

Date: March 16, 2017
To: House Committee on Taxation
From: Erik Sartorius, Executive Director, League of Kansas Municipalities
Re: HB 2376 - Proponent

Mr. Chair and Members of the Committee, the League appreciates the opportunity to appear before you and offer testimony in support of House Bill 2376. Our member cities still strongly oppose the imposition of a tax lid on local governments. The entire framework was built with little concern for workability. The lid is contradictory to representative democracy, where duly-elected local public officials direct the functions of day-to-day governing, such as budgeting. (Just like yourselves as elected members of the Kansas Legislature.) Should a local tax lid remain in place, however, we believe we have found a solution that honors the legislature's intent while making the budget process more workable.

Late in the 2015 veto session, the tax lid on cities and counties was passed amidst efforts to find support for the largest tax increase in history by the Kansas legislature. No hearings were held on this legislation. Last year, the primary proponent of the tax lid, the Kansas Association of Realtors, brought forward legislation to move the implementation date from 2018 to 2016 and delete several exemptions to the lid. Eventually, the implementation date was moved to 2017, and many legislators supported the bill because it was better than forcing their cities into something two years earlier than they planned.

The League and others have been consistent in explaining to this and other committees, as well as to the proponents, that the election process created for this tax lid is going to be an expensive disaster. The timelines imposed by the tax lid are unrealistic for local governments to receive information on which to base their budgets. Several communities tell us they do not receive their data within the current deadlines they are supposed to receive it. However, without the tax lid, there is at least flexibility in the budget timeline to adapt should a delay arise.

The tight deadlines created by the tax lid statute mean communities will have to make guesses as to whether they will need to request an election. This will leave cities and the taxpayers on the financial hook for a costly election process – whether cities guessed right or not and whether taxpayers are already supportive of the increase. When the public budgeting process becomes a guessing game for our taxpayers, it will inevitably erode the public's trust in their elected officials and those who facilitate their community's budgeting process.

Rather than take 625 cities and 105 counties down this chaotic path, we introduced House Bill 2376. This legislation does not alter the tax lid law, only the election process. A protest petition driven election replaces the incomplete, mandatory election requirement with a structured process that is discretionary with the electors. If a protest petition is received by a governing body, the governing body would be permitted to either call an election to authorize a budget increase beyond the tax lid amount or adopt a budget that does not exceed the tax lid amount. This decision would be a direct response to the will of the citizens affected by any increase of property taxes.

The cost of elections under the tax lid statute deserves attention. Even if cities and counties are able to meet all the deadlines to utilize the mail ballot option within the statute, there will be a significant expense. An extremely conservative estimate is \$1.92 per ballot, with other estimates significantly higher (up to \$3.50 per ballot). Important to consider is that the cost of an election would at times approach that of the property tax increase identified by the governing body for the ballot. Local governments will be reluctant to bring forth spending needs, as rejection at the ballot box will result in no new authority as well as a loss of existing funds.

The tax lid, while purporting to save taxpayers "millions," will likely cost all of us more. The lid makes it more challenging for cities to save funds over the course of years for capital purchases, as all available dollars will likely be directed to existing budget needs. This reality will push cities to more frequently access the bond market, having taxpayers incur the cost (interest) of borrowing money. Further, the mere existence of a tax lid is something that causes bond rating agencies pause, as they become concerned about a municipality's ability to repay on the bonds. Several of our members have been told so by bond rating agencies in their most recent meetings. Lastly, on top of the implications of the state tax lid, the federal government is considering removal of the tax-exempt status of municipal bonds. All of these items coming together will create a perfect storm, with taxpayers and their communities being the victims.

As the League and others have shared over the years' long discussion of the tax lid, the Consumer Price Index has a poor connection to the costs that drive municipal budgets. For instance, health care costs over 2010-2015 years increased 27%, whereas CPI over that period was 9%. As an example, a smaller city in Kansas looked at their 2017 budget through the lens of the tax lid. They would have been allowed to receive \$700 more in property taxes than they did in 2016 - while their health care costs increased \$5,000.

As another example, Lindsborg has an ambulance due for replacement this year. In 2002, they paid \$107,000. Calculating the 2017 cost for this vehicle using CPI over that period would ballpark the cost around \$141,000. In the real world, the cost they are being quoted for that critical equipment is \$175,000. Cities across the state report similar disconnects between what they are paying for asphalt, equipment, and other inputs necessary to provide city services.

As we have visited with cities about the tax lid, we have had some describe its imposition as the starting pistol for the "race to mediocrity." Across the state, some cities seek to remain vibrant communities. Others, due to economic downturns, loss of large employers, or other challenges, have to work to reinvigorate themselves. To do so, they frequently invest public funds into infrastructure and other programs to set the stage for economic (re)development. Few of these initiatives are overnight successes and bear instantaneous fruit.

Over time, though, the investments made by cities do bear fruit. The road creating better highway access, the downtown streetscape improvements, the partnerships with universities and colleges to provide a skilled workforce tip the balances toward growth in the community. The imposition of the tax lid will make communities think long and hard about making these investments in the future. Will it be worth it to them to put issues on the ballot? What if opportunities come mid-year, and acting on them puts next year's budget in jeopardy? If your return on investment is going to be limited to 1.4% (the 2018 CPI budget multiplier), will you make investments that you know you will not recoup?

There are several alternatives to the tax lid as it exists; this is but one option. A full repeal, additional exemptions - such as for employee benefits and their difficult-to-predict increases - and a delay in implementation are all things that we have heard from members, the public, and legislators. All would be preferable to a system designed by proponents who have little interest in whether their creation actually works.

On behalf of the cities of Kansas, we thank you for the opportunity to appear before the committee today. We look forward to working with you to address the serious shortcomings of the tax lid concept