

Chair Tyson and Members of the Committee,

On behalf of the Americans for Prosperity Kansas Chapter, we appreciate this opportunity to submit testimony opposing SB 196. SB 196 reinstates transfers to the local ad valorem tax reduction fund. We hold the following positions under SB 196.

1. SB 196 violates local control.
2. SB 196 is a moral hazard and subsidizes high property tax rates.
3. Property tax hikes were higher under LAVTRF than they are today.

**SB 196 violates local control.**

“Local control” often refers to the degree of autonomy or decision-making authority granted to local entities, such as school districts or municipalities. A common belief among Kansans and policymakers is that local governments should have as much authority as possible over their affairs, policies, and administration.

SB 196 violates that local control by making more local government financially dependent on state government. While benign at the onset, SB 196 entices local government officials to make decisions based not on their constituents but on the state government and its ability to transfer funds into the LAVTRF. Moreover, SB 196 creates a standard and opportunity for even further violations of local control by state government.

**SB 196 is a moral hazard and subsidizes high property tax rates.**

At a fundamental level, SB 196 is a state subsidy for localities, providing a reliably steady source of revenue. While such an action may seem well intended, it creates a moral hazard. In economics, a “moral hazard” describes a situation that insulates one party from risk and, as a result, may act more irresponsibly because it does not have to bear the full consequences of its actions.

In this case, localities may be more prone to keeping property or sales tax burdens high on their residents because SB 196 insulates them from the risk of residents leaving or commerce dropping. Similar situations, such as state subsidies for higher education, lead to higher tuition rates. Considering the intent of SB 196 is to lower property tax rates, the bill encourages local officials to do just the opposite.

**Property tax hikes were higher under LAVTRF than they are today.**

LAVTRF was last funded in 2003. Using the Kansas Department of Revenue’s annual report, we can see that county property taxes grew by an average of 7.5% in its last five years.<sup>1</sup> Property taxes in 2022, were 6.4% higher than last year.<sup>2</sup>

Moreover, SB 196, as written, has no enforcement mechanism to ensure localities lower property tax burdens. This confirms the presence of a “moral hazard.”

I urge the committee to reject SB 196 for passage for these reasons.

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<sup>1</sup> Kansas Policy Institute, “Senate Commerce Informational Hearing”, 1/28/2020, [http://kslegislature.org/li/b2019\\_20/committees/ctte\\_s\\_cmrce\\_1/documents/testimony/20200128\\_03.pdf](http://kslegislature.org/li/b2019_20/committees/ctte_s_cmrce_1/documents/testimony/20200128_03.pdf)

<sup>2</sup> Kansas Department of Revenue, “2023 Annual Report”, <https://www.ksrevenue.gov/pdf/ar23complete.pdf>