City of Manhattan Kansas

**Senate Committee on Assessment and Taxation**
**Hearing on SB 167**
**Hearing Date- March 16, 2017**

**Written Testimony in SUPPORT of SB 167 on behalf of the City of Manhattan**
**By Kiel Mangus, Assistant City Manager**

Good morning Chair Tyson, Vice Chair Kerschen and honorable members of the Senate Assessment and Taxation Committee. My name is Kiel Mangus, and I am the Assistant City Manager for the City of Manhattan.

**The City of Manhattan <u>SUPPORTS</u> SB 167.** The current property tax lid law on cities and counties, which will take effect on January 1, 2018, should be repealed. The tax lid diminishes our representative democracy of City Commissioners elected by citizens to make important fiscal decisions to meet the needs of our community. Financially, the tax lid strains the City of Manhattan's budget, especially in the General Fund. In the General Fund, it will be difficult to keep up with cost of living increases for employees, capital improvement projects, and increased operational costs necessary for a growing community while staying under the imposed limit. Below are few more reasons the City of Manhattan supports a repeal of the tax lid:

- **Structuring a tax lid around the CPI for all urban consumers is not a realistic assessment and ignores significant cost drivers in our municipal budget:**
    - Healthcare costs alone have far outpaced the CPI-U index. Every year from 2004, except for one, healthcare costs have increased at a percentage higher than the CPI-U.
    - The CPI-U does not apply to many of the goods and services a city purchases. For example, while oil and fuel prices are down significantly one of our cities major purchase is asphalt. We have only one supplier with NO competition and thus our prices to purchase have not fallen.
    - The CPI-U creates a ‘hard-to-meet inequity’ regarding state-mandated retirement systems (KPERs and KP&F) by allowing the state to underfund their portion of local retirement systems while increasing the annual rates of both retirement systems at the local level.

- **A property tax lid is not business friendly.** Manhattan builds a lot of infrastructure to service new developments and growth. Those proposed improvements would have to be evaluated for future maintenance needs and costs to determine if they should even occur. This leaves businesses and developers in situations of uncertainty, which ends up suppressing growth.

- **Cities bond ratings will face downgrades.** Bond counsels are advising cities that their bond ratings will likely be downgraded if the state imposes a property tax lid. If a downgrade occurs, cities may have to spend more taxpayer money when incurring debt for large projects.

- Please see the attachment for further perspective on the property tax lid and history of taxes in Manhattan.

For all the above reasons the City of Manhattan **SUPPORTS SB 167**. Thanks for your time and consideration.

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# City of Manhattan
# Property Tax Lid Analysis

## Introduction & Background

At the end of the 2015 session, without any public hearing or feedback, the Kansas Legislature passed a property tax lid bill that would limit the ability of municipalities to raise property taxes. The tax lid, which will take effect on January 1, 2018, prohibits cities and counties from increasing property taxes above the consumer price index (CPI) for all urban consumers without a public vote. The cost of such a special election at the City's expense could cost the City of Manhattan $45-$65,000.

The State of Kansas Legislature and Governor frequently speak of economic prosperity, job creation, and population growth. Yet the state's actions are in direct opposition to their own statements. A municipal property tax lid limits the municipality's ability to react to private sector growth. In order to meet the State's vision of growth and prosperity in the private sector, a municipality must be ready and able to react and grow. Municipal growth should occur in order to accommodate services needed to serve the private sector growth. Tying municipal growth to a CPI index doesn't allow for the proper growth vision to occur. That growth vision allows a municipality to not have to make continuous improvements and disrupt the private sector growth opportunities. In Manhattan, like most other municipalities, we make decisions to expand infrastructure and services based on factors of growth rate and investing for the future. Cities that are not growing typically focus on repairing and maintaining their current infrastructure, while growing cities should invest in the current and future growth conditions. Yearly reactions and limitations from a CPI Index, rather than allowing for multi-year visions and investments, will lead to waste of public tax dollars.

The tax lid is an overreach of state government control and is in direct conflict with the State of Kansas Constitution regarding Home Rule. Home Rule has been in place since 1961 and was put in place by the citizens of Kansas. Elected, informed local governing bodies should have direct oversight and control of local tax policy.

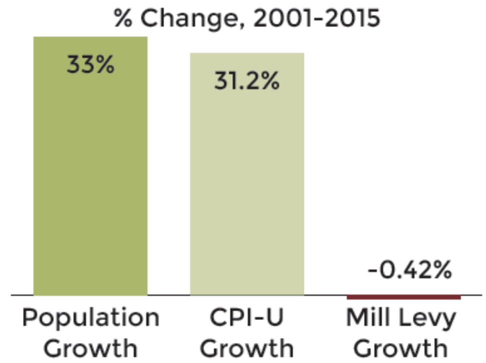
## Manhattan, KS Tax Story

Manhattan is one of the fastest growing cities in the State of Kansas. The population of Manhattan in 2001 was 44,177 and has grown to an estimated 58,900 in 2015. That is a 33.3% increase in growth over that short period of time. Strong building permit increases in residential and commercial development are expected to continue in the area for the foreseeable future. The City of Manhattan also recently completed a community-wide survey of its residents, and more than 97% are either very satisfied or satisfied with the Quality of Life in Manhattan. If the City of Manhattan were not in tune with local citizens regarding taxes (as the idea behind the state mandated property tax lid suggests), then why would growth and the high percentage of residents satisfied with quality of life continue?

| 2001 Population | 2015 Population | % Growth |
|---|---|---|
| 44,177 | 58,900 | 33.3% |

| New Housing Units 2001-2015 | |
|---|---|
| One/Two-Family | 3,035 |
| Multi-Family | 2,632 |

Over that same time period the City mill levy raised from 44.147 mills in 2001 to 43.963 mills in 2015. That is an overall decrease in mill levy percentage by 0.42%. Yet, also over that time period, the CPI-U index increased by 31.2%. During this period of time, the City of Manhattan was able to provide services to 14,723 new residents (33.3% increase in growth) with no increase in mill levy. Part of the reason the City was able to not raise the mill levy over that period was large increases in assessed valuation. Manhattan has averaged nearly 3.81% increase in total assessed valuation, minus new construction, from 2001-2015. Since 2008 though, Manhattan's total assessed valuation, minus new construction, has only averaged an increase of 0.21%, below the CPI-U average over that period of time. Market forces drive those valuation increases. Manhattan believes it may be more prudent to address how properties are assessed — and that formula — before looking at a property tax lid. This is also a good example of why the CPI-U measure in the tax lid does not correlate to the economy of the City and the services Manhattan provides.




| Year | Mill Levy | % Change | CPI-U % Average Increase | Mill Levy Equivalent Loss for LAVTR/Local Revenue Share |
|---|---|---|---|---|
| 2001 | 44.147 | - - | 1.6 | - - |
| 2002 | 42.46 | -3.82 | 2.4 | - - |
| 2003 | 44.388 | 4.54 | 1.9 | 2.81 |
| 2004 | 43.54 | -1.91 | 3.3 | 3.11 |
| 2005 | 40.832 | -6.22 | 3.4 | 2.89 |
| 2006 | 36.235 | -11.26 | 2.5 | 2.68 |
| 2007 | 33.089 | -8.68 | 4.1 | 2.36 |
| 2008 | 31.683 | -4.25 | 0.1 | 2.12 |
| 2009 | 34.268 | 8.16 | 2.7 | 3.06 |
| 2010 | 37.289 | 8.82 | 1.5 | 2.07 |
| 2011 | 41.917 | 12.41 | 3 | 2.07 |
| 2012 | 42.156 | 0.57 | 1.7 | 2.04 |
| 2013 | 43.439 | 3.04 | 1.5 | 1.99 |
| 2014 | 43.424 | -0.03 | 0.8 | 1.92 |
| 2015 | 43.963 | 1.24 | 0.7 | 1.88 |
| AVG | 40.19 | 0.19 | 2.11 | 2.38 |

Another issue in the tax lid discussion is that in 2003 the State was experiencing financial difficulties and cut Local Ad Valorem Tax Reduction (LAVTR) and City County Revenue Share (CCRS) to local municipalities. The intention of the State legislature at that time was to reinstate those items when the economy turned around. Those revenues have not been returned to any municipalities as of yet. In sum, the City of Manhattan estimates to have missed out on $11,219,983 in revenue from those sources since 2003. The city was receiving in the range of $500,000 per year from LAVTR and estimates nearly $7,228,976 in lost revenue from that source. The CCRS revenue was in the $300,000 per year range, and lost revenue is estimated at $3,990,917 over that time period.

## Conclusion

The City of Manhattan is one of the fastest growing cities in the State. The City has an established record of adequately planning for, and appropriately budgeting for, its growth. The thought process behind this tax lid is in direct conflict with Home Rule for cities. The tax lid will only stifle growth in a city that is flourishing in job creation and economic prosperity. The City has good communications with our local constituents and the elected City Commissioners are the most qualified to make educated, informed decisions regarding local tax policy. The tax lid erodes the Representative Democracy that Kansas was built upon. Please consider all of these items before voting on any property tax lid bill.

| 2001 Land Area Growth | 2015 Land Area Growth | % Growth |
|---|---|---|
| 10,283 | 12,266 | 19.28% |

| 2001 Median Home Value* | 2015 Median Home Value* | % Growth |
|---|---|---|
| $101,000 | $191,000 | 89.11% |

*Approximate value based on valuation growth