



Date: March 7, 2016

To: Kansas House Committee on Taxation
Honorable Chair Marvin Kleeb
Honorable Vice Chair Gene Suellentrop

From: Richard U. Nienstedt, City Manager, City of Ottawa, Kansas
Scott D. Bird, Director of Finance, City of Ottawa, Kansas

Re: Support for HB 2609 - Tax Lid Bill

- The Tax Lid legislation adopted in the 2015 session needs further vetting.
- The Consumer Price Index (CPI) is not a valid measurement tool for municipalities.
- The Municipal Cost Index would be a better measurement for this purpose.
- The City of Ottawa, and others, have not seen increases in assessed valuation.
- At least some municipalities have lost revenue over the last 10 years.

Thank you for reexamining this issue, and allowing us the opportunity to provide testimony on behalf of the City of Ottawa, Kansas in support of HB 2609.

It is the respectful opinion of the writers of this testimony that the Tax Lid legislation as promulgated by the 2015 Session had several flaws. These flaws are in part a result of it being rushed through late in the 2015 legislative session, and due to the fact that it was not allowed to be fully vetted by those who deal directly with and more fully understand issues that concern municipal finance.

It appears the Tax Lid law was written partially based upon an assumption that the cost of local government should not rise faster than the increase of the Consumer Price Index (CPI). On the surface, and as a taxpayer, this logic would appear to make sense. That is, as the cost of goods increase for the taxpayer, it would seem logical that the same rate of increase would hold true to those entities that provide governmental services. However; as HB 2609 suggests, the CPI is not the best measurement for local government and a better measurement tool exists in the Municipal Cost Index (MCI). The MCI is a fixed weighted index using an average of the CPI-U (for urban consumers), the Producers Price Index and the Construction Cost Index.

The reason for this is that governmental entities are not ordinary consumers. While the CPI and MCI both measure inflation of consumer prices of goods, and while they are interrelated and each influences the other, they track the cost of consumption for two different groups. Governmental entities don't consume the same "market basket" of goods as the ordinary consumer, which is what the CPI is based upon. Wages and benefits are the largest operating costs for many local units of government. This is largely because local government provides services that are labor intense, e.g. police and fire protection, courts, streets, parks, planning, administration, IT, and clerical services. These types of services accounted for over 72% of the 2015 General Fund budget for the City of Ottawa.

Local units of government purchase few groceries. However, they do purchase special response vehicles and large machinery, which the ordinary consumer does not have need of. Some of this, of course, is highly specialized equipment such as fire and rescue vehicles, which are much more costly than the ordinary vehicle. For example; the cost of an average fire pumper can easily reach \$500,000. Police vehicles must be equipped differently than the common passenger car. Public Works has need for equipment specifically equipped for their needs; such as street sweepers, motor graders and dump trucks equipped to move snow and deal with icy roads. Again, the use of the CPI as a measurement for municipalities is flawed, and would unfairly restrict local units of government from meeting the needs of their citizens.

Another apparent misconception is the assumption that municipalities have reaped an unfair benefit of increased property valuation, which has grown their "coffers" year after year. This is not true for the City of Ottawa. Over

the last 10 years, the average increase in Assessed Value has been 1.6% per year. More startling for those of us who track this type of information for the City, is that over the last eight years Assessed Value for the City of Ottawa has actually decreased by a total of 3.8% or almost 1/2 of 1 percent per year. (See Chart 1).

Chart 1

Assessed value represents millions of U.S. Dollars

Budget Year	Assessed Value	Annual Change	10 Year Avg. Chg	8 Year Avg. Chg
2006	68,852			
2007	73,798	4,946	7.2%	
2008	83,659	9,861	13.4%	
2009	81,625	-2,034	-2.4%	-2.4%
2010	80,947	-678	-0.8%	-0.8%
2011	80,589	-358	-0.4%	-0.4%
2012	80,179	-410	-0.5%	-0.5%
2013	82,080	1,901	2.4%	2.4%
2014	80,619	-1,461	-1.8%	-1.8%
2015	80,149	-470	-0.6%	-0.6%
2016	80,478	329	0.4%	0.4%
Average			1.68%	-0.47%

Finally, please allow us to offer some history. Starting in 2002, Demand Transfers, funds promised to municipalities by state statute, were eliminated. For the City of Ottawa, that has cost over \$3.9 Million from 2002 through the 2016 budget year. That's approximately \$264,000/year or 3.3 taxing mills annually, which has had to be made up in other ways. Lost revenue has also resulted due to action that was taken in 2005, which eliminated property tax on machinery and equipment new to the State of Kansas. This has cost our city and county 60% over the last 10 years.

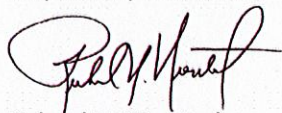
Summary

The above testimony is presented by two employees who have worked in municipal finance for a total of 60 years; 35 and 25 years respectfully. As previously stated, the 2015 tax lid legislation was premature in that it was not allowed to be fully vetted. While there is no one perfect measurement of inflation for local units of government, using the CPI for local government is less than accurate. The use of the MCI, as proposed by HB 2609 would be a much better measurement device for this purpose.

Finally, local governments are not necessarily reaping great benefits due to increased assessed valuation. In fact, some municipalities, like the City of Ottawa, have seen decreased Assessed Value partially due to the changes in machinery and equipment. With that being said, we are pleased to support HB 2609, which addresses the need for further study this issue, and offers possible solutions to the adopted 2015 legislation.

Thank you again for opportunity to present this written testimony.

Respectfully Submitted,



Richard U. Nienstedt
City Manager



Scott D. Bird
Director of Finance

CC: State Representatives Finch and Jones, State Senator Tyson, Mayor Skidmore, Commissioner Reed, Commissioner Caylor and Commissioner Graves