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TO: Chairman Adam Smith
House Taxation Committee Members

FROM: Amy L. Lange, City Manager, Concordia

DATE: March 16, 2022

RE: Written Only - Testimony in Opposition to HB 2738

Chairman Smith and Committee Members, thank you for the opportunity to testify in opposition to HB 2738 on behalf of the City of Concordia.

Sales tax revenue is extremely important to the operations of our city, as it comprises approximately 40% of our general fund revenue. In addition to supporting salaries of employees, including those that maintain our streets, provide code enforcement for nuisances and construction, and our first responders, this fund supports our capital improvement program (CIP) to maintain our infrastructure and purchase new equipment such as police cars and ambulances. In comparison, 43% of our general fund expenses are for public safety (police, county-wide dispatch, fire, EMS).

Sales tax revenue has remained fairly stable in our community over the last 10 years, increasing through the COVID-19 pandemic in 2020 and 2021 due to an increase in local shopping and inflation. The City of Concordia receives a portion of the 1% county-wide sales tax in addition a 1% city-only sales tax. The City's share of Cloud County's county-wide sales tax per K.S.A. 12-192(a) has ranged from \$544,624.71 to \$651,571.17 over the last five years, with 2021 yielding \$628,469.01, or 13% of our general fund budget revenue. Concordia has relied on this revenue source for several decades.

Concordia has a diverse revenue base, and for that we are thankful. In addition to sales tax, property tax revenue and franchise fees, at 22% and 13% respectfully, comprise our other primary general fund revenue sources. Without a significant increase in consumption, franchise fees remain static as we are already charging the statutory maximum of 5%. Additionally, our community does not have an appetite to increase their property tax burden, as evidenced by the failed bond issues for new hospitals in 2008 and 2013, as well as the failed bond issue in November 2021 for reconstruction of the junior-senior high school that would have added 12 mills to property taxes and an additional 1% general city-wide sales tax.

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In Kansas, 90% of the sales taxes generated in the state are generated within city limits. And 84% of the residents of Kansas live in cities. (This figure is closer to 75% for Cloud County) Most of the sales tax is generated inside city limits, and there has been a recognition that a portion of those sales tax dollars should stay where they are generated. City residents pay the same county property taxes as county residents. In many cases, those tax dollars are used outside city limits for county roads and bridges, noxious weed control, and other functions. This legislation gives no guarantees to city residents that the status quo of spending by county commissions outside the city limits would not be applied to the additional sales tax revenue generated by passage of HB 2738.

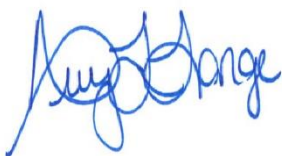
If passed, HB 2738 would take effect July 1, 2022, halfway through the current fiscal year, and could deprive Concordia of over \$500,000 in general fund revenue, half of which may already be collected by that point in time, thereby requiring a refund to the County. Sales tax revenue from the County apportionment is already budgeted for FY 2022, and a reduction of general fund revenue by 13% midway through the year would be detrimental to municipal services provided to our residents. To illustrate, this share of the county-wide sales tax is equivalent to our entire annual fire department budget, or our entire annual ambulance services budget, or 60% of our law enforcement budget, or twice our annual CIP budget.

We recognize HB 2738 is prospective, applying only to future sales tax levies. However, HB 2738 allows the Cloud County Commissioners unilateral authority to change the sales tax revenue stream to the City of Concordia and other cities in Cloud County by removing revenue sharing with cities. Passing HB 2738 will eliminate a significant revenue source currently used for services imperative to our residents, and may result in an increase to the property tax mill levy, reduction in parks and streets maintenance or recreation programming, reduction in emergency services, reduction in employment across multiple departments, or a combination thereof to offset this loss. With an assessed valuation of only \$28.8M, a property tax increase of 20 mills to Concordia residents and businesses would be needed to offset this loss without a reduction in services.

We understand passage of HB 2738 would allow cities an opportunity to request this lost revenue directly from the County through an interlocal agreement, but the County is not required to oblige. We also understand all local governments are fighting for the same finite resources from our taxpayers, and the County shares the same struggles as the City with a backlog of deferred maintenance and equipment replacement. Additional revenue without additional effort will be enticing to the County.

While we have a great working relationship with Cloud County, we anticipate difficulty obtaining approval of a new interlocal agreement for requested sales tax revenue from the County at the same level currently afforded by K.S.A. 12-192(a), as evidenced by challenges occurring within the last four years with respect to requests for funding to assist with replacement ambulances and replacement of the dispatch console, noting the City of Concordia provides primary EMS service to half the County outside the city limits of Concordia, and mutual aid to the other half, as well as all dispatch services to all entities in Cloud County.

With this testimony in mind, the City of Concordia strongly urges you to oppose HB 2738. Thank you for consideration.



Amy L. Lange
City Manager