

Local Ad Valorem Tax Reduction Fund (LAVRTF)

Sn. Assmnt & Tax
3-8-12

Attachment # 1

Current Law:

- Statutory transfers suspended: Two transfers to this fund occur each year on January 15 and July 15. However, all transfers were statutorily suspended for fiscal years 2009, 2010, 2011, 2012, and 2013.
- Statutory transfers begin in fiscal year 2014: Two transfers of \$13.5 million each for an annual total of \$26 million.
- Statutory transfers for fiscal year 2015: Two transfers of \$20.25 million each for an annual total of \$40.5 million.
- Beginning in fiscal year 2016 and all years thereafter, transfers will be \$27 million each, for an annual total of \$54 million.

Below is a comparison of the current LAVTRF statute (K.S.A. 79-2959) and Senate Bill 409. In both current law and Senate Bill 409, the dollar amount of the fiscal year 2016 transfer will be the amount transferred in each future fiscal year.

Year	Current Law	Senate Bill 409
FY 2013	\$0	\$45M
FY 2014	\$26M	\$45M
FY 2015	\$40.5M	\$45M
FY 2016	\$54M	\$45M
Total	\$120.5M	\$180M

SALES TAX RESIDUE AND LOCAL AD VALOREM TAX REDUCTION FUND*
In Thousands

Fiscal Year	Amount Expend. or Transfer	Basis of Expenditure or Demand Transfer and Comments
1938	\$ 4,700	When sales and use taxes were enacted in 1937, earmarked for local property tax relief was the "residue" in the Retail Sales Tax Fund after demands were met for school aid, public welfare, and certain other purposes, with the distribution made in June. This residue increased from \$4.7 million in FY 1938 to \$13.8 million in FY 1946.
1946	13,800	
1947-1957	12,500	The 1947 Legislature froze the distribution from the Retail Sales Tax Fund at \$12.5 million, eliminating the residue concept, but with the distribution still made in June of each year.
1958	--	The 1958 Legislature (Special Session) delayed the FY 1958 distribution to FY 1959 and provided for a double distribution in FY 1959.
1959	25,000	
1960-1964	12,500	No change in the policy of \$12.5 million each fiscal year.
1965	--	The 1964 Legislature changed the distribution from 100 percent in June to equal payments in September and April, so there was no distribution in FY 1965. This did not result in a loss of property tax reduction aid to local units for the 1965 tax levy year.
1966-1970	12,500	The Retail Sales Tax Fund was abolished in 1965 and the \$12.5 million (half in September and half in April) was made a demand transfer (expenditure) from the State General Fund to the Local Ad Valorem Tax Reduction Fund (LAVTRF).
1971	15,171	The 1970 Legislature earmarked 10 percent of sales and use taxes and all of the domestic insurance companies privilege tax for the LAVTRF.
1972	16,780	
1973	19,469	
1974	9,918	When the School District Equalization Act was passed in 1973, the earmarking of sales and use taxes for the LAVTRF was reduced from 10 percent to 4.5 percent and school districts were excluded from sharing in that fund except through the County Foundation Fund, but legislation enacted in 1974 eliminated the LAVTRF distribution to that county fund. (In FYs 1974-1976, 5.5 percent of sales and use taxes was earmarked for transfer to the State School Equalization Fund, which was abolished by the 1976 Legislature.) The 1973 law also changed the distribution from 50 percent in September and in April to 100 percent on January 15. In 1978, the earmarking of receipts from the domestic insurance companies privilege tax for the LAVTRF was eliminated due to creation of the County-City Revenue Sharing Fund.
1975	11,857	
1976	12,525	
1977	14,481	
1978	15,767	
1979	17,463	
1980	18,361	
1981	19,469	
1982	20,716	
1983	11,326	The 1983 Legislature changed the transfer to 50 percent on January 15 and on July 15 (which is current law), but this did not reduce what local units received from the LAVTRF in CY 1983. Also, the transfer statute was amended to specify that the transfer is to be based on sales and use taxes credited to the General Fund.
1984	22,367	Sales and use tax rates were increased from 3 percent to 4 percent effective July 1, 1986. No change was made in the percentage earmarked for transfer to the LAVTRF.
1985	23,701	
1986	24,555	
1987	26,937	
1988	30,844	General Fund transfers to the LAVTRF were reduced by 3.8 percent affecting one transfer in FY 1988, both transfers in FY 1989, and one transfer in FY 1990.
1989	33,576	
1990	35,326	
1991	37,164	No change from existing law.

Sales Tax Residue and Local Ad Valorem Tax Reduction Fund - 2 -

Fiscal Year	Amount Expend. or Transfer	Basis of Expenditure or Demand Transfer and Comments
1992	38,576	Transfers from General Fund to LAVTRF were reduced by 1.0 percent pursuant to Finance Council action on the Governor's recommendation.
1993	39,324	The 1992 Legislature reduced the transfers from the General Fund to the LAVTRF from 4.5 percent of sales and use taxes to 4.03 percent based on receipts in CY 1992 and to 3.63 percent based on receipts in CY 1993 and each year thereafter. This was done so that all of the additional revenue resulting from raising the sales and use tax rates and expanding the tax base would be dedicated to state aids for school districts under a new school finance plan enacted in 1992. In addition, the transfers in FY 1993 were reduced by 3 percent (in dollars).
1994	40,293	The transfers from the General Fund to the LAVTRF were reduced by 4 percent.
1995	44,649	No change from existing law.
1996	46,301	Transfers capped at 3.7 percent increase over FY 1995.
1997	46,949	Transfers capped at 1.4 percent increase over FY 1996.
1998	47,771	Transfers capped at 1.75 percent increase over FY 1997.
1999	55,122	Transfers capped at 2.4 percent increase over FY 1998.
2000	57,903	No change from existing law.
2001	54,137	Transfers reduced by 6.5 percent from the FY 2000 amount.
2002	54,681	Transfers capped at 1.0 percent increase over FY 2001. Treated as a revenue transfer.
2003	26,247	Transfers initially reduced by 4.0 percent from FY 2002 amount, but the second half payment was suspended in November 2002 pursuant to the FY 2003 SGF allotments. Treated as a revenue transfer.
2004	--	No transfers authorized.
2005	--	No transfers authorized.
2006	--	No transfers authorized.
2007	--	No transfers authorized.
2008	--	No transfers authorized.
2009	--	No transfers authorized.
2010	--	No transfers authorized.
2011	--	No transfers authorized.
2012	--	No transfers authorized.

* At one point in time, the former Retail Sales Tax Fund received all or a statutorily prescribed percentage of sales and compensating use, cereal malt beverage, and cigarette tax receipts, with variations from FY 1938 through FY 1965. Sales and use taxes were always the principal source.

Transfers from the General Fund to the Local Ad Valorem Tax Reduction Fund in a calendar year currently are based only on sales and use tax receipts credited to the General Fund in the preceding calendar year. The LAVTRF is allocated among the 105 counties, 65 percent on the basis of population and 35 percent on the basis of assessed tangible valuation. Within each county, its allocation is distributed to all property tax levying subdivisions (except school districts) based on their tax levies in the preceding year.

“We don’t have an income tax problem. We have a property tax problem.”

Senator Hensley
January 20, 2012

From *2011 Tax Facts* by Kansas Legislative Research Department

Prior to 1992 School Finance Law:

Property	38.7%
Sales	22.7%
Income	21.1%

FY 1998:

Property	30.9%
Sales	28.1%
Income	28.0%

FY 2011:

Property	35.1%
Sales	27.7%
Income	23.8%

From the *2011 State Business Tax Climate Index* by the Tax Foundation

Ranking: 1 = Best tax climate, 50 = Worst tax climate

(Score): Higher the score, the more favorable a state’s tax system is for business.

From the *2011 State Business Tax Climate Index* by the Tax Foundation (p. 29)

<u>Income Tax (p. 19)</u>		<u>Sales Tax (p. 24)</u>		<u>Property Tax (p. 29)</u>	
Kansas	21 (5.30)	Kansas	32 (4.07)	Kansas	41 (4.22)
Colorado	16 (6.41)	Colorado	29 (4.38)	Colorado	15 (5.85)
Missouri	25 (5.10)	Missouri	15 (5.03)	Missouri	11 (6.02)
Nebraska	31 (4.95)	Nebraska	17 (4.90)	Nebraska	24 (5.16)
Oklahoma	24 (5.10)	Oklahoma	42 (3.34)	Oklahoma	27 (5.02)
Texas	7 (8.59)	Texas	37 (3.73)	Texas	29 (4.96)

From the *2011 State Business Tax Climate Index* by the Tax Foundation (p. 29)

Top 10 High Property Tax States

- 1 Tennessee
- 2 Connecticut
- 3 New Jersey
- 4 Rhode Island
- 5 Wyoming
- 6 Ohio
- 7 Pennsylvania
- 8 Massachusetts
- 9 New York
- 10 Kansas

From *2011 Tax Facts* Kansas Legislative Research Department:

Economists generally believe that with a diversified revenue portfolio not relying too heavily on a single source, Kansas state and local governments are better able to withstand economic downturns. Indeed, the Governor's Tax Equity Tax Force in 1995 concluded as a major tax policy objective that:

The state and local tax system should be balanced and diversified. A diversified tax system offers a blend of economic tradeoffs. Because all revenue sources have their weaknesses, a balanced tax system will reduce the magnitude of problems caused by over reliance on a single tax source. It will also result in lower rates on each tax and reduce the pressure of competition from other states that have lower rates for a particular tax.

County Name	2010 Assessed Valuation	CY 2010 Population Census	LAVTRF Ratio	Distribution Amount \$45,000,000
Allen	92,184,204	13,371	0.00414	\$ 186,379
Anderson	69,627,288	8,102	0.00267	\$ 120,298
Atchison	124,992,180	16,924	0.00534	\$ 240,350
Barber	101,723,208	4,861	0.00232	\$ 104,236
Barton	242,343,325	27,674	0.00918	\$ 413,318
Bourbon	90,498,233	15,173	0.00453	\$ 203,951
Brown	116,699,454	9,984	0.00366	\$ 164,766
Butler	604,164,867	65,880	0.02219	\$ 998,506
Chase	39,767,941	2,790	0.00111	\$ 49,871
Chautauqua	27,800,149	3,669	0.00117	\$ 52,482
Cherokee	133,898,116	21,603	0.00651	\$ 293,082
Cheyenne	35,788,165	2,726	0.00105	\$ 47,086
Clark	46,390,018	2,215	0.00106	\$ 47,517
Clay	74,653,846	8,535	0.00283	\$ 127,425
Cloud	75,668,504	9,533	0.00307	\$ 138,199
Coffey	388,857,591	8,601	0.00658	\$ 296,138
Comanche	35,452,042	1,891	0.00085	\$ 38,346
Cowley	209,114,046	36,311	0.01076	\$ 484,093
Crawford	232,089,951	39,134	0.01167	\$ 525,321
Decatur	34,033,544	2,961	0.00108	\$ 48,557
Dickinson	172,863,658	19,754	0.00655	\$ 294,964
Doniphan	97,539,932	7,945	0.00297	\$ 133,616
Douglas	1,129,354,501	110,826	0.03867	\$ 1,740,162
Edwards	43,477,613	3,037	0.00121	\$ 54,387
Elk	19,999,882	2,882	0.00089	\$ 40,242
Ellis	350,463,181	28,452	0.01065	\$ 479,116
Ellsworth	69,042,181	6,497	0.00230	\$ 103,531
Finney	451,132,839	36,776	0.01374	\$ 618,292
Ford	248,087,673	33,848	0.01066	\$ 479,685
Franklin	207,921,841	25,992	0.00839	\$ 377,665
Geary	216,020,205	34,362	0.01040	\$ 467,805
Gove	51,859,280	2,695	0.00123	\$ 55,363
Graham	61,431,480	2,597	0.00132	\$ 59,478
Grant	277,410,333	7,829	0.00508	\$ 228,622
Gray	66,377,520	6,006	0.00216	\$ 97,072
Greeley	28,094,169	1,247	0.00062	\$ 27,809
Greenwood	52,972,936	6,689	0.00215	\$ 96,905
Hamilton	46,015,161	2,690	0.00116	\$ 52,187
Harper	68,184,304	6,034	0.00219	\$ 98,325
Harvey	246,364,371	34,684	0.01083	\$ 487,334
Haskell	206,910,825	4,256	0.00343	\$ 154,288
Hodgeman	36,357,997	1,916	0.00087	\$ 39,087
Jackson	88,268,584	13,462	0.00412	\$ 185,218
Jefferson	146,504,381	19,126	0.00610	\$ 274,429
Jewell	32,673,099	3,077	0.00109	\$ 49,019
Johnson	7,533,726,820	544,179	0.21351	\$ 9,607,935
Kearny	191,915,402	3,977	0.00319	\$ 143,409
Kingman	109,660,274	7,858	0.00309	\$ 139,206
Kiowa	87,972,605	2,553	0.00163	\$ 73,221
Labette	118,679,353	21,607	0.00633	\$ 284,984
Lane	54,354,171	1,750	0.00104	\$ 47,010
Leavenworth	574,565,655	76,227	0.02419	\$ 1,088,753
Lincoln	35,797,245	3,241	0.00116	\$ 52,371
Linn	156,916,861	9,656	0.00406	\$ 182,912

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Junty Name	2010 Assessed Valuation	CY 2010 Population Census	LAVTRF Ratio	Distribution Amount \$45,000,000
Logan	48,231,001	2,756	0.00120	\$ 54,048
Lyon	235,484,862	33,690	0.01047	\$ 471,325
Marion	106,929,609	12,660	0.00416	\$ 186,976
Marshall	117,848,243	10,117	0.00371	\$ 166,744
McPherson	314,643,521	29,180	0.01039	\$ 467,423
Meade	96,063,985	4,575	0.00218	\$ 98,278
Miami	354,662,166	32,787	0.01168	\$ 525,804
Mitchell	56,101,446	6,373	0.00212	\$ 95,339
Montgomery	367,973,681	35,471	0.01245	\$ 560,439
Morris	63,678,096	5,923	0.00211	\$ 94,777
Morton	135,055,658	3,233	0.00234	\$ 105,372
Nemaha	116,975,539	10,178	0.00371	\$ 166,903
Neosho	102,514,770	16,512	0.00498	\$ 224,105
Ness	71,528,034	3,107	0.00156	\$ 70,106
Norton	39,446,465	5,671	0.00176	\$ 79,235
Osage	124,446,432	16,295	0.00519	\$ 233,609
Osborne	35,038,060	3,858	0.00130	\$ 58,290
Ottawa	60,736,880	6,091	0.00211	\$ 94,927
Pawnee	58,452,223	6,973	0.00228	\$ 102,747
Phillips	49,356,500	5,642	0.00187	\$ 84,237
Pottawatomie	390,074,356	21,604	0.00956	\$ 430,095
Pratt	143,763,971	9,656	0.00391	\$ 175,878
Rawlins	29,202,724	2,519	0.00092	\$ 41,442
Reno	485,284,348	64,511	0.02046	\$ 920,894
Republic	46,051,122	4,980	0.00168	\$ 75,683
Rice	116,607,305	10,083	0.00368	\$ 165,732
Riley	502,681,281	71,115	0.02218	\$ 997,901
Rooks	83,412,757	5,181	0.00217	\$ 97,725
Rush	35,586,485	3,307	0.00118	\$ 52,935
Russell	96,025,120	6,970	0.00273	\$ 122,810
Saline	527,213,048	55,606	0.01893	\$ 852,023
Scott	80,051,362	4,936	0.00208	\$ 93,415
Sedgwick	4,280,704,962	498,365	0.16441	\$ 7,398,534
Seward	269,317,027	22,952	0.00843	\$ 379,334
Shawnee	1,478,394,567	177,934	0.05811	\$ 2,614,816
Sheridan	37,275,050	2,556	0.00103	\$ 46,139
Sherman	63,441,645	6,010	0.00212	\$ 95,543
Smith	31,844,450	3,853	0.00126	\$ 56,531
Stafford	78,117,292	4,437	0.00194	\$ 87,265
Stanton	72,324,308	2,235	0.00137	\$ 61,592
Stevens	270,478,446	5,724	0.00452	\$ 203,334
Sumner	178,346,691	24,132	0.00762	\$ 342,780
Thomas	85,947,723	7,900	0.00282	\$ 126,955
Trego	45,960,958	3,001	0.00123	\$ 55,346
Wabaunsee	67,636,647	7,053	0.00241	\$ 108,479
Wallace	26,827,193	1,485	0.00066	\$ 29,571
Washington	61,784,570	5,799	0.00206	\$ 92,493
Wichita	26,366,392	2,234	0.00082	\$ 37,004
Wilson	80,121,000	9,409	0.00310	\$ 139,309
Woodson	28,389,770	3,309	0.00109	\$ 49,107
Wyandotte	1,121,149,872	157,505	0.04921	\$ 2,214,324
Totals	29,450,212,617	2,853,118	1.00000	\$ 45,000,000

Formula states population makes up 65% and valuation 35% of the amount to the county.