SB 294 Proponent Testimony – in person
Public notice, vote requirement to raise property tax
Senate Assessment and Taxation Committee
Dave Trabert, CEO
February 5, 2020

KANSAS POLICY INSTITUTE

Chairwoman Tyson and Members of the Committee,

We appreciate this opportunity to testify in support of SB 294, which requires city and county elected officials to give public notice of intent to increase property tax, hold a meeting for public input, and vote on the entire amount of the increase.

Given concerns and objections raised by some local elected officials, we begin our testimony by addressing those issues and explaining what SB 294 does not do.

- SB 294 does not change how property is appraised.
- SB 294 does not limit the amount of money that cities and counties can spend.
- SB 294 does not limit the amount of property tax that cities and counties can charge.
- SB 294 does not require a 'new layer of bureaucracy'.... just a few simple math calculations, mailing a hearing notice to taxpayers, and holding a meeting for the public to express views on any proposed property tax increase.

City and county officials regularly bemoan sparse attendance at public budget meetings, so in that regard, local officials should be pleased that SB 294 will encourage larger turnouts at these budget-related meetings.

SB 294 is modeled after the State of Utah's Truth in Taxation legislation, which has successfully reduced the effective property tax rate – property tax divided by appraised value – over time. **The effective tax rate in Utah declined by 7.5% between 2000 and 2018, according to their Property Tax Annual Statistical Reports.[1] At the same time, the effective tax rate in Kansas increased by more than 22%.[2]**

Under SB 294, once a city or county gets new valuation totals each year, a 'Certified Rate' is calculated that produces the same property tax revenue as the prior year, based on the new valuations. Elected officials must notify taxpayers of their intent to increase the Certified Rate and hold a public meeting where people can comment. Then they have to vote to increase the Certified Rate, which means they are voting on the total tax increase.

Currently, city and county officials just vote to approve their budgets, and then the county clerk calculates the mill rate needed to meet the budget. Officials often claim to be 'holding the line' on taxes, by referencing the mill rate, but voters are fully aware (and pretty disturbed, to put it politely) that property tax has been rapidly increasing because of valuation changes.

Utah reduced it's effective rate but still had large property tax increases, however, because local officials don't have to vote on property tax increases from new construction. Valuations in Utah increased by about 179% since 2000 (compared to 75% in Kansas) because they are growing rapidly; Utah has almost 42% population growth since 2000 compared to just 8% in Kansas. Utah successfully reduced the effective tax rate, but the rate likely would have declined even more if new construction values were included in the calculations.

% Change 2000 to 2018		
Description	Utah	Kansas
Population	41.6%	8.3%
Assessed Valuation	178.8%	75.2%
Property Tax charged	170.4%	113.9%
Effective Tax Rate	-7.5%	22.1%

Source: Utah Department of Revenue, Kansas Department of Revenue, U.S. Census

The co-sponsors of SB 294 were informed by Utah's experience and included new construction in the calculation of the Certified Rate.

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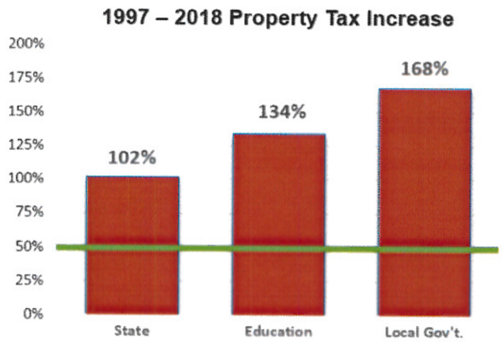
Exorbitant property tax increases

Voters want the transparency provided in SB 294 because they are quite disturbed about excessive property tax increases, and property tax for the operation of local government draws the most ire.



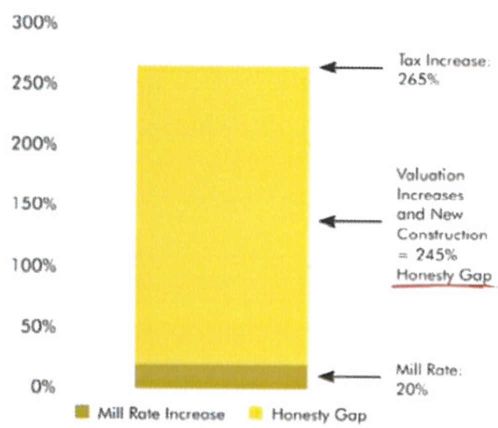
Source: Kansas Dept. of Revenue, Bureau of Labor Statistics

Only $54.8 million, or about 1% of the $4.9 billion in property tax assessed in 2018 is for the operation of state government, according to the Kansas Department of Revenue; $2.2 billion (45%) is for education (including school districts and community colleges), and $2.7 billion (54%) is for the operation of local government entities (cities, counties, townships, fire districts, etc.).[3]

The state portion increased the least, going up 102%. Education-related property taxes increased by 134%, and local government had the largest increase, at 168%.

SB 294 closes the 'honesty gap'

The adjacent chart shows Riley County increased property tax by 265% between 1997 and 2018, according to the Kansas Department of Revenue. And yet the mill rate only went up 20%. That huge, 245-point difference between the actual tax increase and the change in the mill rate has created an honesty gap in taxpayers' minds.



Johnson County increased property tax by 244% between 1997 and 2018, according to the Kansas Department of Revenue; the mill rate went up 20%. That huge, 220-point difference between the actual tax increase and the change in the mill rate has created an 'honesty gap' in taxpayers' minds.

The mill levy in Sedgwick County went down 3 percent, but tax revenues increased 103%, creating an honesty gap of 105%.

Of the remaining counties in the adjacent table (representing the home counties of Committee members), Douglas County has the largest honesty gap, at 262%, followed by Lyon County (141%), Linn County (138%), Cowley County (114%), Shawnee County (101%), and Labette County (95%).

The property tax reflected in this table is only for the operation of county governments; tax for the operation of school districts, cities, townships, and other local government entities are not included.

1997 to 2018 Honesty Gap - the Difference Between the Total Tax Increase and the Mill Rate Change

County	Property Tax Increase	Mill Rate Change	Honesty Gap
Johnson County	244%	24%	220%
Sedgwick County	103%	-3%	105%
Cowley County	186%	72%	114%
Douglas County	349%	87%	262%
Shawnee County	131%	30%	101%
Lyon County	177%	37%	141%
Labette County	171%	76%	95%
Linn County	208%	70%	138%

Source: Kansas Dept. of Revenue

Uncompetitive rates

The Lincoln Institute of Land Policy's 2019 50-State Property Tax Comparison Study shows Kansas is very uncompetitive on effective property tax rates. The effective tax rate (ETR) is the property tax paid as a percentage of assessed valuation.

Kansas' rural rankings, comparing the largest county seats in non-metropolitan areas with a population between 2,500 and 10,000, are among the worst in the nation. Iola represents Kansas and has:

- #1 highest ETR on commercial property
- 3rd highest ETR on industrial property
- 14th highest ETR on residential property valued at $150,000

2019 Property Tax Effective Tax Rate (ETR) Rankings				
ETR National Rank (1 = highest)	Largest Rural / Urban Area in Kansas	Classification	Tax Owed	Effective Tax Rate
#1	Iola	Rural Commercial property	$ 52,830	4.40%
#3	Iola	Rural Industrial property	$ 48,364	2.42%
#14	Iola	Rural Homestead $150,000	$ 2,928	1.97%
#11	Wichita	Urban Commercial property	$ 32,497	2.71%
#23	Wichita	Urban Industrial property	$ 29,567	1.48%
#27	Wichita	Urban Homestead $150,000	$ 1,776	1.18%

Source: Lincoln Institute of Land Policy, based on taxes payable in 2018. Commercial property valued at $1 million with $200,000 in fixtures. Industrial property valued at $1 million with $500,000 machinery & equipment, $400,000 inventory, and $100,000 fixtures. Homestead valued at $150,000. National rankings compare the largest city and the largest rural area in each state. Lincoln defines rural as a county seat with population between 2,500 and 10,000 and that is not part of a metropolitan area.

Comparing the largest city in each state, Kansas has:

- 11th highest ETR on commercial property
- 23rd highest ETR on industrial property
- 25th highest ETR on residential property valued at $150,000

Property tax is an especially large barrier to economic growth in rural areas. The 4.4% effective tax rate on commercial property in Kansas is more than double the rate in Missouri and Nebraska and more than four times the ETR in Oklahoma.

The disproportionate 25% assessment ratio on commercial and industrial property is one reason that property tax on businesses is so much higher in Kansas (residential, by comparison, is 11.5%). The other major factor is that Kansas is massively over-governed.

On a per-resident basis, Kansas is the 2nd worst state in the nation for local government employees according to data from the U.S. Census Bureau.

- Kansas has 506.4 local government employees per 10,000 residents versus a national average of 374.5; that's 35% more than the national average
- Kansas has 184.9 state government employees per 10,000 residents versus the national average of 135.1; that's 37% more than the national average

Kansas taxpayers are therefore paying for a lot more government employees than the per-capita national average; almost 15,000 more state government employees (which includes universities) and about 38,000 more local government employees.

Property tax blamed for productivity lag, economic stagnation in Kansas

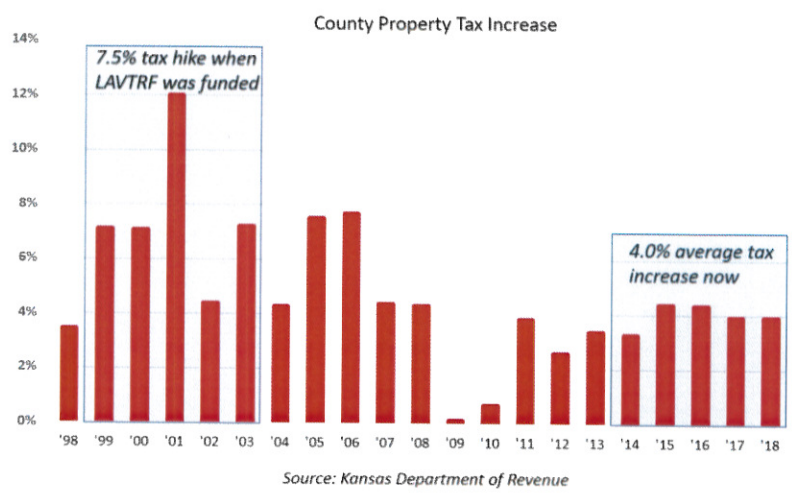
Researchers, including Dr. Art Hall at the Brandmeyer Center for Applied Economics at the University of Kansas, found that a significant per-worker productivity gap began in 1986 between Kansas, the region, and the nation. In their 2006 paper entitled *Local Government and the Productivity Puzzle*, they said productivity differences account for about half of the economic growth difference between Kansas and the U.S. (The other half relates to Kansas' slower employment growth.) Productivity differences accounted for virtually 100 percent of the growth difference between Kansas and the Plains region.[4]

Dr. Hall now attributes the productivity lag that began in 1986 to a property tax issue, saying, "It's hard to prove, but I believe it's because of the 1986 state constitutional amendment dealing with property tax. The basic story was that for two or three decades, there was a big debate over property tax values being way off." Taxpayer frustration finally prompted the legislature to propose a constitutional amendment, which established a substantial new property classification system and revaluation that voters approved in November 1986. The application of the new classification system and the results of reappraisal took place in January 1989.

In *A History of Tax Policy in Kansas*, Dr. Hall explains that while revaluation was overall revenue neutral to government, there were devastating shifts in tax burden among individuals and businesses. "Widespread reappraisals had the practical effect of shifting tax burdens. And shift they did—once the state implemented the reforms in 1989. A comparison of the 1985 and 1990 property tax burdens on hypothetical (but identical) properties revealed homesteads experienced property tax increases of 357 percent; commercial properties experienced increases of 298 percent; industrial properties experienced increases of 44 percent. Furthermore, the post-reform tax burden increases tended to persist."[5]

<u>*LAVTR didn't work and isn't the solution*</u>

Governor Kelly's Tax Council members propose resurrecting the Local Ad Valorem Tax Reduction (LAVTR) program as their solution to high property taxes, saying "...local governments would once again have a strong tool to begin lowering local property taxes."[6] But that program didn't work the last time, and it won't provide tax relief now.



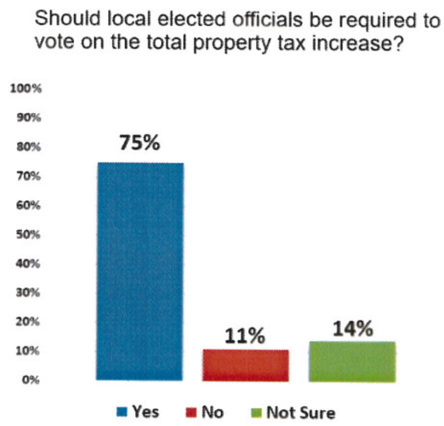
Source: Kansas Department of Revenue

LAVTR was last funded in 2003. County property taxes increased by an average of 7.5% during LAVTR's last five years; without LAVTR, county property taxes 'only' averaged a 4% annual increase over the five years ended in 2018.

There is no enforcement mechanism in LAVTR. In other words, cities and counties don't have to prove they reduced property tax or even hold property tax flat. But even if it produced dollar-for-dollar local property tax reductions, the program merely leads to higher state sales and income taxes.

Kansas is already facing long-term budget deficits, so giving state money to cities and counties only increases the deficit and puts more pressure on sales and income tax increases.

Overwhelming voter support



Source: SurveyUSA. Statewide survey of 519 registered voters Dec. 10-14, 2019. Credibility interval = 4.4 pct. Points.

Voters overwhelmingly support the concept in SB 294. A December 2019 public opinion survey conducted by SurveyUSA on our behalf asked whether local elected officials should be required to vote on the total property tax increase. 75% said 'yes,' and only 11% said 'no.'[7]

Support crosses all ideological and geographical lines. 73% of self-described liberals and moderates and 80% of conservatives favor the change. Geographic support across the four regions (Western, Eastern, Wichita area, and Kansas City area) ranges from 72% to 78%.

Registered voters of all ages say they want local elected officials to vote on the total property tax increase especially those aged 50+ who support it by a 10-1 margin; 79% say 'yes' and only 8% say 'no.'

Conclusion

Kansans want local officials to vote on the entire property tax increase and they deserve that degree of honesty and respect.

We encourage Committee members to support voters' wishes and approve SB 294.

Thank you for your consideration.

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[1] Utah State Tax Commission https://propertytax.utah.gov/general/annual-report

[2] Kansas Legislative Research Division

[3] Statistical Report of Property Assessment and Taxation, Property Valuation Division of the Kansas Department of Revenue, March 2019.

[4] Hall, Arthur P., PhD. Local Government and the Kansas Productivity Puzzle. Lawrence, KS: Center for Applied Economics, University of Kansas School of Business, 2006.

[5] "A History of Tax Policy in Kansas" manuscript by the Mercatus Center at George Mason University was provided by the author for inclusion in *What was Really the Matter with the Kansas Tax Plan*, published by Kansas Policy Institute, March 2017.

[6] Governor Kelly's December 3, 2019 press statement https://governor.kansas.gov/meeting-for-the-governors-council-on-tax-reform-produces-recommendations/

[7] SurveyUSA on behalf of Kansas Policy Institute, December 2019. http://www.surveyusa.com/client/PollReport.aspx?g=f42ed964-8f02-480c-ac9a-205440612514