



Date: March 17, 2015

To: House Tax Committee

From: Larry R. Baer
Legal Counsel

Re: HB 2400
Testimony in Opposition

Thank you for allowing me to appear before you today and present testimony in opposition to HB 2400 on behalf of the League of Kansas Municipalities and our member cities.

Any discussion on the Local Ad Valorem Property Tax Reduction Fund (LAVTRF), demand transfers or revenue sharing needs to start with a historical perspective. Under current law the LAVTRF transfer to cities and counties is suppose to consist of 3.63% of state sales and use taxes. Revenue sharing in this manner dates back to the 1930s. The current framework was established in 1965 (Kansas Session Laws, Chapter 530, 1965). At that time a local share of certain cigarette revenue stamp taxes and cereal malt beverage taxes were incorporated into the state general fund. In lieu of that local option revenue a direct transfer was to be made into the LAVTRF. Thus, it is important to note that while this transfer is sometimes referred to as "state aid" in budget documents and other discussions, the history of the funds does not support this classification.

The LAVTRF has only been fully funded four times since 1991 and has not been funded at all since the second half of fiscal year 2003. This is a result of various budget and tax decisions made at the state level many, of which, are a direct result of the weak economy during the early and mid-2000s. Beginning in FY 2003, transfers from the State General Fund to the LAVTRF have been temporary suspended by appropriation bills. Under current law, the LAVTRF is scheduled to resume with \$54.0 million being transferred from the State General Fund in FY 2016 and in each future fiscal year. However, The FY 2016 Governor's Budget Report temporary suspends the LAVTRF transfers in FY 2016 and FY 2017. The bill would make the suspension of the LAVTRF transfers permanent beginning in FY 2016.

The League believes that long standing tax, budget and finance policies should not be altered or removed from law without a broad based study as to the purpose of the policy, the impact upon those subject to the policy and impact that may result if significant change is made to the policy. Policies, such as the LAVTRF, were crafted over time and repealing or making significant changes to them in one or two committee meetings does not seem to be good, sound public policy.

The League stands in opposition to HB 2400. However, we would be quite willing to work with the committee, or and interim committee, to study the LAVTRF.

Thank you.