

Date: March 14, 2017

To: Kansas Senate Committee Assessment and Taxation  
The Honorable Senator Caryn Tyson

From: Richard U. Nienstedt, City Manager, City of Ottawa, Kansas  
Scott D. Bird, Director of Finance; City of Ottawa, Kansas

Re: Testimony in support of SB 167 ✓

plw/w



Thank you for allowing us the opportunity to provide testimony on behalf of the City of Ottawa, Kansas in support of Senate Bill 167, which provides for a full repeal of the tax lid as adopted in 2016. In the next few paragraphs we will more fully explain the following points.

- The Consumer Price Index is not a valid measure for municipalities
- The City of Ottawa, and others, have not seen increases in assessed valuation
- Municipalities have lost revenue over the last 10 years through the removal of demand transfers and the reduction/elimination of tax on machinery and equipment

The tax lid was written based on an assumption that the cost of government should not rise faster than the Consumer Price Index (CPI). On the surface, and as a taxpayer, it might seem logical that the same rate of inflation should hold true to those entities that provide governmental services. However, the CPI is comprised of a "market basket" sampling of goods that consumers typically purchase. Prices for goods in the market basket are collected each month, weighted by the importance of the good in the basket and averaged to form the price level.

The fallacy of this assumption, and therefore the tax lid, is that governmental entities are not ordinary consumers. Case in point; the employment cost index, conducted by the Bureau of Labor Statistics Employment Cost Index (ECI) for 2015, indicates that employment costs for State and Local Governments rose by 2.5% for the 12 month period ending December 2015. During that same time period, the CPI for all consumers was 0.7%. That is to say, almost zero growth for that 12 month period. As a point of clarification, it should be explained that the ECI measures inflation of labor costs (salary/wages and benefits), whereas CPI and MCI measures inflation of consumer prices of goods. While they are interrelated and each influence the other, they track the cost of consumption for two distinctively different groups.

What this information clearly indicates, is the cost of providing services by state and local governments increased much faster than the CPI. The reason is largely due to the fact that governmental entities don't consume the same "market basket" of goods as the ordinary consumer. In fact, wages and benefits are the largest operating costs for most local units of government. This is because local government provides services that are labor intense, e.g., police and fire protection, courts, streets, parks, etc. This type of service accounts for approximately 72% of the General Fund for the City of Ottawa.

Local units of government purchase few groceries. However, they do purchase special response vehicles and large machinery. Some of this of course, is highly specialized equipment; such as fire and rescue vehicles, which can be much more costly than the a personal vehicle. For example; the cost of an average fire pumper can easily reach \$500,000, and police vehicles must be equipped differently than an ordinary passenger car. Public Works has equipment specifically designed for their needs; such as street sweepers, motor graders and dump trucks equipped to move snow and deal with icy roads. Again, the use of the CPI as a measurement for municipalities is flawed, and unfairly restricts local units of government from meeting the needs of their citizens.

Another apparent misconception is that the proponents of the tax lid seem to assume municipalities have reaped an unfair benefit of increased assessed valuation, which has grown their "coffers" year after year. This is simply not true. Over the last 10 years, the average increase in Assessed Value has been 1.6% per year for the City of Ottawa. More startling for those of us who track this type of information, is that over the last eight years Assessed Value for the City of Ottawa has actually decreased by a total of 3.8% or almost 1/2 of 1 percent per year. (See Chart 1).

**Chart 1**  
**Assessed value represents millions of U.S. Dollars**

Budget Year	Assessed Value	Annual Change	10 Year Avg. Chg	8 Year Avg. Chg
2006	68,852			
2007	73,798	4,946	7.2%	
2008	83,659	9,861	13.4%	
2009	81,625	-2,034	-2.4%	-2.4%
2010	80,947	-678	-0.8%	-0.8%
2011	80,589	-358	-0.4%	-0.4%
2012	80,179	-410	-0.5%	-0.5%
2013	82,080	1,901	2.4%	2.4%
2014	80,619	-1,461	-1.8%	-1.8%
2015	80,149	-470	-0.6%	-0.6%
2016	80,478	329	0.4%	0.4%
Average			1.68%	-0.47%

Please allow us to offer a piece of history. Starting in 2002, the so called Demand Transfers, which were funds promised to municipalities by state statute, were taken away. For the City of Ottawa that has cost over \$3.9 Million from 2002 through the 2016 budget year. That's approximately \$264,000/year or 3.3 taxing mills for our city annually, which has had to be made up in other ways. It should also be mentioned that lost revenue resulted due to legislative action that was taken in 2005, which eliminated property tax on Machinery and Equipment new to the State of Kansas. This action cost our city and county 60% over the last 10 years. To unnecessarily restrict the ability of local authority with a tax lid adds insult to injury!

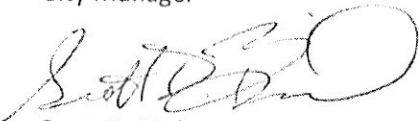
**Summary**

While there is no perfect measurement of inflation for local units of government, the use of the CPI as a measurement tool for local government is flawed. Local governments are not reaping great revenue benefits due to increased assessed valuation. In fact, some municipalities like the City of Ottawa have actually seen decreased assessed values, partially due to the change in Machinery and Equipment. It is respectfully requested that Senate Bill 167, which provides for a full repeal of the tax lid legislation adopted in 2016 be adopted.

Respectfully Submitted,



Richard U. Nienstedt  
 City Manager



Scott D. Bird  
 Director of Finance

CC: Mayor Caylor, Commissioners Reed, Skidmore, Jorgensen and Graves  
 State Senator Tyson, State Representatives Finch and Jones