



March 14, 2017

**To: Senator Caryn Tyson, Chair
Senate Committee on Assessment and Taxation**

From: City of Lenexa

Re: Written testimony in support of SB 167

Madam Chair:

Thank you for allowing the City of Lenexa to submit testimony supporting SB 167 which would repeal the local government tax lid.

The City of Lenexa supports the principle of local elected officials making the decisions that voters elected them to do. The principal duty of a city council member is to listen to, understand, and respond to community needs by passing a balanced budget each year and being accountable to the metrics and spending limits set forth in that budget. Placing unnecessary restrictions on the authority of locally elected officials to make these decisions is detrimental to representative democracy and is counter to the Home Rule authority granted to municipalities that is engrained in the state constitution.

The City supports a full repeal of the local government tax lid because there are several significant issues with the local government tax lid, including:

1. The property tax lid creates uncertainty for businesses and will stifle economic development.

- Businesses looking to make long-term commitments which are contingent upon public votes creates a lack of confidence in funding for programs, services, and economic development initiatives. This uncertainty has a chilling effect which suppresses growth. Many local developers have expressed concern that the property tax lid will negatively affect economic development. The uncertainty in this legislation will make it extremely difficult for the City to make commitments to private sector partners or to responsibly invest in economic development and job growth. In FY 2015, the Lenexa City Council levied a two mill budget increase to pay for the development of Ridgeview Road. This investment in the future of Lenexa is meant to help the private sector create hundreds of permanent and construction jobs in the community and will ultimately attract hundreds of millions in private investment to the community and to the state. The mill levy needed to



support the design and construction of this road may not have been raised were the tax lid in place.

2. Lenexa's triple-A bond ratings will face potential downgrades.

- The City's financial advisor has advised that municipal bond ratings would be negatively affected when the property tax lid takes effect. Regardless of the bond and interest exemption included in the legislation, a potential downgrade means cities will spend more taxpayer money on interest when financing projects. The City has worked diligently to achieve Triple-A bond ratings. To potentially have them downgraded despite sound fiscal management is problematic. To further exacerbate that issue, part of a municipality's bond rating is based on the state's credit rating. Given that the State of Kansas has had its bond rating downgraded several time in the past few years, the tax lid does not help local governments achieve the best interest rates when financing capital projects.

3. The exemptions removed from current law will inhibit the City's ability to effectively serve citizens.

- Two years ago, the City was content to see that three important exemptions, the bond and interest, new construction, and public safety provisions were preserved. However, excluding the provisions for new expenditures mandated by the state and any considerations for uncontrollable costs (i.e. health insurance) was particularly troublesome. Whether it is increased KPERs contributions or otherwise, compelling local governments to provide services without accompanying funds or hamstringing the ability of cities to meet contractual obligations is bad public policy. Having to wait for the results of a referendum to address these time-critical issues means that the City will likely have to fund these mandates and unforeseen expenses with cuts elsewhere or with emergency reserves – limiting the City's ability to provide the high quality services our citizens expect.

4. The city's budget will be determined by poor metrics.

- Structuring the tax lid around the consumer price index for all urban consumers (CPI-U) is not a realistic benchmark of tax revenue growth. The City does not purchase the same items urban consumers purchase. The CPI-U gauges increases in food, apparel, rent, etc. Local governments purchase items such as asphalt, snow plows, police cars, personnel services, and health care. These goods and services require a different metric. Rates of inflation for these items are much different than an individual consumer's "basket of goods." The Municipal Cost Index (MCI) is a more appropriate benchmark.

There are several fundamental issues with applying a property tax lid to responsible and effective local governments. The version of the property tax lid passed in 2015 was



unnecessary as local governments are consistently rated as the most responsive, effective, and efficient with tax dollars. The tax lid will not serve the long-term economic or fiscal interests of our community or the State of Kansas. Therefore, we support SB 167

and urge the committee members to support the repeal of the local government tax lid as well.

Sincerely,

CITY OF LENEXA