

To: Chairman Steven Johnson and House Taxation Committee
From: Erik Sartorius, Executive Director
Date: May 9, 2017
Re: Verbal and Written Supporting Testimony to House Bill 2424

Mr. Chair and Members of the Committee, the League appreciates the opportunity to appear before you and offer testimony in support of House Bill 2424. 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, our members feel strongly that an exemption for employee benefits should be added.

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.

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.

For this coming budget cycle, the CPI multiplier calculated by the Kansas Department of Administration is 1.4%. Meanwhile, CPI for health care in 2016 was 3.8% - 2.7 times greater than the growth allowed under the tax lid. A rolling, five-year average of the medical care CPI - similar to that used to calculate the tax lid CPI is 3%, which is still **more than double** the tax lid calculation.

The exemption language contained in HB 2424 is drawn directly from the previous tax lid that expired in 1999. The legislature has previously recognized that local governments have limited

control over their employee benefit costs, with many forced upon them by other levels of government. While cities look for innovative ways to control health care costs, and many require employees to bear a greater portion of such costs, the math is very difficult to overcome. Even with changes in their health plans and the establishment of wellness programs, increases of 15% to 30% annually have not been unusual.

It is true that Kansas has a significant number of local units of government – at least 3,837. Of those, 625 are cities and 105 are counties, or about 19% of the total. These are the only entities to which the tax lid applies. The other 81% are under no such constraint.

Proponents will tell you that cities and counties simply need to “become more efficient,” and that Kansas is bloated with local government. One of them had an article about this last week. What they do not focus on is that 65% of the employees considered “local government” under the U.S. Census definition are education workers (both K-12 and higher education). The remaining 35% is comprised of city and county employees, along with those from fire districts, groundwater management districts, watershed districts, recreation commissions, etc. Again, only cities and counties fall under the tax lid; even the state does not believe it is a policy that it should fall under.

There are several alternatives to the tax lid as it exists; this is but one option. Most 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 and request you to support the adoption of HB 2424 and send it to the full House for their approval.