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Testimony before the
House Committee on Taxation
on

HB 2047 – Property Tax Levies, Votes and Publication

by
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Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify on **HB 2047**. As we understand the bill, it would require the governing body of municipalities, including school districts, to approve by majority vote the expenditure of property taxes in amounts greater than the next preceding year, and to publish that vote in the official county newspaper. We believe the wording of section one should be amended to make that clear.

If that is the entire purpose of the bill, KASB does not have a significant objection. Our members vote every year for budgets that ***may*** increase revenues from property taxes, publish these budgets and hold public hearings. Votes to approve these budgets and expenditures are already public records. The primary impact of this bill would be to require districts to expend dollars for newspaper notices. We suggest public notice could be made more widely available at a lower cost by requiring the notice to be posted on the district's website, rather than in a newspaper.

However, as KASB has testified in the past, we do not believe the provisions of this bill should apply to school districts, because their funding system is substantially different from other local units of government. School district budgets and expenditures are almost entirely limited by the state, or already subject to local voter approval.

The largest part of school district budgets is the general fund. The only property tax revenue is the 20 mill statewide levy, which is exempted from requirements of this bill. The amount of revenue raised by the 20 mills has no impact on the district's budget. The district general fund is determined by multiplying the district's weighted enrollment by the base budget per pupil. Whatever is raised from the 20 mills is subtracted from that product, and the balance is the district's general state aid entitlement. In other words, the Legislature, not the local school board, determines the district general fund.

The next component is the local option budget, which is adopted as a percentage of the general fund. The Legislature has set the maximum LOB at 31 percent of the general fund, and any amount of LOB above 30 percent must be approved by a public vote. Because of the significant differences in taxable valuation per pupil, it would take many more mills for lower-wealth districts to raise the same percentage of LOB as higher wealth districts. As a result, the state created an aid program for the LOB to equalize mill levies. When a district adopts an LOB, it determines how much state aid (if any) it will receive, and then levies a property tax to make up the difference.

However, the state has frozen LOB state aid at the same level since 2009. As base state funding was reduced, districts not already at their limit increased use of the LOB by nearly $100 million statewide. Because the appropriation for LOB aid was not increased proportionately; state aid is prorated and many districts had to raise their mill levy simply to fund the same budget level as the previous year, even if they did not actually increase LOB spending. (Use of the LOB and local levies grew substantially in the late 2000s because the legislature increased the maximum LOB from 25percent to 31percent, and increased the base budget and weightings so that percentage is applied to a larger base amount.)

The next major mill levy for school districts is for bond and interest payments when voters approve issuing these construction bonds. We assume these funds would be exempt from **HB 2047** as well. It should be noted there is also a state aid program for bond payments, which provide over $100 million in assistance that would otherwise be shifted to the property tax.

The final major school district fund supported by a property tax levy is capital outlay, which is limited to eight mills. To adopt a capital outlay levy, the school board must publish a resolution specifying the maximum mill levy that will be imposed, which is subject to protest petition and must be renewed at least every five years. If protested, resolution goes to the public vote or is withdrawn. Because voters are allowed to protest or accept a specific levy, KASB believes this should be considered "voter approval" under section one of **HB 2047**, but we encourage the committee to make this clear. (Note: Following the *Montoy* school finance decision, the legislature created an aid program for capital outlay, but it was suspended in 2009. The three-judge panel in the *Gannon* case ruled earlier this month the capital outlay levy is unconstitutional unless the state restores equalization aid.)

Despite concerns about the growth of property taxes, we would note that total school district expenditures from all sources (state, local and federal) for all purposes (general operations, food service, debt service and retirement contributions) was 4.8 percent of total Kansas personal income in 2012, the same level it was in 1994 when the current school finance system was fully implemented. School district operating budgets only have dropped from 4.0 percent to 3.2 percent of personal income.

One of the major purposes of the new system was to reduce local property taxes. State aid as a share of total expenditures increased from 42.6 percent in 1992 to 59.5 percent in 1994, and was 58.2 percent of expenditures in 2009. However, state aid declined to 56.1 percent of total expenditures in 2012 as a result of several factors: (1) cuts in base state aid, leading to (2) increased use of local option budgets (3) without an increase in LOB state aid, (4) elimination of state capital outlay aid, and (5) voter approval of several very large bond issues around the state in 2008 and 2009. These factors were somewhat offset by increased state funding for KPERS school employee contributions.

We hope this illustrates school boards and their voters are really partners with the state in determining school budgets and mill levies. When state aid goes down, local levies go up.

Thank you for your consideration.