

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:10 a.m. on January 21, 2009, in Room 535-N of the Capitol.

All members were present except Representatives Gene Rardin, Raj Goyle and Sharon Schwartz who were excused.

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department  
Hank Avila, Kansas Legislative Research Department  
Gordon Self, Office of Revisor of Statutes  
Scott Wells, Office of Revisor of Statutes  
Kathy Beavers, Committee Assistant

Others attending:

See attached list.

Bill Introductions:

Representative John Faber requested a committee bill introduction that would allow Rawlins County to raise its sales tax in order to construct a swimming pool (Attachment 1). Representative Frownfelter made a motion to support the introduction. Representative Kay Wolf seconded the motion. The motion carried.

Representative Mario Goico made a motion to reintroduce 2008 Session HB 2948 with appropriate updates. Representative George seconded the motion. The motion carried.

Representative Carlson introduced Dr. John Leatherman, Professor in the Department of Agricultural Economics, Extension Appointment as Local Government Specialist, Director of the Office of Local Government, Kansas State University. Dr. Leatherman introduced his associate, Katie Morris, Extension Assistant. His report examined county government revenue and expenditure patterns over time in Kansas. The objective is to help citizens and state and local policymakers gain a better understanding of the mix and level of services provided by local government in Kansas (Attachment 2). The data is comprised of information from 104 Kansas counties.

Dr. Leatherman felt that generally, Kansas counties are fiscally sound. He hoped that the information he provides, combined with knowledge of the local situation, provides a basis for improving county fiscal management and performance. He stood for questions.

Representative Carlson thanked Dr. Leatherman and his associate for their time and for bringing the information to the attention of the committee. He stated that the counties are highly dependent on property taxes and there are few alternatives to raise monies.

The next meeting is scheduled for January 22, 2009 at 9:00 A.M. in Room 535-N.

The meeting was adjourned at 10:20 P.M.



STATE OF KANSAS  
HOUSE OF REPRESENTATIVES



TOPEKA

JOHN FABER

REPRESENTATIVE, 120TH DISTRICT

JOHN M. FABER

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COMMITTEE ASSIGNMENTS

CHAIRMAN: AGRICULTURE & NATURAL  
RESOURCES  
MEMBER: EDUCATION  
EDUCATION BUDGET

Chairman Carlson and members of the tax committee. I would request that your committee introduce a committee bill that would allow Rawlins County to raise its sales tax in order to construct a swimming pool.

This bill is very similar to the one that has been introduced for Lyon County. Rawlins County overwhelmingly passed a sales tax question in the November General Election but now needs legislative approval to go ahead with the sales tax increase.

Thank you Mr. Chairman and members of the committee.

Representative John Faber

A handwritten signature in black ink, appearing to read "John Faber", written in a cursive style.

# KANSAS COUNTY GOVERNMENT FISCAL TRENDS 1996-2006

Special report to the Kansas House Taxation Committee

January 21, 2009

John Leatherman  
Professor and Director

Katie Morris  
Extension Assistant

*office of*  
**Local Government**  
K-State Research and Extension

Office of Local Government  
Department of Agricultural Economics  
Kansas State University



## Introduction

The level of taxation and allocation of public resources are of concern to every citizen, business owner, and policymaker. Each needs and wants public services though they may disagree about what are necessary public services, what level of service is sufficient, how much service is affordable, and who will pay for it. While answers to these questions remain elusive, it is possible to generate information that can shed light on the issue.

To this end, this report examines county government revenue and expenditure patterns over time in Kansas. Our objective is to help citizens and state and local policymakers gain a better understanding of the mix and level of services provided by local government in Kansas. This information will not alleviate the struggle to find the optimal level and mix of services but may help to affirm the choices state and local governments in Kansas have made or point to needed adjustments.

In an effort to generate useful information resources related to local public finance, the Office of Local Government, a unit of K-State Research and Extension, developed the *Kansas Fiscal Database*. The database contains detailed financial information from 1989 to 2006 for Kansas counties and many Kansas cities. This information was drawn from municipal budgets on file at the Kansas Department of Administration's Division of Accounts and Reports.

The Kansas Association of Counties, the League of Kansas Municipalities, the Division of Accounts and Reports, and others knowledgeable about local government financial management consulted in the design of the database. Though budgeting and reporting often vary across municipalities, the data represents consistent accounting showing as much detail as the budget documents allow.

This report attempts to answer several key questions: (1) What are the primary categories of revenues and expenditures for county governments in Kansas? (2) How have county government revenues and expenditures in Kansas changed over time? (3) How do revenues and expenditures by county governments in Kansas compare to each other?

This report is provided as a service of the Office of Local Government, and represents our commitment to develop information resources of use to local officials and the citizens of Kansas. The Office of Local Government provides information on public issues such as the financing and delivery of public services, but does not prescribe solutions. We hope that the information presented will help policymakers and citizens discuss tax and public finance issues and make informed choices.

The Office of Local Government welcomes any questions, comments, or suggestions about this report or any of their other services. Contact your county Extension office or:

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## Local Government Fiscal Conditions and Trends

Local fiscal conditions are influenced by demographic, economic, and social trends; state and federal mandates; and local needs and preferences. This makes it difficult for county officials and others to find reliable data to evaluate county fiscal conditions and performance. This report provides a starting point. It uses information from the *Kansas Fiscal Database* to examine expenditure and revenue trends from 1996 to 2006, with the Kansas county average as a benchmark.<sup>1</sup>

The report begins with a presentation of population, income, and assessed valuation trends. These characteristics influence the responsibilities and capacity of county governments and establish a context for understanding fiscal trends. Total and per capita revenues and expenditures are then presented. Per capita values represent revenues or expenditures per person in the county. They can be compared to state averages and are a useful indicator of performance, especially when the county's population has changed significantly over time.

Nearly all dollar amounts in this report are "real" amounts. The value of a dollar declines over time due to inflation. Inflation, then, distorts trends over time, because a dollar today does not have as much purchasing power as a dollar one year or five years ago. To make fair comparisons of dollar amounts over time, the data must be adjusted to a single year's value using an inflation index. In this report, values are adjusted to 2006 dollars (2006\$) using the Personal Consumption Expenditures (PCE) chain price index. Actual and real dollar amounts are equal in the base year (2006). By removing the effects of inflation, the focus shifts to the "real" forces affecting budget trends – economic conditions, changing wants and needs, and mandates.

As readers observe trends in the report, they naturally ask why these trends occurred. While we can make some generalizations based on federal and state mandates, broad economic conditions, and general preferences for public services, unique circumstances in the county are often responsible. Every county periodically requires significant capital investment to maintain service delivery. Such capital expenditures may result in a significant deviation from a normal trend line. Similarly, changes in local accounting practices over time (for example, reporting expenditures in greater or lesser detail) may influence trends. Budget documents alone do not allow us to identify all of the circumstances facing a particular county. Therefore, we encourage readers to look beyond the information presented in this report to fully understand why revenue and expenditure trends look as they do.

This report is a tool to help elected and appointed local officials enhance decision-making and meet the needs of their county efficiently and equitably. The information presented may reinforce their assumptions about local conditions or show previously unrecognized trends. In addition, it may help officials identify the causes and implications of these conditions and trends.

Additional detailed local budget information is published annually by the Office of Local Government, K-State Research and Extension, in its "Kansas County/City Fiscal Conditions and Trends" report series. Contact the Office of Local Government for information about obtaining any of these resources.

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<sup>1</sup> All Kansas counties are included with the exception of Wyandotte County. We are unable to reliably separate the consolidated finances of Wyandotte County and Kansas City, Kansas, using the budget documents collected by the Division of Accounts and Reports.

## **Making Comparisons Over Time**

While our primary objective is to provide a comparison of revenues and expenditures across counties, looking at how finances have changed over time is also informative. Thus, we present revenue and expenditure data from both 1996 and 2006 as well as the change over the period by major revenue and expenditure categories.

Data are inflation-adjusted to allow fair comparisons over time. The value of a dollar declines over time due to inflation. Inflation, then, distorts trends because a dollar today does not have as much purchasing power as a dollar one year or five years ago. To make fair comparisons, the data must be adjusted to a single year's value using an inflation index. Here, values are adjusted to 2006 dollars (2006\$) using the Personal Consumption Expenditures (PCE) chain price index. Actual and real amounts are equal in the base year (2006). By removing the effects of inflation, the focus shifts to the "real" forces affecting budget trends – economic conditions, changing wants and needs, and mandates.

While changes over time often indicate shifting county needs and priorities, in some cases they reflect the accounting conventions used in the construction of the database. For example, in the database we group capital expenditures with the function they were intended to support. For instance, jail construction costs are placed in the "law enforcement" category, while installing an elevator in the courthouse is assigned to "general government." As they are often large and occur only once in a great while, capital expenditures can cause deviations from a normal trend line. Additionally, they may distort the percent change over time when present in one period (1996 or 2006) but not the other. Grants, bond issues, and special assessments can similarly impact the percent change in revenues over time.

## LEGISLATION AFFECTING COUNTY FINANCES

Changes in state and federal legislation and mandates may be partly responsible for shifts in county revenues and expenditures from 1999 to 2007. Following is a brief summary of major legislation that may have affected the county fiscal trends presented in this report.

**Community College Tuition.** County out-district tuition is paid when a student from another county enrolls in a community college. Prior to the passage of the Higher Education Coordination Act in 1999, the state and counties shared the cost of tuition accompanying a student. With passage of the Act, the county portion of out-district tuition was phased out over a four-year period and replaced by state aid. FY 2006 was the last year for out-district tuition.

**Local Extension Program Organization.** Over the past several years, Kansas State University Cooperative Extension Service has aggressively promoted the creation of multi-county Extension districts as a cost-savings measure. When formed, an Extension district becomes a special purpose form of government with its own taxing authority separate from county government. Thus, Extension allocations have disappeared from many county budgets. Currently, seven districts cover 21 counties.

**Demand Transfers.** Demand transfers is the term applied to the combination of several state aids to local government. They include City/County Revenue Sharing, Local Ad Valorem Tax Reduction (LAVTR), and Special Highway Aids. Following a national recession in 2001, the state began phasing out City/County Revenue Sharing and LAVTR beginning in 2002 in response to a downturn in state revenues. Revenue Sharing was cut by approximately half in 2002 and both Revenue Sharing and LAVTR were suspended in 2003. Special Highways Aids were preserved, but adjusted in a way that pushed the total available funding down.

**Truth in Taxation.** After nearly 30 years, the Aggregate Tax Levy Lid was replaced by a different type of tax limitation, the 1999 Truth in Taxation Law. The law permits greater flexibility in raising the property tax levy to respond to local needs. The new law generally requires affected taxing subdivisions to pass a resolution or ordinance acknowledging increases in property tax dollars levied over the prior year. This "sunshine" provision requiring public disclosure of tax increases would be considered a soft property tax lid.

**Juvenile Justice.** In 1995, the Legislature authorized counties to pay for inter-county juvenile justice and care programs out of the general fund. Legislation in 1997 expanded juvenile justice funding, including a new grant program for counties to develop and implement juvenile community corrections.

**Motor Vehicle Tax.** In 1995, the Legislature enacted a five-year phase down in the assessment rate on motor vehicles, from 30 percent to 20 percent of market value.

**Reappraisal.** In 1999, the Legislature changed the statewide reappraisal program such that every parcel of real property will be viewed and inspected by the county or district appraiser once every six years, rather than every four.



## POPULATION AND PER CAPITA INCOME

County fiscal trends are often closely related to population and income trends. In general, as population increases, county revenues and expenditures rise. As income increases, county revenues tend to increase. County expenditures may also rise as income increases if residents demand more services.

**Table 1. Population and real per capita income, Kansas county average 1996-2006**

| Year | Population <sup>a</sup> | Annual % Change | Real Per Capita Income (2006\$) <sup>b</sup> | Annual % Change |
|------|-------------------------|-----------------|--|-----------------|
| 1996 | 23,236                  |                 | 25,132                                       |                 |
| 1997 | 23,390                  | 1%              | 26,057                                       | 4%              |
| 1998 | 23,717                  | 1%              | 26,798                                       | 3%              |
| 1999 | 23,963                  | 1%              | 27,083                                       | 1%              |
| 2000 | 24,228                  | 1%              | 26,459                                       | -2%             |
| 2001 | 24,293                  | 0%              | 27,142                                       | 3%              |
| 2002 | 24,487                  | 1%              | 26,179                                       | -4%             |
| 2003 | 24,568                  | 0%              | 27,893                                       | 7%              |
| 2004 | 24,689                  | 0%              | 27,438                                       | -2%             |
| 2005 | 24,788                  | 0%              | 28,876                                       | 5%              |
| 2006 | 25,082                  | 1%              | 28,223                                       | -2%             |
|      | % change 1996-2000      | 4%              | % change 1996-2000                           | 5%              |
|      | % change 2000-2006      | 4%              | % change 2000-2006                           | 7%              |
|      | % change 1996-2006      | 8%              | % change 1996-2006                           | 12%             |

<sup>a</sup> Though the U.S. Census Bureau supplied all population estimates, three data sources are represented. The Bureau's county population estimates are the source of population values for 1996-1997 and 2001, while values for 1998-1999 and 2002-2006 are from their estimates for places and minor civil divisions. This change brings our population data in line with the certified Kansas population produced by the Division of the Budget. Year 2000 population data is from Census 2000. For those counties with a federal or state correctional facility, each population value is adjusted downward by the corresponding annual inmate population. This adjustment accounts for the fact that, though residents, prisoners do not pay taxes to support the costs of services provided by county government. These population values are used in all per capita calculations.

<sup>b</sup> Annual personal income estimates were obtained from the Bureau of Economic Analysis' Regional Economic Information System. Personal income is generally higher than measures such as adjusted gross and money income because it consists of income received by both individuals and nonprofit institutions serving individuals.

The Kansas county average population increased 8 percent between 1996 and 2006 to 25,082. From 1996 to 2006, the Kansas county average real, inflation-adjusted per capita personal income increased 12 percent to \$28,223. Table 1 summarizes the Kansas county average population and income trends from 1996 to 2006.

Local property taxes remain the major source of revenue for county governments, accounting for 43 percent of total revenue in the average Kansas county in 2006. Thus, trends in property values can significantly impact county revenues and expenditures. Declining property values push tax rates up and force counties to either find alternate revenue sources or cut spending. Changes in population, business conditions, and state mandates may affect local property values.

Between 1996 and 2006, the Kansas county average real, inflation-adjusted tangible assessed valuation increased 35 percent from \$183,322,205 to \$246,828,660. The county's real per capita tangible assessed valuation increased from \$12,001 in 1996 to \$13,403 in 2006, a change of 2 percent. Table 2 summarizes assessed valuation trends in the average Kansas county from 1996 to 2006.

**Table 2. Real tangible assessed valuation,  
Kansas county average 1996-2006**

| Year                  | Tangible Assessed Valuation <sup>a</sup><br>(2006\$) | Per Capita<br>(2006\$) |
|-----------------------|--|------------------------|
| 1996                  | 183,322,205  | 12,001                 |
| 1997                  | 186,327,611  | 11,706                 |
| 1998                  | 200,336,062  | 12,739                 |
| 1999                  | 204,993,213  | 12,380                 |
| 2000                  | 207,099,491  | 11,168                 |
| 2001                  | 217,042,248  | 11,268                 |
| 2002                  | 230,100,589  | 12,363                 |
| 2003                  | 230,876,226  | 12,148                 |
| 2004                  | 233,436,754  | 11,764                 |
| 2005                  | 240,244,791  | 12,495                 |
| 2006                  | 246,828,660  | 13,403                 |
| % change<br>1996-2006 | 35%  | 12%                    |

<sup>a</sup> Tangible assessed valuation is from county budgets and may differ from Kansas Department of Revenue equalized adjusted amounts.

## EXPENDITURES

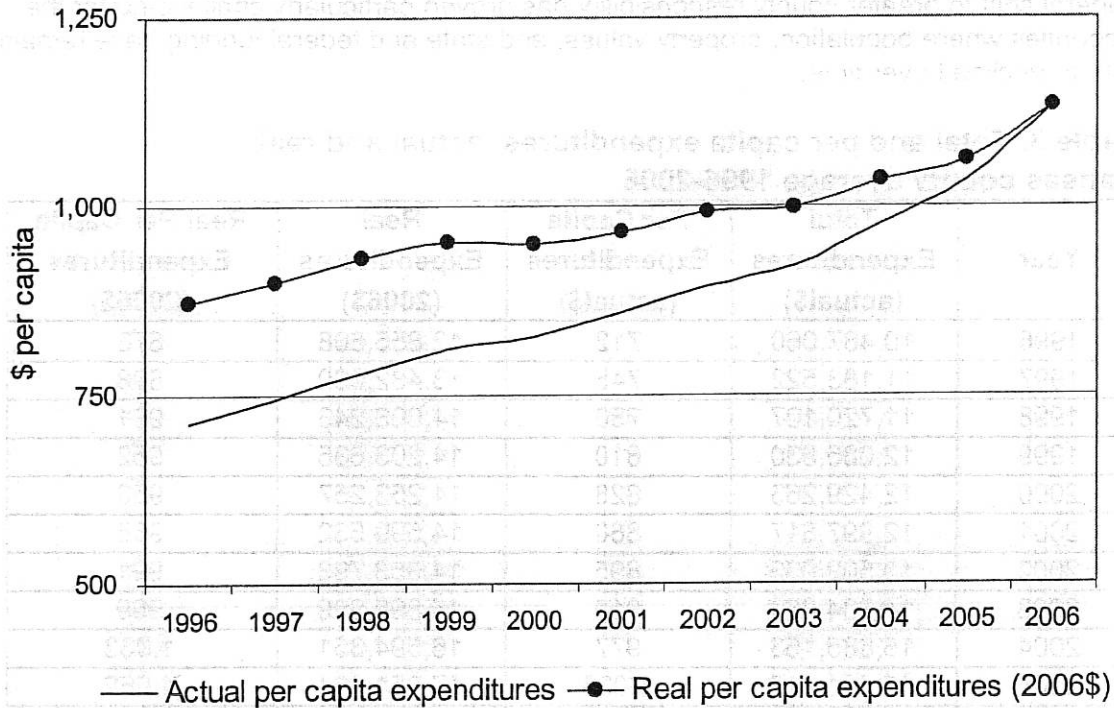
Total expenditures can be considered a measure of the overall responsibility of county government. In general, this responsibility has increased over the past decade in response to changes in economic conditions, state and federal mandates, and local needs and preferences. The general shift to greater county responsibility has proven particularly challenging for the many counties where population, property values, and state and federal funding have remained constant or declined over time.

**Table 3. Total and per capita expenditures, actual and real  
Kansas county average 1996-2006**

| Year               | Total Expenditures (actual\$) | Per Capita Expenditures (actual\$) | Real Expenditures (2006\$) | Real Per Capita Expenditures (2006\$) |
|--------------------|-------------------------------|------------------------------------|----------------------------|---------------------------------------|
| 1996               | 10,487,060                    | 712                                | 12,855,608                 | 873                                   |
| 1997               | 11,183,522                    | 745                                | 13,482,090                 | 898                                   |
| 1998               | 11,720,107                    | 780                                | 14,003,243                 | 931                                   |
| 1999               | 12,085,630                    | 810                                | 14,203,635                 | 952                                   |
| 2000               | 12,429,263                    | 828                                | 14,253,257                 | 950                                   |
| 2001               | 12,997,817                    | 860                                | 14,599,532                 | 966                                   |
| 2002               | 13,502,033                    | 895                                | 14,953,793                 | 991                                   |
| 2003               | 14,634,864                    | 919                                | 15,892,999                 | 999                                   |
| 2004               | 15,685,153                    | 977                                | 16,594,351                 | 1,033                                 |
| 2005               | 16,591,142                    | 1,033                              | 17,051,194                 | 1,062                                 |
| 2006               | 17,779,517                    | 1,134                              | 17,779,517                 | 1,134                                 |
| % change 1996-2000 | 19%                           | 16%                                | 11%                        | 9%                                    |
| % change 2000-2006 | 43%                           | 37%                                | 25%                        | 19%                                   |
| % change 1996-2006 | 70%                           | 59%                                | 38%                        | 30%                                   |

Between 1996 and 2006, Kansas county average total expenditures, unadjusted for inflation, increased 70 percent. The county average unadjusted per capita expenditures increased 59 percent from 1996 to 2006 to \$1,134. In real, inflation-adjusted terms, the Kansas county average expenditures (2006\$) increased 38%, and per capita expenditures increased from \$873 in 1996 to \$1,134 in 2006. Table 3 and Figure 1 summarize the Kansas county average actual and real expenditures from 1996 to 2006.

**Figure 1. Per capita expenditures, actual and real, Kansas county average, 1994-2002**



**Real Expenditures by Major Function**

Three major functional expenditure categories in most Kansas counties are general, road and bridge, and law enforcement. General expenditures include those to support the county commission, clerk, treasurer, attorney, register of deeds, coroner, and facilities. Road and bridge consists of expenditures in both the road and bridge fund and special road and bridge accounts. Law enforcement expenditures include the combined costs of the district court, juvenile justice, the jail and the sheriff’s department. General, road and bridge, and law enforcement expenditures accounted for about 47 percent of the Kansas county average total expenditures in 1996 and 45 percent in 2006. General expenditures declined as a percent of total expenditures from 19 percent in 1996 and 17 percent in 2006. Meanwhile, road and bridge expenditures fell from 19 percent of total expenditures in 1996 to 16 percent in 2006, and law enforcement expenditures increased from 9 percent in 1996 to 12 percent in 2006. Table 4 compares the Kansas county average expenditures by major function in 1996 and 2006.

In general, the share of total county expenditures devoted to the three traditional expenditure categories (general, road and bridge, and law enforcement) has steadily shifted, with the share dedicated to road and bridge expenditures declining and the share for law enforcement increasing (Figure 2).

Additionally, we observed particularly strong growth in several expenditure categories. Public safety-related expenditures (sheriff, jail and corrections, juvenile justice, and district courts), for example, grew strongly over the period in most Kansas counties. This may reflect both growing

public concern about crime and safety, new state and federal mandates, and the high cost of prisoner care. Similarly, health and related expenditures (county health department, ambulance, emergency 911 service, services for the aged, and hospital) showed strong growth in many counties, likely reflecting efforts to maintain quality health care as the state's population ages. County solid waste expenditures have also experienced strong growth, following a federal mandate that solid waste be disposed of in a more environmentally sensitive fashion.

**Table 4A. Real total and per capita expenditures by major function, Kansas county average 1996-2006**

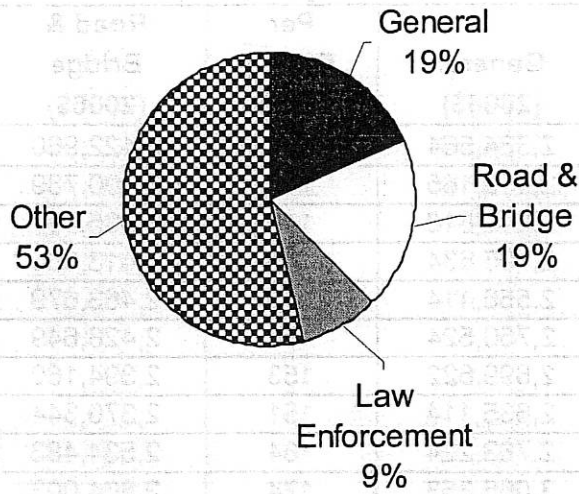
| Year                  | General<br>(2006\$) | Per<br>Capita<br>(2006\$) | Road &<br>Bridge<br>(2006\$) | Per<br>Capita<br>(2006\$) |
|-----------------------|---------------------|---------------------------|------------------------------|---------------------------|
| 1996                  | 2,384,564           | 134                       | 2,422,960                    | 236                       |
| 1997                  | 2,458,165           | 135                       | 2,400,789                    | 236                       |
| 1998                  | 2,543,818           | 140                       | 2,535,797                    | 247                       |
| 1999                  | 2,795,634           | 145                       | 2,413,366                    | 250                       |
| 2000                  | 2,556,414           | 142                       | 2,463,679                    | 253                       |
| 2001                  | 2,750,524           | 150                       | 2,428,649                    | 249                       |
| 2002                  | 2,699,622           | 153                       | 2,394,160                    | 249                       |
| 2003                  | 2,635,114           | 151                       | 2,370,344                    | 243                       |
| 2004                  | 2,763,224           | 164                       | 2,534,483                    | 255                       |
| 2005                  | 3,066,353           | 174                       | 2,604,003                    | 268                       |
| 2006                  | 3,111,275           | 191                       | 2,865,640                    | 286                       |
| % change<br>1996-2006 | 30%                 | 43%                       | 18%                          | 21%                       |

**Table 4B. Real total and per capita expenditures by major function, Kansas county average 1998-2006**

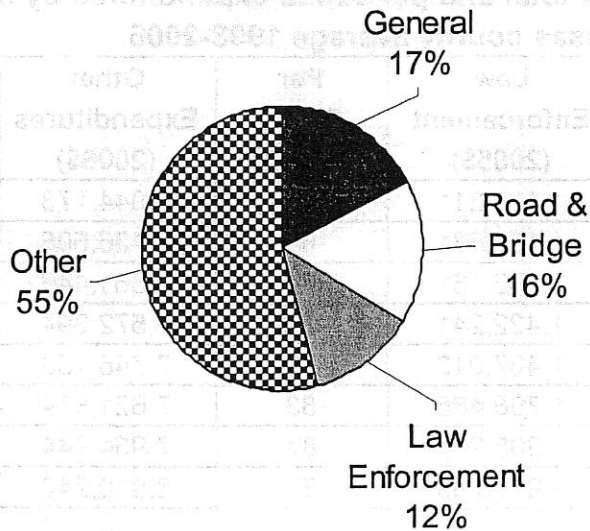
| Year                  | Law<br>Enforcement<br>(2006\$) | Per<br>Capita<br>(2006\$) | Other<br>Expenditures<br>(2006\$) | Per<br>Capita<br>(2006\$) |
|-----------------------|--------------------------------|---------------------------|-----------------------------------|---------------------------|
| 1996                  | 1,103,311                      | 64                        | 6,944,773                         | 439                       |
| 1997                  | 1,186,631                      | 69                        | 7,436,506                         | 457                       |
| 1998                  | 1,362,181                      | 74                        | 7,561,446                         | 471                       |
| 1999                  | 1,422,241                      | 77                        | 7,572,394                         | 479                       |
| 2000                  | 1,487,012                      | 78                        | 7,746,153                         | 477                       |
| 2001                  | 1,798,485                      | 83                        | 7,621,874                         | 484                       |
| 2002                  | 1,905,267                      | 87                        | 7,954,744                         | 502                       |
| 2003                  | 1,977,299                      | 88                        | 8,910,242                         | 517                       |
| 2004                  | 2,181,927                      | 88                        | 9,114,717                         | 526                       |
| 2005                  | 2,055,879                      | 90                        | 9,324,959                         | 531                       |
| 2006                  | 2,148,398                      | 94                        | 9,654,205                         | 563                       |
| % change<br>1996-2006 | 95%                            | 47%                       | 39%                               | 28%                       |

**Figure 2. Expenditures by Major Function as a Percent of Total Expenditures, Kansas County Average, 1996 and 2006**

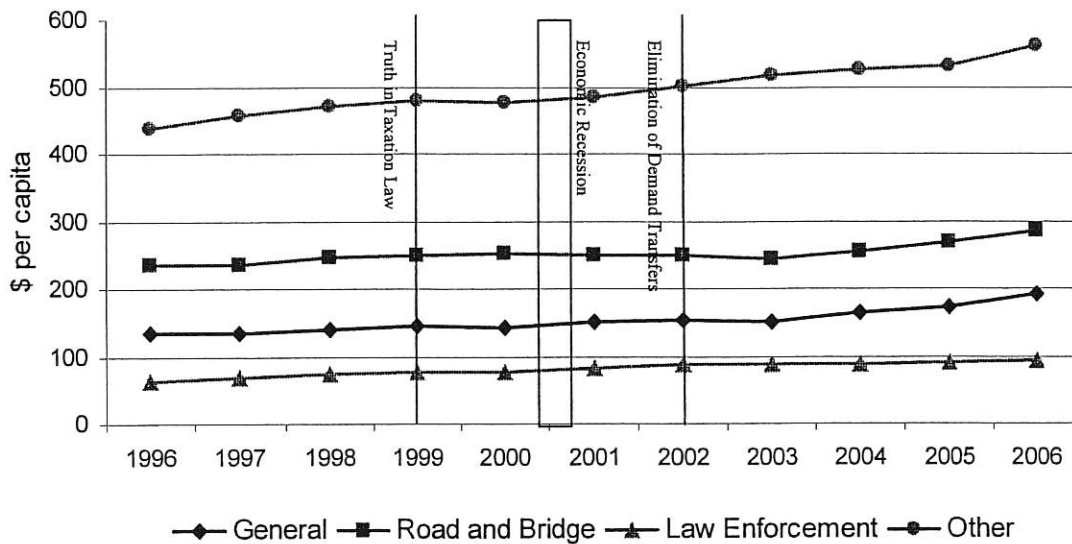
**1996**



**2006**



**Figure 3. Per Capita Expenditures by Major Category over Time**



Now we consider expenditure trends in the context of several major events that had potential to significantly affect county finances. The first was the elimination of the Aggregate Tax Levy Limitation and its replacement by Truth in Taxation in 1999. Second was the economic recession of 2001 which impacted both state and local revenues. Finally, in response to the recession, the state rescinded or reduced several state aid programs collectively known as Demand Transfers in 2001-02. Figure 3 shows the major expenditure categories together in the context of these major events. In the following figures (3a – 3d), each of the major expenditure categories are shown individually to allow scaling that will permit closer visual inspection of a significant shift in the trend lines.

The trend lines for both general government expenditures (3a) and road and bridge expenditures (3b) appear generally stable leading up to the elimination of demand transfers. Coming out of the economic slump of the early decade, they appear to increase somewhat more strongly. In contrast, growth in law enforcement expenditures (3c) has been strong throughout the decade as does the growth in everything else (other expenditures – 3d) county government does.

Figure 3a. Per Capita General Expenditures over Time

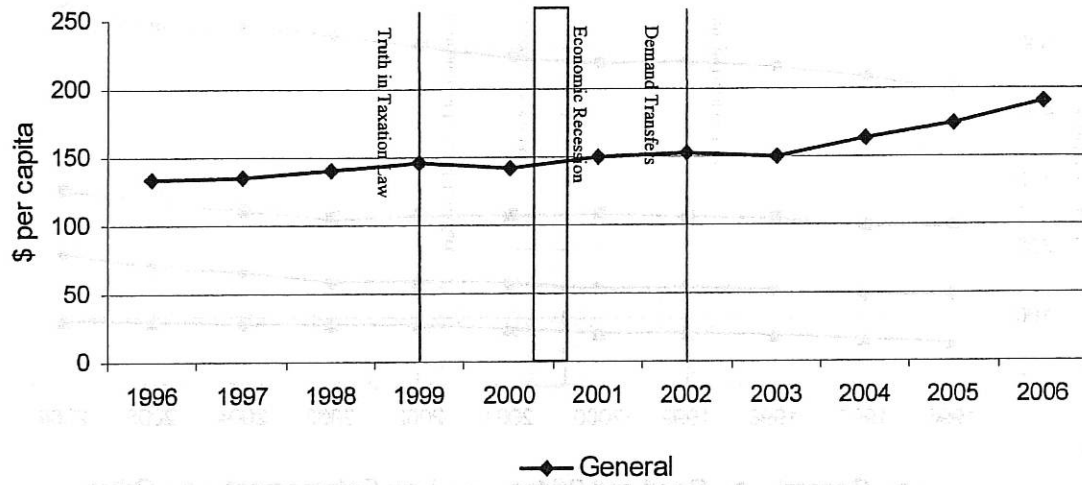


Figure 3b. Per Capita Road and Bridge Expenditures over Time

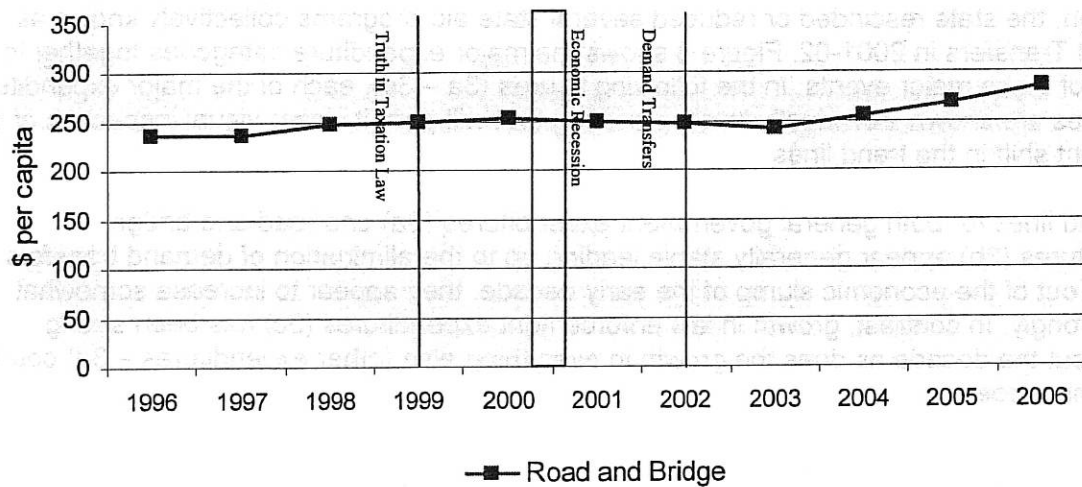




Figure 3c. Per Capita Law Enforcement Expenditures over Time

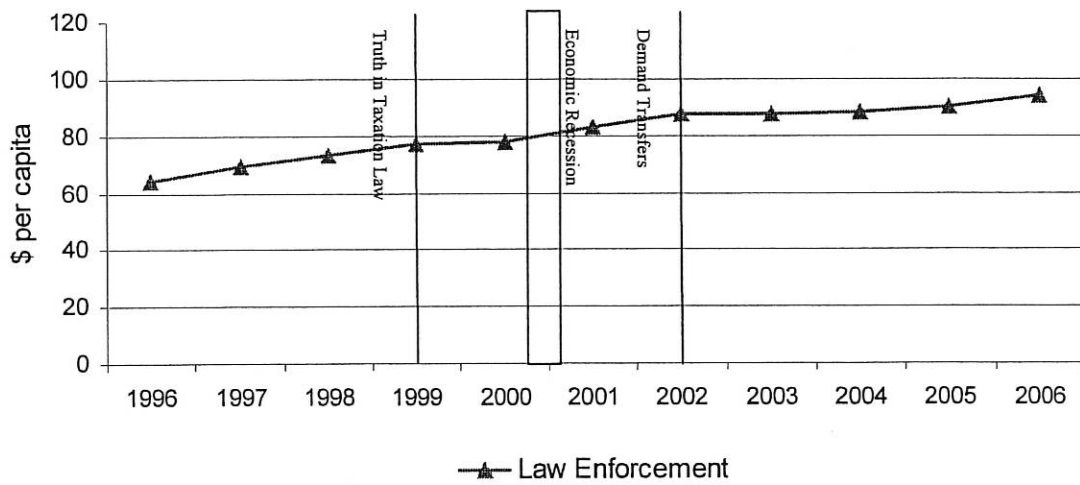
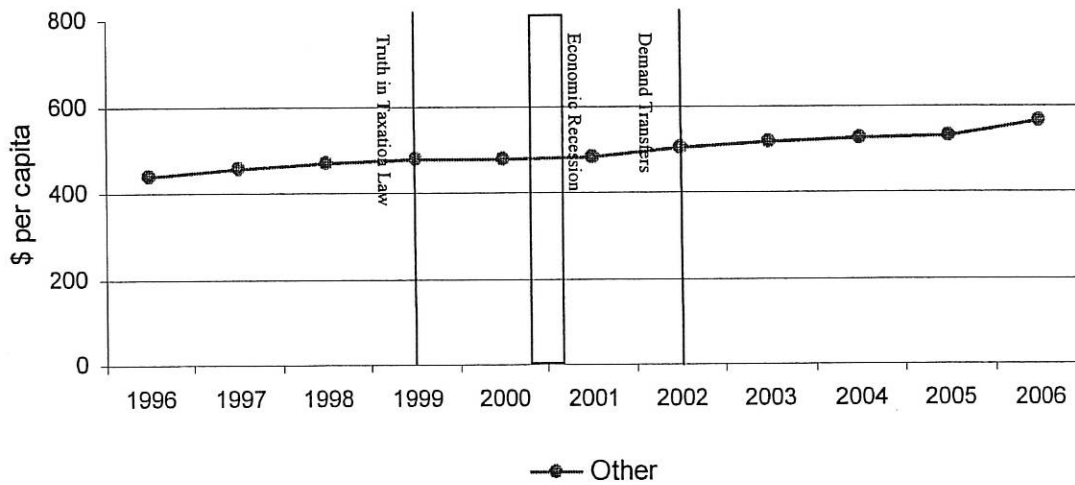


Figure 3d. Per Capita Other Expenditures over Time



## REVENUES

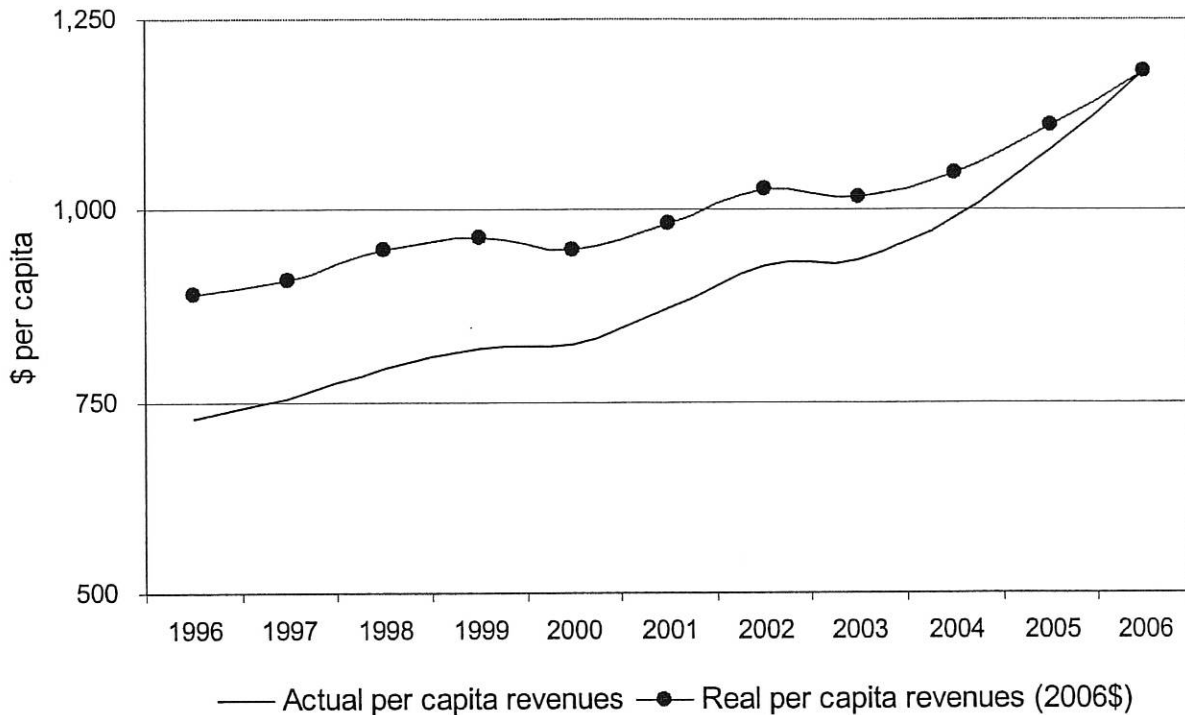
Total revenues can be considered a measure of the monetary resources available to the county to carry out its responsibilities. As with expenditures, county revenues have generally increased over the past decade. The composition of revenues, however, has shifted in many counties as general dissatisfaction with the property tax combined, in many cases, with declines in population, income, property values, retail sales, or state and federal funding has forced many counties to seek alternate sources of revenue and limit spending.

**Table 5. Total and per capita revenues, actual and real, Kansas county average 1996-2006**

| Year               | Total Revenues (actual\$) | Per Capita Revenues (actual\$) | Real Revenues (2006\$) | Real Per Capita Revenues (2006\$) |
|--------------------|---------------------------|--------------------------------|------------------------|-----------------------------------|
| 1996               | 10,598,586                | 727                            | 12,992,323             | 891                               |
| 1997               | 11,343,269                | 754                            | 13,674,671             | 909                               |
| 1998               | 11,897,174                | 793                            | 14,214,804             | 947                               |
| 1999               | 12,590,624                | 819                            | 14,797,129             | 963                               |
| 2000               | 12,722,231                | 826                            | 14,589,218             | 947                               |
| 2001               | 13,403,846                | 874                            | 15,055,596             | 981                               |
| 2002               | 14,536,554                | 927                            | 16,099,548             | 1,027                             |
| 2003               | 15,060,924                | 936                            | 16,355,687             | 1,016                             |
| 2004               | 15,939,109                | 991                            | 16,863,028             | 1,049                             |
| 2005               | 17,298,878                | 1,081                          | 17,778,554             | 1,111                             |
| 2006               | 19,056,760                | 1,182                          | 19,056,760             | 1,182                             |
| % change 1996-2000 | 20%                       | 14%                            | 12%                    | 6%                                |
| % change 2000-2006 | 50%                       | 43%                            | 31%                    | 25%                               |
| % change 1996-2006 | 80%                       | 63%                            | 47%                    | 33%                               |

Between 1996 and 2006, the Kansas county average total revenues, unadjusted for inflation, increased 80 percent. During the same period, the county's unadjusted per capita revenues increased 63 percent. In real, inflation-adjusted terms, the Kansas county average revenues (2006\$) increased 47 percent, and real per capita revenues increased from \$891 in 1996 to \$1,182 in 2006. Table 5 and Figure 4 summarize the Kansas county average actual and real revenues from 1996 to 2006.

**Figure 4. Per Capita Revenues, Actual and Real, Kansas County Average, 1996-2006**



### Real Revenues by Major Source

Property taxes, retail sales taxes, and demand transfers from the state are major revenue sources for many Kansas counties. Demand transfers are state aids distributed to local governments, and include Local Ad Valorem Tax Reduction (LAVTR), city/county revenue sharing, and special highway funds.

From 1996 to 2006, the Kansas average county real property tax revenues increased 49 percent and real per capita property tax revenues grew from \$493 to \$686. The Kansas average county's retail sales tax revenue increased 134 percent. Demand transfers declined 41 percent from 1996 to 2006, while per capita demand transfers decreased from \$89 to \$57. Table 6 and Figure 4 summarize the Kansas county average real total and per capita revenues by major source from 1996 to 2006.

Finally, we again present a snapshot look at how the revenue picture has changed between 1996 and 2006. Figure 5 shows the three main revenue sources together with all other revenues. Property tax revenue and other revenue are virtually equal shares of the total at 42 percent and 41 percent, respectively. These shares have remained very stable despite the overall real increase in revenues. The major shift that is observed is between sales tax revenue and demand transfers. While demand transfers have declined as a share of total, sales tax revenue increased from 8 percent of total revenue in 1996 to 13 percent in 2006.

**Table 6. Real total and per capita revenues by major source, Kansas county average 1996-2006**

| Year                  | Property Tax<br>(2006\$) | Per Capita<br>(2006\$) | Sales Tax <sup>a</sup><br>(2006\$) | Per Capita<br>(2006\$) |
|-----------------------|--------------------------|------------------------|------------------------------------|------------------------|
| 1996                  | 5,491,239                | 493                    | 1,058,242                          | 34                     |
| 1997                  | 5,592,178                | 495                    | 1,178,350                          | 36                     |
| 1998                  | 5,923,541                | 522                    | 1,297,003                          | 38                     |
| 1999                  | 6,066,055                | 526                    | 1,362,407                          | 39                     |
| 2000                  | 6,341,295                | 525                    | 1,398,244                          | 40                     |
| 2001                  | 6,626,482                | 554                    | 1,428,598                          | 41                     |
| 2002                  | 7,151,726                | 599                    | 1,385,405                          | 40                     |
| 2003                  | 7,330,116                | 613                    | 1,415,818                          | 39                     |
| 2004                  | 7,681,852                | 634                    | 1,577,529                          | 45                     |
| 2005                  | 7,802,880                | 657                    | 1,867,680                          | 48                     |
| 2006                  | 8,157,130                | 686                    | 2,476,058                          | 54                     |
| % change<br>1996-2006 | 49%                      | 39%                    | 134%                               | 57%                    |

<sup>a</sup> Sales tax includes only county general purpose and/or dedicated sales taxes, not those levied by the state or other municipalities.

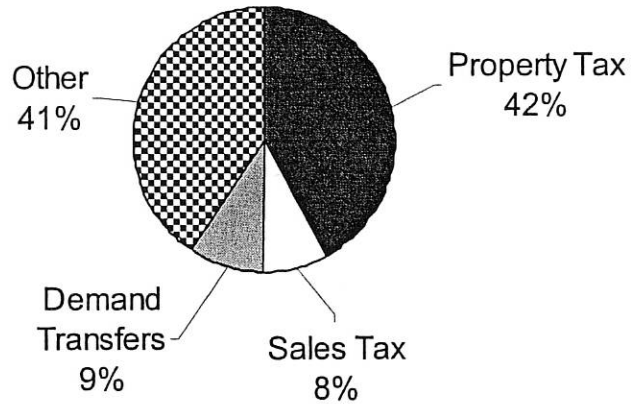
**Table 6B. Real total and per capita other revenues  
Kansas county average 1996-2006**

| Year                  | Demand Transfers <sup>b</sup><br>(2006\$) | Per Capita<br>(2006\$) | Other Revenues<br>(2006\$) | Per Capita<br>(2006\$) |
|-----------------------|---|------------------------|----------------------------|------------------------|
| 1996                  | 1,167,136                                 | 89                     | 5,275,706                  | 275                    |
| 1997                  | 1,175,033                                 | 89                     | 5,729,110                  | 289                    |
| 1998                  | 1,209,816                                 | 91                     | 5,784,444                  | 296                    |
| 1999                  | 1,265,264                                 | 94                     | 6,103,402                  | 304                    |
| 2000                  | 1,296,608                                 | 94                     | 5,553,071                  | 288                    |
| 2001                  | 1,262,239                                 | 90                     | 5,738,277                  | 296                    |
| 2002                  | 1,128,301                                 | 85                     | 6,434,116                  | 302                    |
| 2003                  | 695,381                                   | 59                     | 6,914,372                  | 305                    |
| 2004                  | 700,492                                   | 59                     | 6,903,155                  | 311                    |
| 2005                  | 706,249                                   | 59                     | 7,401,746                  | 347                    |
| 2006                  | 685,653                                   | 57                     | 7,737,918                  | 384                    |
| % change<br>1996-2006 | -41%                                      | -36%                   | 47%                        | 40%                    |

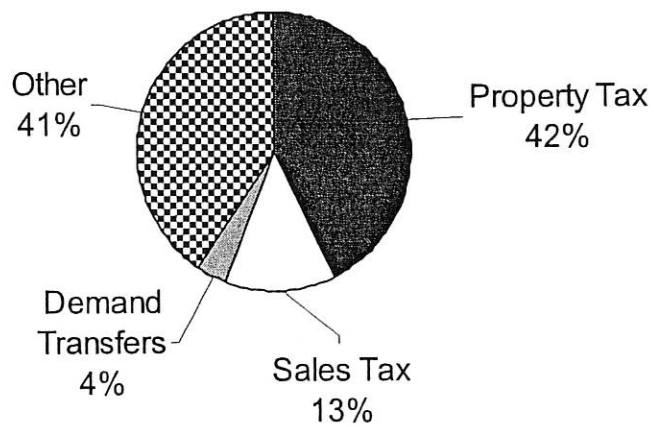
<sup>b</sup> Demand transfers include City/County Revenue Sharing, Local Ad Valorem Tax Reduction (LAVTR), and Special Highway Aids.

Figure 5. Revenue by Major Function as a Percent of Total Revenues, Kansas County Average, 1996 and 2006

1996

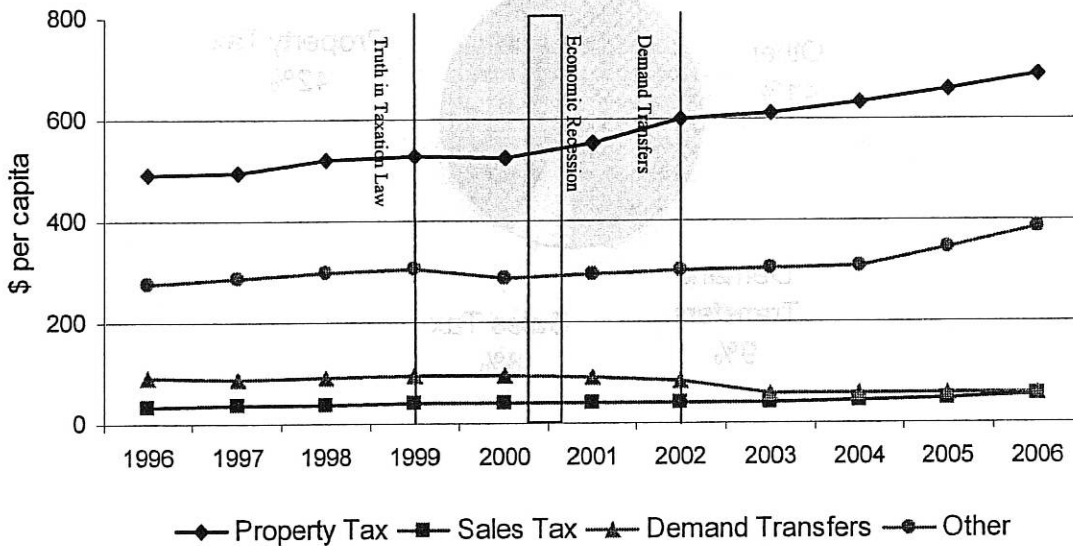


2006



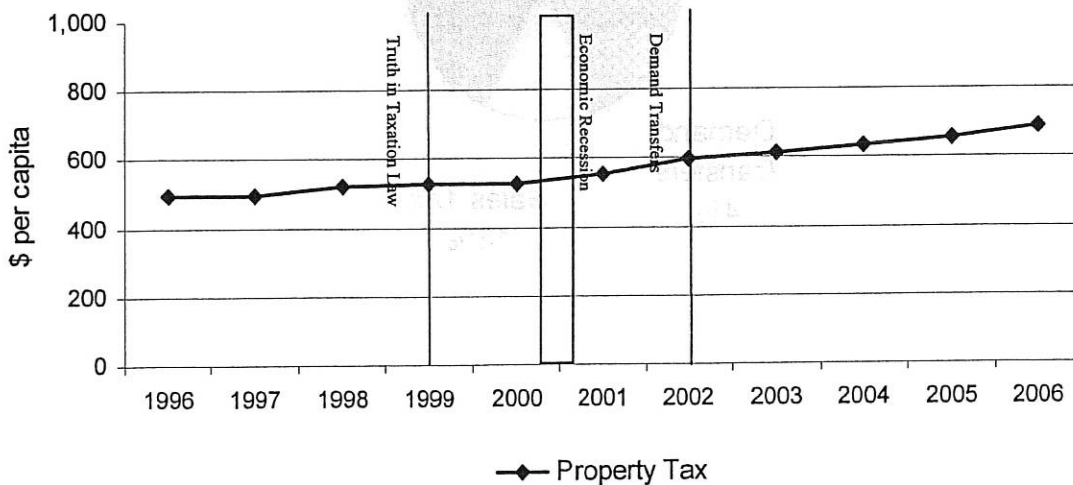
Again, we consider revenue trends in context together with change in the levy limitation law, the recession and the reduction in demand transfers. Figure 5 shows trend lines together, while Figures 5a – 5d show each of the revenue sources individually.

**Figure 6. Per Capita Revenues by Major Category over Time**



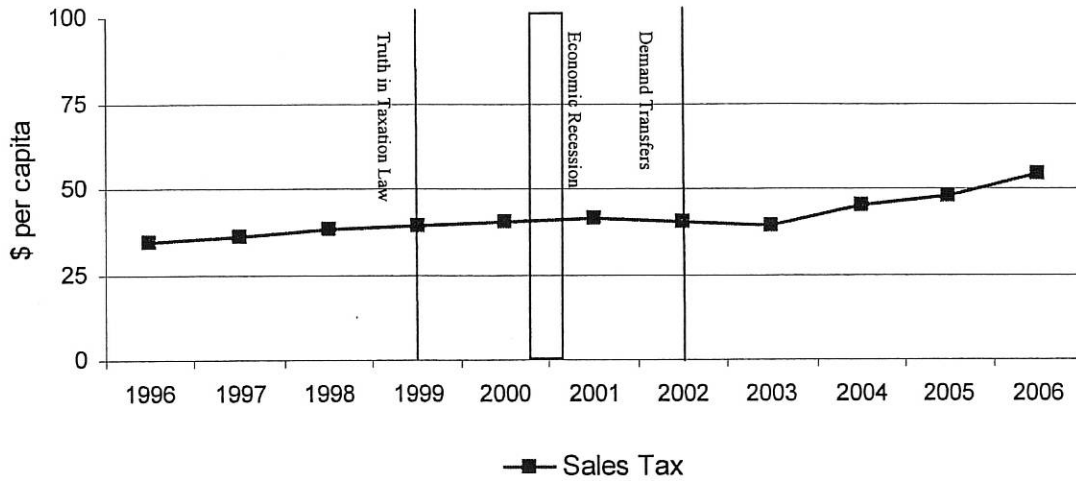
Property tax revenue has shown a relatively steady rate of increase throughout the decade, almost regardless of the shifts in state policy and national economic performance. The growth trajectory may have increased slightly coming out of the economic downturn in 2001.

**Figure 6a. Per Capita Property Tax Revenue over Time**



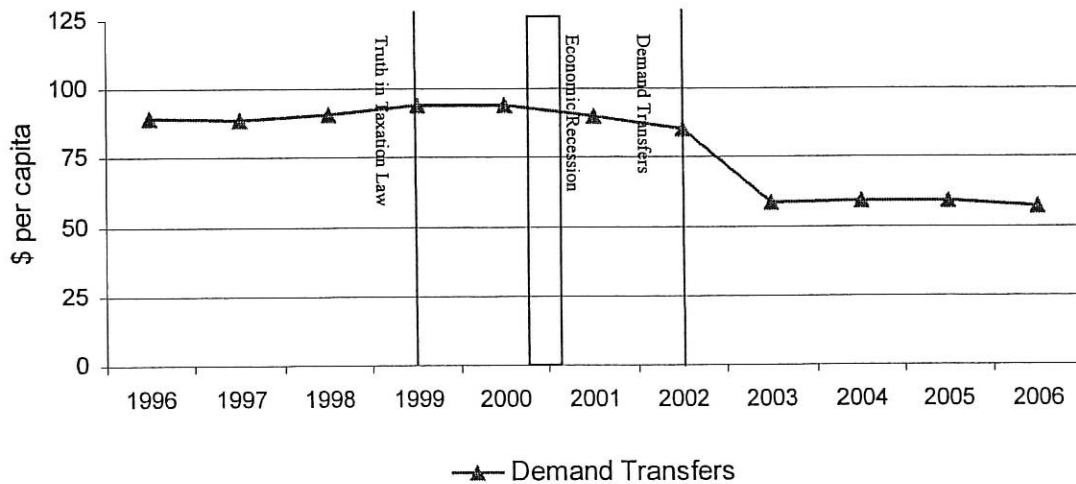
Sales tax revenue, perhaps more than other revenue sources has grown most strongly in real terms. Sales taxes are among the most frequently used alternatives to the property tax.

**Figure 6b. Per Capita Sales Tax Revenue over Time**



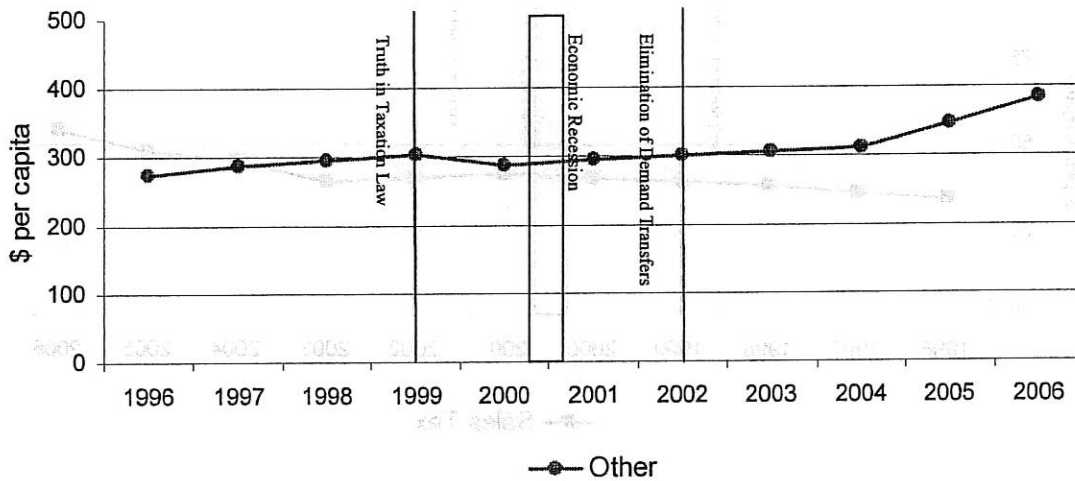
The impact of the changes in demand transfer revenue is clearly seen in Figure 6c. This no doubt partially explains the trajectory of other trend lines as county officials seek alternative revenues.

**Figure 6c. Per Capita Demand Transfer Revenue over Time**



Other revenues represent all other means by which counties raise capital. In the recent past, 2004 to 2006, they appear to have grown sharply.

**Figure 6d. Per Capita Other Revenue over Time**



### User Fees

User fees are an increasingly important source of revenue for county governments. Data from the 2002 Census of Governments indicates that between 1987 and 2002, county government user charges more than tripled from \$15 billion to \$47 billion. By 2002, user fees accounted for 18 percent of total U.S. county revenue and 25 percent of total Kansas county revenue.

User fees have been a source of county revenue in Kansas for some time. State law requires the use of some user fees (i.e., motor vehicle and mortgage registration fees). Others are determined on a per use basis, though rates are often restricted by law (i.e., utility charges and solid waste tipping fees). Kansas counties are increasingly applying user fees to such “nonessential” local government services as parks and recreation, libraries, and public transportation, where they have more flexibility setting rates.

While somewhat limited in scope, user fees do offer counties another revenue source within their control. Plus, by charging only the beneficiaries of a service, fees provide an alternative to the often unpopular property tax.



## LOCAL FISCAL POLICY

Local financial management is becoming increasingly complex. The responsibilities of local governments continue to grow, while public service expectations remain high. This challenges governments to raise sufficient revenues while controlling their expenditures.

### Revenues

Four major revenue sources are within local control: property taxes, sales taxes, user fees, and intergovernmental transfers and aids. Each presents its own challenges.

Kansas county governments remain highly dependent on property taxes as a revenue source. But, increasing public dissatisfaction with the property tax is forcing counties to find other ways to fund local services.

Imposing or increasing a local sales tax is often greeted with opposition from citizens and the local business community based on fears that it may adversely affect retail competitiveness. Combining the sales tax with efforts to foster a healthy environment for business activity may reduce opposition and benefit county revenue by boosting both retail sales and sales tax revenues.

While their use is still somewhat limited, user fees are becoming an increasingly important revenue source for Kansas counties. As user fees apply to only the beneficiaries of a service, they can be a fair and efficient way to finance public services. Of course, there must always be a distinction between services subject to user fees and those that should be available to all citizens regardless of their ability to pay.

Many intergovernmental transfers and aids are formula-based, but others rely on local initiative. Grant funds are often available from the state and federal government for communities that go through an application process. Such applications, however, typically require a serious commitment of local resources and, if successful, provide funding for only a limited period of time.

Generally, a local government should use a revenue mix that provides adequate, stable funding without placing an unfair burden on any particular group. There is no universally optimal mix, however. It depends on local needs, preferences, and resources. The following should be considered when evaluating local revenue sources:

- Adequacy: Is the revenue source regular, reliable, and not susceptible to economic change?
- Adaptability: Can rates be easily adjusted to meet changing needs and avoid shortfalls?
- Administrative ease and economy: Is it simple and inexpensive to administer?
- Economic effects: How does it affect local resource use and growth?
- Social acceptability: How do citizens and businesses perceive the tax?
- Fairness: Does it treat people uniformly and conform to social definitions of fairness, such as ability-to-pay? Do those who benefit the most pay the most?

## Expenditures

Controlling expenditures is also an important component of local fiscal policy, as it helps keep taxes low. It should, however, be done with the level of service local government wants to provide in mind. Performance standards provide a means for local governments to ensure that a given level of expenditure is accomplishing their goals. Several strategies for controlling local expenditures are outlined below.

Cutting spending is, perhaps, one of the more obvious means of controlling expenditures. It is often very difficult, however, because it generally means reducing or eliminating services for certain constituents and inevitably affects local government employees. Some options include:

- Cutting programs across-the-board
- Cutting programs selectively
- Subcontracting operations, services, and programs
- Offering early retirement
- Reducing work hours
- Redefining departments and jobs
- Increasing worker productivity through training and technology

Counties, at times, attempt to reduce current spending by delaying infrastructure maintenance. This method generally proves ineffective, however, as rebuilding or replacing infrastructure is typically far more costly in the long-term than regular maintenance.

Changing the way services are provided is another means of controlling local expenditures. Privatizing services may make sense, but should be done only after careful study. Other alternatives include: public-private partnerships, collaborating with other units of local government, consolidating, and using local volunteers. While these strategies can be very effective, they require careful planning and feasibility analysis.

Long-term planning during budgeting can also help local governments control their expenditures. Planning means anticipating future needs, the timing of expenditures, and the total cost of projects and is particularly important for new development and capital expenditures. A capital improvements plan is often used to anticipate the order, timing, and financing of capital expenditures.

Effectively using debt is another strategy for controlling local government expenditures. Governments use debt primarily for long-term infrastructure investment. This amortizes costs over the life of the investment, reducing the immediate financial burden and allowing future beneficiaries to pay their fair share. Debt should never be used to reduce current property taxes. Financial advisors are available to assist local governments in their use of debt.

## **Fiscal Management**

To be effective, fiscal management must be a regular part of local government operations. Tracking monthly revenues and expenditures is vital. Regular monitoring and immediate action throughout the year will reduce budgetary stress. Investing idle funds where they yield the greatest return is appropriate as long as the investments are safe and funds available when needed. Fiscal impact studies can help avoid unexpected costs. These studies anticipate all costs (direct and indirect) associated with a project. Perhaps most importantly, policymakers should regularly and formally discuss fiscal issues, evaluate current policy, and consider policy alternatives. A proactive, long-term approach helps to ensure quality services, low taxes, and fiscal stability for current and future generations.

## **CONCLUSION**

Generally, Kansas counties are fiscally sound. Many factors affecting fiscal management and performance are largely beyond local control, including changes in demographics, economic conditions, state and federal mandates, and public needs and preferences. This report, however, provides a starting point for thoughtful discussion on matters that are within local control. Understanding conditions and trends is important for evaluating past performance and planning for the future. This information, combined with knowledge of the local situation, provides a basis for improving county fiscal management and performance.

The primary objective of this study is to identify the factors that influence the fiscal performance of local governments in Kansas. The study will focus on the relationship between county population and fiscal performance. The study will also examine the impact of state and federal mandates on local government finances. The study will provide a comprehensive overview of the fiscal management practices of local governments in Kansas.

## APPENDIX 1

### SUMMARY TABLES BY COUNTY POPULATION CATEGORY

This appendix contains summary tables for each county population category. The tables provide a detailed analysis of the fiscal performance of local governments in each category. The tables include information on revenue sources, expenditures, and debt. The tables also provide a comparison of the fiscal performance of local governments in each category to the overall average for all local governments in Kansas.

**Appendix Table 1. 2006 Summary Comparisons among Counties with less than 5,000 Population**

| <b>Size Category (36 Counties)</b>     | <b>Range Minimum</b> | <b>Range Maximum</b> | <b>Median</b> |
|--|----------------------|----------------------|---------------|
| <b>Ability to Pay</b>                  |                      |                      |               |
| Per Capita Tangible Assessed Valuation | 6,055                | 64,077               | 14,495        |
| Per Capita Personal Income             | 19,849               | 34,830               | 26,835        |
| <b>Expenditures</b>                    |                      |                      |               |
| Per Capita Total Expenditures          | 886.06               | 3,934.14             | 1,420.03      |
| Per Capita General Expenditures        | 133.54               | 1,623.39             | 223.38        |
| Per Capita Street Expenditures         | 218.59               | 714.18               | 382.40        |
| Per Capita Public Safety Expenditures  | 24.48                | 242.92               | 108.56        |
| Per Capita Other Expenditures          | 386.63               | 2,343.63             | 638.95        |
| <b>Revenues</b>                        |                      |                      |               |
| Per Capita Total Revenues              | 909.50               | 3,598.30             | 1,427.68      |
| Per Capita Property Tax Revenues       | 532.33               | 2,528.87             | 897.89        |
| Per Capita Sales Tax Revenues          | 0.00                 | 154.65               | 46.13         |
| Per Capita Demand Transfer Revenues    | 53.29                | 136.29               | 82.98         |
| Per Capita Other Revenues              | 230.67               | 1,996.42             | 397.14        |

**Appendix Table 2. 2006 Summary Comparisons among Counties with 5,000 to 10,000 Population**

| <b>Size Category (28 Counties)</b>     | <b>Range Minimum</b> | <b>Range Maximum</b> | <b>Median</b> |
|--|----------------------|----------------------|---------------|
| <b>Ability to Pay</b>                  |                      |                      |               |
| Per Capita Tangible Assessed Valuation | 7,116                | 63,370               | 9,327         |
| Per Capita Personal Income             | 23,703               | 33,002               | 27,195        |
| <b>Expenditures</b>                    |                      |                      |               |
| Per Capita Total Expenditures          | 650.77               | 2,662.20             | 1,013.68      |
| Per Capita General Expenditures        | 88.65                | 475.98               | 132.68        |
| Per Capita Street Expenditures         | 149.41               | 632.20               | 284.84        |
| Per Capita Public Safety Expenditures  | 45.94                | 270.03               | 86.51         |
| Per Capita Other Expenditures          | 251.64               | 1,383.50             | 460.00        |
| <b>Revenues</b>                        |                      |                      |               |
| Per Capita Total Revenues              | 692.10               | 3,689.28             | 1,020.31      |
| Per Capita Property Tax Revenues       | 335.45               | 2,443.78             | 551.77        |
| Per Capita Sales Tax Revenues          | 0.00                 | 140.86               | 54.01         |
| Per Capita Demand Transfer Revenues    | 40.67                | 78.47                | 53.63         |
| Per Capita Other Revenues              | 186.30               | 2,477.97             | 306.82        |

**Appendix Table 3. 2006 Summary Comparisons among Counties with 10,001 to 30,000 Population**

| Size Category (23 Counties)            | Range Minimum | Range Maximum | Median |
|--|---------------|---------------|--------|
| <b>Ability to Pay</b>                  |               |               |        |
| Per Capita Tangible Assessed Valuation | 4,884         | 19,191        | 6,971  |
| Per Capita Personal Income             | 23,529        | 40,095        | 27,402 |
| <b>Expenditures</b>                    |               |               |        |
| Per Capita Total Expenditures          | 390.10        | 1,107.16      | 645.97 |
| Per Capita General Expenditures        | 70.67         | 251.68        | 123.09 |
| Per Capita Street Expenditures         | 73.32         | 334.11        | 160.95 |
| Per Capita Public Safety Expenditures  | 22.06         | 126.35        | 57.26  |
| Per Capita Other Expenditures          | 166.19        | 537.09        | 323.01 |
| <b>Revenues</b>                        |               |               |        |
| Per Capita Total Revenues              | 414.43        | 1,221.58      | 677.16 |
| Per Capita Property Tax Revenues       | 206.90        | 479.59        | 329.04 |
| Per Capita Sales Tax Revenues          | 0.00          | 137.25        | 61.52  |
| Per Capita Demand Transfer Revenues    | 28.50         | 53.01         | 38.48  |
| Per Capita Other Revenues              | 100.10        | 606.77        | 267.49 |

**Appendix Table 4. 2006 Summary Comparisons among Counties with 30,001 to 70,000 Population**

| Size Category (13 Counties)            | Range Minimum | Range Maximum | Median |
|--|---------------|---------------|--------|
| <b>Ability to Pay</b>                  |               |               |        |
| Per Capita Tangible Assessed Valuation | 5,776         | 12,034        | 6,517  |
| Per Capita Personal Income             | 23,839        | 33,986        | 29,102 |
| <b>Expenditures</b>                    |               |               |        |
| Per Capita Total Expenditures          | 411.96        | 1,023.11      | 514.94 |
| Per Capita General Expenditures        | 58.44         | 139.36        | 79.16  |
| Per Capita Street Expenditures         | 64.33         | 459.52        | 84.95  |
| Per Capita Public Safety Expenditures  | 35.38         | 104.08        | 49.73  |
| Per Capita Other Expenditures          | 202.31        | 418.45        | 271.42 |
| <b>Revenues</b>                        |               |               |        |
| Per Capita Total Revenues              | 405.02        | 836.05        | 528.41 |
| Per Capita Property Tax Revenues       | 190.36        | 417.66        | 240.71 |
| Per Capita Sales Tax Revenues          | 0.00          | 111.61        | 53.81  |
| Per Capita Demand Transfer Revenues    | 14.63         | 43.54         | 26.72  |
| Per Capita Other Revenues              | 141.47        | 312.44        | 203.12 |

**Appendix Table 5. 2006 Summary Comparisons among Counties  
with Over 70,000 Population**

| <b>Size Category (4 Counties)</b>      | <b>Range<br/>Minimum</b> | <b>Range<br/>Maximum</b> | <b>Median</b> |
|--|--------------------------|--------------------------|---------------|
| <b>Ability to Pay</b>                  |                          |                          |               |
| Per Capita Tangible Assessed Valuation | 7,247                    | 13,892                   | 8,266         |
| Per Capita Personal Income             | 29,251                   | 50,758                   | 33,093        |
| <b>Expenditures</b>                    |                          |                          |               |
| Per Capita Total Expenditures          | 411.67                   | 714.42                   | 641.48        |
| Per Capita General Expenditures        | 81.56                    | 152.34                   | 89.94         |
| Per Capita Street Expenditures         | 19.87                    | 74.83                    | 36.11         |
| Per Capita Public Safety Expenditures  | 58.92                    | 129.17                   | 74.90         |
| Per Capita Other Expenditures          | 210.72                   | 460.35                   | 361.85        |
| <b>Revenues</b>                        |                          |                          |               |
| Per Capita Total Revenues              | 449.45                   | 849.68                   | 655.93        |
| Per Capita Property Tax Revenues       | 210.26                   | 297.20                   | 244.82        |
| Per Capita Sales Tax Revenues          | 38.82                    | 223.62                   | 45.27         |
| Per Capita Demand Transfer Revenues    | 8.15                     | 23.68                    | 10.67         |
| Per Capita Other Revenues              | 118.19                   | 405.13                   | 311.76        |