talked about ensuring the viability of rural areas and the need to recognize that traditional agricultural policies, standing alone, are no longer sufficient to meet the needs of the new global economy and that our challenge is to identify ways to create new institutions or forms of government, which can forge regional partnerships.

He reviewed House Bill 2406 – a bill passed in the 2005 legislature, which was designed and originally introduced in an effort to facilitate regionalization and cooperative effort in rural Kansas. In addition to this piece of legislation, the Public Improvement District Act puts in place a taxing authority of which geographic communities of interest in Kansas may avail themselves, should they elect to do so.

In his closing, Representative Loyd made the point that in rural Kansas we must leverage our resources and use them in ever smarter ways for the collective, public good. The key to the survival of our rural communities is facilitating conditions that will encourage a sense of community, and that will promote business starts and expansions – the true anchors of any new rural economy.

Mike Taylor, Director of Media and Public Relations of the Kansas City/Wyandotte Unified Government shared their experiences of consolidation. Mr. Taylor received his degree in journalism from Wichita State University and has completed advanced coursework at the Poynter Institute for Media Studies in St. Petersburg, Florida.

Mr. Taylor's duties with the Unified Government include media relations, crisis communications, lobbying the Kansas Legislature and Congress on behalf of the Unified Government. He also advises the County Administrator, Mayor, Commission and Department Directors on community issues. Mr. Taylor served a similar role for the City of Wichita from 1995 to 2003.

Mr. Taylor reflected upon his memories of his community being on a road of partisan political patronage, which resulted in contentious acrimony and the selfishness of putting personal gain over the good of the community. He stated that his city was stagnated and that people were leaving.

Report of Summit on Consolidation (cont)

By taking a “road less traveled,” Mr. Taylor then revealed that the citizens and their elected leaders were able to reach their goal of a better community – a community with a proud past and a strong sense of its history, in addition to a community that is breaking new ground in the way local government undertakes economic development.

Recollecting the history of that road, Mr. Taylor talked about the history behind the success of Kansas City and Wyandotte County. In 1995, Carol Marinovich entered the mayor race, firmly convinced that they should consolidate their local governments. Her goal was to get beyond local power struggles and, as one body, develop a clear vision for the future. He said the success that finally came was due to what can happen when different levels of government and different political parties work together for the good of the community.

Charles Moser, Greeley County’s Chairman of the Unification Planning Committee and Alan Peter, member of the Unification Planning Committee talked about Greeley County’s and Tribune’s road to unification.

Mr. Moser was born and raised in Greeley County. He received an Associates of Science degree from Barton County in 1984, a Bachelors of Business Administration from Fort Hays State University in 1987, and his Juris Doctorate from Oklahoma City University School of Law in 1990 where he was named the Outstanding Graduate. In 2006, Mr. Moser began a general law practice in Greeley County. In January 2007, he will begin his duties as County Attorney for both Greeley and Wallace Counties. He is currently serving as chairperson of the Tribune/Greeley County Unification Study Commission and is a member of the Greeley county Recreation Board.

Mr. Peter has been a life-time resident of Greeley County. Currently, he works as a loan officer with over twenty-five years experience operating his own irrigated and dryland farming operation consisting of 2,800 acres in Greeley and Wallace Counties. Additionally, he was a farm manager of a 4,000 acre dryland farming operation for eight years. For the past twenty years, Mr. Peter has served as a board member for the local Co-Op, ten of which he has been elected Chairman. He was also a board member for the Kansas Corn Growers Association and was elected President for five years.

In Mr. Moser’s and Mr. Peter’s presentation, they discussed how it no longer makes sense for them to have a city council and a county commission. Mr. Moser pointed out that he didn’t feel they were losing anything – they are getting the benefits of being a city and of being a county.

Report of Summit on Consolidation (cont)

Alvan Johnson, Riley County Commissioner and Mike Watson, Director of the Riley County Police Department talked about the Riley County Law Enforcement Experience.

Mr. Johnson received his Bachelor of Science degree (Magna Cum Laude) and the Certificate of Applied Science/Administration from Wichita State University. He was a graduate of the National F.B.I. Academy in Quantico, Virginia and is a graduate of the Law Enforcement Administration from the SouthWest Legal Foundation, University of Texas, Richardson, Texas. Mr. Johnson served as the Director of the Riley County Police Department for 34 years. He has served as Chairman of the Riley County Commission and has served on the Riley County Law Board since 2001.

Mr. Watson received his Bachelor of Science degree from Kansas State University and performed significant graduate work in Administration of Justice at Wichita State University. He taught Administration of Justice at WSU. He is a graduate of the Federal Bureau of Investigation's national Executive Institute. He served as a member of the Wichita Police Department for twenty-five years where he rose through the ranks from patrolman to Chief of Police.

Mr. Johnson and Mr. Watson discussed the 1974 consolidation of the Riley County Sheriff's office, the Manhattan Police Department, and the Ogden Police Department. This consolidation formed the Riley County Police Department. The presentation included the politics of the consolidation campaign, the ballot issue in 1972 that passed with 56% voters, and the petition and second ballot issue in 1976 that passed with 70% voters.

The Riley County Police Department is a success. It has been and continues to be a very successful police department with an excellent resolution rate of crimes. The Department has a good reputation with the community and has an efficient operation throughout the county.

A program for the Summit and the powerpoint slideshow given by Chairperson Joan Wagon is attached to this annual report. Also included with this report are several articles regarding local government consolidation and about the Salina Summit.

Conclusions of Summit on Consolidation

There was general agreement on the following recommendations from participants:

1. Widespread agreement that state-mandated consolidation would never work; it should be locally-driven. The role of the state was to remove barriers to local determination.
2. Introduce legislation in 2007 to remove the remaining barriers to consolidation, particularly city-county consolidation. The dual majority requirement was discussed, and many did not want it included in the bill, although there was not unanimity on this provision. Some participants suggested that the local governments consolidating should be able to designate whether this provision would apply in their ordinances and resolutions putting the issue on the ballot.
3. Introduce legislation to allow for the consolidation of city-county law enforcement and provide a customized model for how it should be done. The only consolidated city-county law enforcement now is Riley County. Other jurisdictions may have utilized interlocal agreements to affect a similar result, but the only true consolidation is Riley County.
4. KACIR should provide proven, successful consolidation models to local governments and be an informational resource on this issue. These models should draw from other states and other communities as well as Kansas.
5. KACIR should study the question of cost-effectiveness of services provided by townships, and provide information about the status of townships statewide.
6. KACIR should provide models for handling some of the questions that arise when 2 jurisdictions are discussing combining: examples, what happens to the elected officials? What is reasonable to expect in staff reductions or salary issues?

KACIR Policy Recommendations

1. **KACIR should request introduction of legislation in 2007 to remove the remaining barriers to consolidation, particularly city-county consolidation and provide incentives to consolidate.**¹

2. **KACIR should undertake a study with a university in Kansas and the Department of Revenue to study further the issues related to consolidation and to construct a model which can be used by local governments to determine the efficacy of consolidation. These issues include:**
 - How to Budget, consider general budgeting needs or needs specific to one or more entities that merge.
 - How to apply and distribute levies.
 - How to handle some of the questions that arise when two jurisdictions are discussing combining: for example, what happens to the elected officials? What is reasonable to expect in staff reductions or salary issues?
 - A model statute to allow for the consolidation of city-county law enforcement and provide a customized model for how it should be done. The only consolidated city-county law enforcement now is Riley County. Other jurisdictions may have utilized interlocal agreements to affect a similar result, but the only true consolidation is Riley County.
 - Proven, successful consolidation models from other states/localities for Kansas local governments.

3. **KACIR should study the question of cost-effectiveness of services provided by townships, and provide information about the status of townships statewide. Much of this information can be obtained from Property Valuation.**

¹The 2006 Special Committee on Assessment and Taxation recommended that the Secretary of Revenue, in conjunction with the League of Kansas Municipalities and Kansas Association of Counties, compile an exhaustive list of statutory impediments and submit it to the Special Committee on Assessment and Taxation and Local Government Committees during the first week of the 2007 Legislative Session. These impediments should be addressed in the legislation.



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**Testimony Before the Senate Ways and Means Committee
Regarding Senate Bill 232**

February 13, 2007

Good Morning. My name is Kristy Stallings, Deputy City Manager of the City of Overland Park. I would like to thank the Committee for the opportunity to appear today on behalf of the City in support of Senate Bill 232. Overland Park requested and supports this legislation, which will create the authority for governmental entities to establish and contribute to a trust in order to fund future liabilities for "other post-employment benefits" for its retirees. "Other post-employment benefits," commonly referred to as "OPEB," include healthcare, life insurance and other related benefits extended to retirees. Currently the authority to create such a trust does not exist.

In 2004, the Governmental Accounting Standards Board (GASB) issued statement 45, which addresses how governmental entities should account for and report OPEB costs and obligations. GASB establishes standards for state and local governmental accounting and financial reporting. Financial reporting which complies with GASB plays an important role in fulfilling a government's duty to be accountable to the public, legislative bodies and those who finance that government.

The GASB 45 statement requires governmental employers to account for and report the annual cost of OPEB in essentially the same manner as they do for pensions. Annual OPEB costs will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. In addition the statement sets out an implementation schedule based on an entity's total annual revenues. Overland Park will be required to comply beginning with its FY 2007 financial statements.

Although proposed Senate Bill 232 establishes statutory authority to fund OPEB costs, GASB 45 does not mandate such funding. Disclosure of unfunded liability is all that is legally required. Funding an OPEB plan with a trust will enable a governmental entity to better manage the long-term financial impact of OPEB liabilities. If a trust fund is created pursuant to the authority in proposed Senate Bill 232, it will be exempt from budget laws in the same manner as many other reserve funds in Kansas (e.g., capital improvements fund (KSA 12-1,118), the risk management reserve fund (KSA 12-2615), etc.

While governmental entities are free to continue pay-as-you go funding of OPEB obligations, Senate Bill 232, if enacted, would enable a response to concerns that future annual OPEB costs will significantly exceed a governmental employer's current annual cash outlay. Because annual OPEB obligations are expected to escalate over the next

Mike Santos presented testimony

Senate Ways and Means
2-13-07
Attachment 3

decade due to the impending retirement of baby boomers and healthcare cost inflation, pre-funding OPEB costs through a trust will permit governments to manage these future costs. In order to take advantage of the benefits of pre-funding OPEB costs, proposed Senate Bill 232 permits governmental entities to create trusts to fund these costs, and exempts such trusts from statutory cash basis laws that require funds to be currently available in order to incur future indebtedness.

GASB 45 also states that the discount rate to value OPEB costs must reflect expected returns on assets used to pay benefits. If a benefit plan is unfunded, the interest rate that can be used to calculate the annual liability must be at a rate similar to that earned on unrestricted general assets. If OPEB costs are funded in advance in a separate trust, the assets may be invested in longer-term investments with higher expected returns, thereby enabling a lower annual required contribution.

To take advantage of the long-term investment opportunities available through the creation of a trust, proposed Senate Bill 232 would permit governmental entities to invest trust funds outside of the statutory limitations on the investment of municipal funds. Notwithstanding the expansion of investment authority, Senate Bill 232 requires that the investment and management of the assets of an OPEB trust comply with the statutory "prudent investor rule." (KSA 58-24a01 *et seq.*). Absent such expanded investment authority, statutory restrictions on fund investments would likely mean a lower rate of return on assets, and additional burdens on the governmental employer in funding future OPEB costs.

The City of Overland Park has determined that in order to most effectively manage its OPEB liability, as well as its overall financial position, establishing a trust to fund OPEB benefits is in the City's best interest. Passage of SB 232 will provide the benefit of this funding mechanism to Overland Park and other governmental entities that choose to finance important OPEB benefits in such a manner. Therefore, on behalf of the City of Overland Park, I respectfully request that you approve Senate Bill 232.



League of Kansas Municipalities

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Phone: (785) 354-9565
Fax: (785) 354-4186

Date: February 13, 2007
To: Senate Ways and Means Committee
From: Larry R. Baer
Assistant General Counsel
Re: SB 232
Testimony in Support

Thank you for allowing me to appear before you today and present testimony in support of SB 232 on behalf of the League of Kansas Municipalities and its 627 member cities.

About two and a one-half years ago the Governmental Accountings Standards Board (GASB) issued two statements, 43 and 45, that impact some of the cities in Kansas. The statements require cities to account for "other post-employment benefits" in a manner similar to the way that pension benefits are accounted for. These benefits generally consist of healthcare and life insurance benefits for retirees.

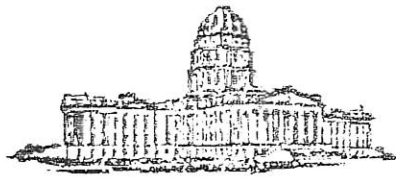
Simply stated GASB 43 and 45 are intended to better measure and report OPEB liabilities. GASB does not require a city to fund the liability. But it does require that the city's audit note the liability in the annual audit report and that actuarial computation of those liabilities be done on a regular basis. The new standards also requires that if a city chooses to fund the liabilities that those funds be irrevocably invested in a trust or plan.

It is this last requirement that SB 232 addresses. SB 232 allows a city to either establish its own trust or trusts or join with others to do so; provide for management and investment of the trust; and, provide for the organization of the members of the management team. It would also exempt such trusts from cash basis laws and limitations on investments currently placed upon cities.

Although SB 232 would be applicable to a relative few cities in Kansas, it is needed by those cities to allow them to completely comply with the above stated changes. For this reason, the League supports SB 232 and asks that you pass it out favorably.

Again, thank you for allowing me to appear before you today.

ISSUES



MANAGEMENT GROUP, INC.

TESTIMONY ON BEHALF OF THE CITY OF OLATHE /SB 232

SENATE WAYS AND MEANS COMMITTEE

FEBRUARY 13, 2007

Mr. Chairmen and Members of the Committee. My name is Bud Burke and I appear here today to testify in favor of SB 232 on behalf of the City of Olathe.

Some estimates place the total unfunded liability of governmental entities in the United States with respect to the obligations for OPED (other post employment benefits) at \$1.4 trillion dollars.

The GASB (Governmental Accounting Standards Board) has issued two new reporting and disclosure standards; Statement 43 and Statement 45.

These statements require all state and local governmental units to report costs and obligations for OPEB in their financial statements. While OPEB does not require these governmental units to fund these obligations, those that choose not to fund them run the risk of lower credit ratings making the cost of borrowing money much more expensive.

SB 232 provides the mechanism for establishing responsible funding of these unfunded liabilities.

We ask for your favorable consideration of SB232

Bud Burke
City of Olathe

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Lawrence, Kansas 66047
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800 SW Jackson, Suite 808
Topeka, Kansas 66612
(785) 232-2320 fax (785) 232-2868

*Senate Ways and Means
2-13-07
Attachment 5*



TESTIMONY IN SUPPORT OF SB232

To: Chairman Umbarger
Senate Ways and Means Committee

From: Matt Shatto, Assistant City Administrator

Date: February 12, 2007

Thank you for the opportunity to present testimony regarding SB 232. The City of Lenexa understands that this bill was introduced to allow local governments to contribute to a trust to adequately fund future liabilities associated with post employment benefits for City employees.

The City of Lenexa is in full support of SB 232 and would be happy to answer any questions you may have related to this issue. Thank you for your consideration.

Senate Ways and Means
2-13-07
Attachment 6



Written Testimony on SB 232
Before the Senate Ways and Means Committee
By Judy A. Moler
General Counsel/Legislative Services Director
February 13, 2007

The Kansas Association of Counties thanks the Committee for the opportunity to speak in favor of SB 232.

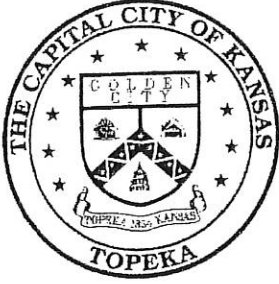
We believe that this bill, while it affects only a few counties, is an important bill. It would be very important to counties that are working on keeping their bond rating intact. For this reason we are in support of SB 232.

We urge you to vote "yes" on SB 232.

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 Randy Allen or Judy Moler by calling (785) 272-2585.

300 SW 8th Avenue
3rd Floor
Topeka, KS 66603-3912
785•272•2585
Fax 785•272•3585

Senate Ways and Means
2-13-07
Attachment 7



CITY OF TOPEKA

Financial Services Department
215 SE 7th Street, Rm 358
Topeka, KS 66603
Telephone: 785-368-3970

Jim Langford, Budget and Finance Director
jlangford@topeka.org
Fax: 785-368-3975
www.topeka.org

Honorable Dwayne Umbarger, Chairperson
Senate Ways and Means Committee
Room 123-S Statehouse
Topeka, KS 66612

RE: SB 232 Other Postemployment Benefits

Dear Senator Umbarger,

As the Budget and Finance Director for the City of Topeka, I endorse SB 232 and encourage the Senate Ways and Means Committee to pass the bill on for consideration by the full Senate. The City of Topeka currently is having an actuarial valuation performed to determine its liability for other post-employment benefits under the Governmental Accounting Standards Board (GASB) ruling number 45. This liability will come from making health insurance benefits available to employees who retire from City employment. Since the City does not yet know the liability, it has not determined the manner in which it will manage the liability's impact on its financial position. SB 232 would allow a local government in Kansas to establish a trust to fund the cost of providing these future benefits. This flexibility in managing the liability would be valuable. Thank you for your consideration, and do not hesitate to contact me with any questions. Thank you.

Sincerely,

Jim Langford
Budget and Finance Director

cc: Norton Bonaparte, City Manager
Brenden Long, City Attorney
file

Whitney B. Damron, P.A.
919 SOUTH KANSAS AVENUE
TOPEKA, KANSAS 66612-1210
(785) 354-1354 • (785) 354-8092 (Fax)
E-Mail: wbdamron@aol.com

Senate Ways and Means
2-13-07
Attachment 8

CITY OF SHAWNEE

CITY HALL
11110 Johnson Drive
Shawnee, Kansas 66203
(913) 631-2500
FAX (913) 631-7351

CIVIC CENTRE
13817 Johnson Drive
Shawnee, Kansas 66216
(913) 631-5200

FIRE
6501 Quivira Road
Shawnee, Kansas 66216
(913) 631-1080
FAX (913) 631-1628

POLICE
6535 Quivira Road
Shawnee, Kansas 66216
(913) 631-2155
FAX (913) 631-6389

February 12, 2007

Senate Ways and Means Committee
Chairman Dwayne Umbarger
Kansas State Capitol
300 SW 10th Street
Topeka, Kansas 66612

RE: SB 232

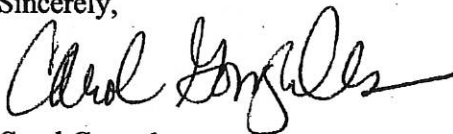
Dear Senator Umbarger:

I am writing on behalf of the City of Shawnee to support the Senate Ways and Means Committee's passage of SB 232 which would allow local governments to contribute to a trust to fund future liabilities for post-employment benefits for City employees. In 2004, the Governmental Accounting Standards Board (GASB) issued statements 45 and 43 which established procedures for accounting and financial reporting of "Other Post Employment Benefits" (OPEB). These statements are more commonly referred to as GASB 45, and they are part of an overall effort by GASB to push governments to adopt more fiscally responsible accounting practices which include recognizing future obligations such as funding the costs of retirees' health care.

According to the 2006 Rockefeller Institute Report on State and Local Government Finances, aggregate state and local liabilities for retiree health care come to around \$1 trillion. GASB 45 does not require local governments to do anything to close the liability gap, but it does require entities to include it in their comprehensive annual financial reports. Having such a significant liability reported will affect how rating agencies view the fiscal health and stability of the City. Many local governments are considering establishing trusts to help fund this liability and permit better management of the long-term financial impact of the GASB rulings.

The City of Shawnee supports legislative efforts which would amend K.S.A. 12-16, 102 and create the authority for establishment of a trust to fund the City's OPEB liability. Thank you for the opportunity to present this written testimony on behalf of the City of Shawnee. If you have any questions regarding our position, please contact me at (913)631-2500 or cgonzales@cityofshawnee.org.

Sincerely,



Carol Gonzales
City Manager

Senate Ways and Means
2-13-07
Attachment 9