THE LEAGUE OF KANSAS MUNICIPALITIES

Setting the Scene: Local Property Taxes

2017 Report

March 10, 2017

As a key investment in Kansas communities, local government property taxes play a large role in funding the essential services residents have come to both rely on and appreciate as part of a high quality of life. However, the ability to maintain those high-quality city services – such as police, fire, infrastructure or parks – is subject to the ability of cities to collect adequate revenue to invest in these services.

With the state-mandated 2015 property tax lid nearing implementation in 2017, city residents are beginning to ask questions, such as:

- What value do residents receive from their property taxes?
- What's the truth behind how much is coming out of our pockets each year to pay local property taxes?
- With the tax lid in place, what does the future of our city's services look like?

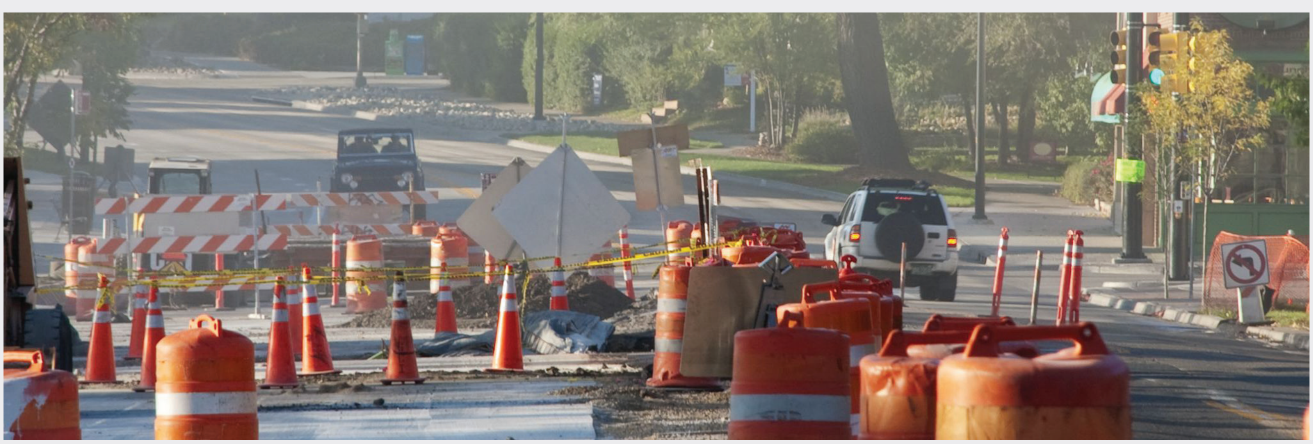
The unfortunate reality is that limiting the ability of local governments to fund essential city services stands to diminish those high-quality services that property owners currently receive when paying their property tax bill. Cities face an already inopportune economic environment. With the erosion of the property tax base and reduction of state aid due to decisions by the Kansas Legislature, cities have been learning to do more with less since the last property tax lid sunset in the late 1990s. Considering the fiscal realities city governments in Kansas must live with, here are just a few of the ongoing factors affecting all Kansas cities:

- **Lagging Effects of 2008 Recession:** Even in 2016, city budgets are still, on average, **4%** below their pre-2008 recession levels. As a result, whether it's spending for infrastructure, healthcare premiums for employees, or paying the energy bill, cities have had to do more with less over the past eight years. [1]
- **Ongoing Road Maintenance:** Regardless of the health of the economy, roads and bridges do not stop deteriorating. The economic collapse hit cities at a time when KDOT recommended at least $1 billion annually was needed for local roads to keep pace with deterioration.[2] Since the state stopped fully funding the Special City-County Highway fund entirely in 2009, cities have largely been on their own.
- **State Aid:** Since 2004, property owners and cities have lost nearly $1 billion in property tax relief when the state decided to stop funding the Local Ad Valorem Property Tax Reduction fund (LAVTRF).[3]
- **Maintaining a Qualified Workforce:** On average, cities are providing the same, quality services they did prior to the recession, but with a smaller workforce.[4] Also, cities are grappling with retaining qualified employees who commonly move to the private sector because city government jobs pay as much as 12% less than their counterparts in the private sector.[5] A wave of municipal workers are also nearing retirement age in the foreseeable future to a greater extent than private businesses.

In some years, cities may take in property tax revenue beyond the rate of inflation. However, just like any private business or the state government, costs commonly rise at a pace higher than inflation. As cities prepare to make complex fiscal decisions due to implementation of the property tax lid, the League offers a primer on understanding the landscape of your municipal property taxes and the actual, real growth of your property taxes in recent years.

Property Taxes, Limits and the Municipal Economy

Traditionally, effects from the national and state economies have a lag effect on city tax revenues of 18 months to four years. This might give cities time to strategically plan, but cities' full recovery from economic impacts can take just as long to complete. Balancing this unique time frame with the aforementioned annual challenges, it's no wonder that cities nationwide increased expenditures this year of **3.57%**, yet increased their total revenues by only **$0.54%**.[6]



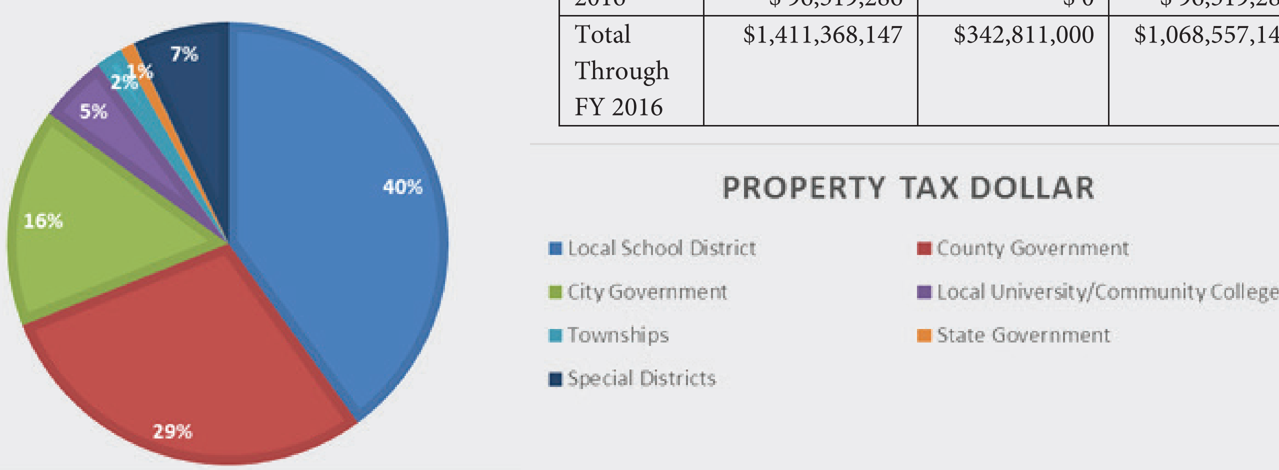
With an average in Kansas of only **16%** of your total property tax bill going to city government, cities have utilized that revenue to stabilize infrastructure and service components to their budgets. Not unlike most cities across the United States, cities in Kansas have, on average, **15%** to **25%** of their general operating revenues generated from property taxes.[7] This proportion has remained relatively constant, despite Kansas local governments losing, on average, nearly **$78,000,000** annually when the state made the decision to stop funding the LAVTRF in 2004. Additionally, nearly **19%** of all Kansas cities experienced a per capita decrease in their tax base in 2015.[8]

The fast-paced erosion of the property tax base up through 2006 left only residential and commercial real estate as the proportionally significant entities left that weren't exempt from property taxes.[9] When the Kansas Legislature makes the decision to exempt further private interests from the property tax base, it ultimately means that other entities or property types in that base have to make up the lost revenue to ensure basic, essential city services can be maintained.

When residents' property taxes on a municipal level increase at a rate beyond inflation, it is likely a response to economic variables at play. For instance, the question of how to measure inflation at a reflective cost for city expenditures is still an open-ended discussion. What we do know, according to the U.S. Bureau of Labor Statistics, is that the Consumer Price Index for all urban consumers (CPI-U) increases at a rate lower than the accumulated cost of "basic necessities" for residents.[10] While cities will inevitably find a way to cover these basic necessities, it will likely come at the cost of deferring maintenance projects, cost-of-living adjustments for employees wages, and, in some cases, cutting services.

With cities continuously having to stretch the dollar, a lid on the amount of property tax revenue that can be collected is unlikely to help based on previous history. In Massachusetts, for instance, a tax lid passed in the 1980s that disallowed growth in property tax revenue collection beyond 2.5% dealt a huge blow during the 2008 economic downturn. Some cities were left to shut down fire stations, lay off a high proportion of employees and, as a result, had to stop providing services they could no longer afford. Only six years ago, cities in Massachusetts didn't have the financial reserves to adequately respond to the economic recession because of their property tax lid and had to go to Congress to receive $655 million in aid.[11] Similarly, since implementation of Proposition 13 in California, health care, transportation, and other vital city services are reported to have declined dramatically.[12]

Reduction in LAVTRF			
Fiscal Year	**Statute**	**Actual**	**Loss**
1997	$ 48,661,000	$ 46,949,000	$ 1,712,000
1998	$ 50,688,000	$ 47,771,000	$ 2,917,000
1999	$ 55,122,000	$ 55,122,000	$ 0
2000	$ 57,903,000	$ 57,903,000	$ 0
2001	$ 60,315,000	$ 54,139,000	$ 6,176,000
2002	$ 61,980,000	$ 54,680,000	$ 7,300,000
2003	$ 62,431,000	$ 26,247,000	$ 36,184,000
2004	$ 64,636,000	$ 0	$ 64,636,000
2005	$ 66,521,000	$ 0	$ 66,521,000
2006	$ 66,682,000	$ 0	$ 66,682,000
2007	$ 71,233,000	$ 0	$ 71,233,000
2008	$ 71,063,598	$ 0	$ 71,063,598
2009	$ 69,860,878	$ 0	$ 69,860,878
2010	$ 67,430,000	$ 0	$ 67,430,000
2011	$ 81,788,000	$ 0	$ 81,788,000
2012	$ 87,665,000	$ 0	$ 87,665,000
2013	$ 92,021,000	$ 0	$ 92,021,000
2014	$ 88,644,600	$ 0	$ 88,644,600
2015	$ 90,203,785	$ 0	$ 90,203,785
2016	$ 96,519,286	$ 0	$ 96,519,286
Total Through FY 2016	$1,411,368,147	$342,811,000	$1,068,557,147

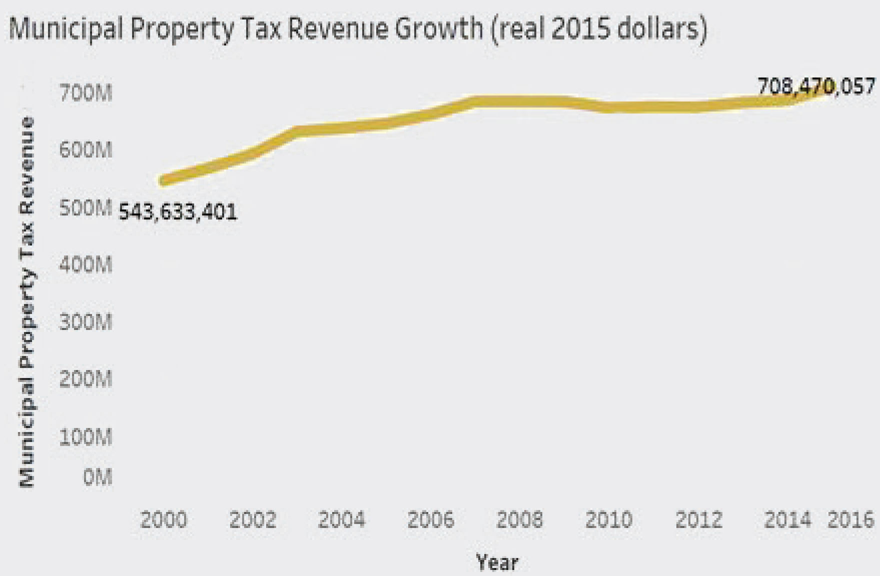


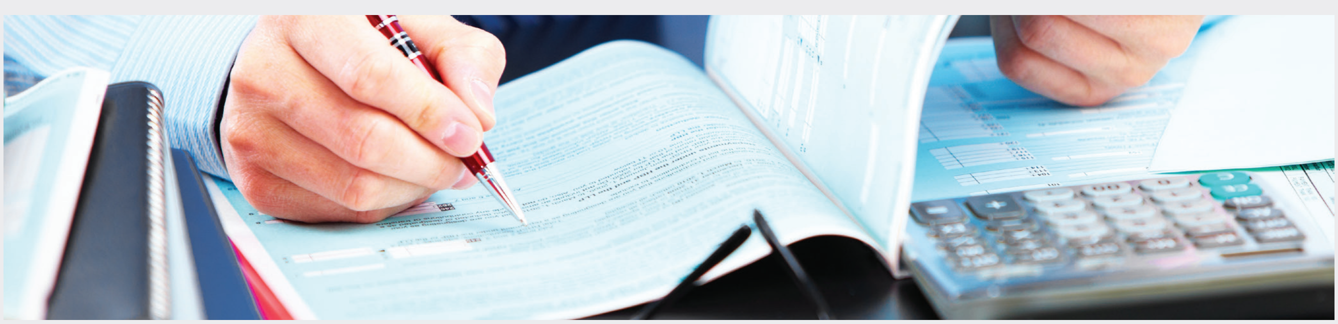
Of specific importance for Kansas, cities and counties in the state are largely left to fend for themselves when it comes to maintaining and improving the local transportation network. Considering **50%** of the funding to maintain the local road system is generated entirely from local governments' budgets and the state has opted to not fund in excess of **$280,000,000**[13] of statutorily owed money since 1997 from the Special City-County Highway Fund, cities are largely left with little recourse but to either gradually take in more property tax revenue to accommodate the need for road maintenance or defer maintenance on our local roads.[14]

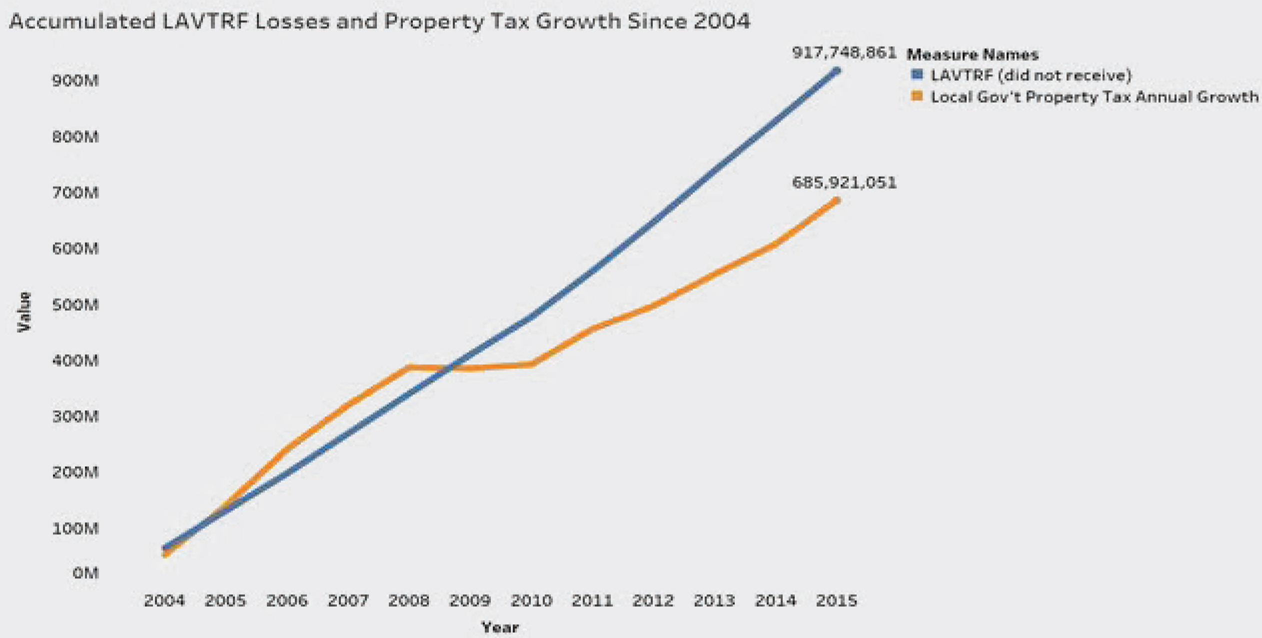
Reduction in SCCHF			
Fiscal Year	**Statute**	**Actual**	**Loss**
1997	$ 15,998,000	$ 10,553,000	$ 5,445,000
1998	$ 15,683,332	$ 10,737,000	$ 4,946,332
1999	$ 16,124,589	$ 10,995,000	$ 5,129,589
2000	$ 17,920,464	$ 11,182,000	$ 6,738,464
2001	$ 18,068,010	$ 10,343,000	$ 7,725,010
2002	$ 15,729,000	$ 10,447,000	$ 5,282,000
2003	$ 19,498,652	$ 10,063,000	$ 9,435,652
2004	$ 20,454,000	$ 5,032,000	$ 15,422,000
2005	$ 22,056,000	$ 10,064,000	$ 11,992,000
2006	$ 25,811,513	$ 10,064,000	$ 15,747,513
2007	$ 29,031,000	$ 10,064,000	$ 18,967,000
2008	$ 29,685,531	$ 10,064,000	$ 19,621,531
2009	$ 22,000,000*	$ 0	$ 22,000,000
2010	$ 22,000,000*	$ 0	$ 22,000,000
2011	$ 22,000,000*	$ 0	$ 22,000,000
2012	$ 22,000,000*	$ 0	$ 22,000,000
2013	$ 22,000,000*	$ 0	$ 22,000,000
2014	$ 22,000,000*	$ 0	$ 22,000,000
2015	$ 22,000,000*	$ 0	$ 22,000,000
2016	$ 22,000,000*	$ 0	$ 22,000,000
Total Through FY 2016	$ 422,060,091	$ 119,608,000	$ 302,452,091

Explaining the Property Tax Growth in Kansas

As cities navigate this complex municipal economy, maintaining gradual and fair increases – or no increases at all – has been a core goal for city officials. Over the past two years, dialogue on property tax increases continuously highlighted the concept that property taxes increased at a rate above 100%. This is a misleading, nominal value that fails to account for inflation, economic growth, and the market value of costs cities procure. When you use the *real value* of property tax revenue – or a number that includes consideration of inflation trends – from cities in 2015 dollars, property taxes have only risen a total of **30.32%** over sixteen years, an average of **1.90%** per year.[15] The highest amount of growth occurred between 2000 and 2003, right after the previous property tax lid on cities and counties had sunset and local government was catching up on nearly a decade of deferred maintenance.







Moreover, this steady and appropriate increase came at a time when the Kansas Legislature had opted to stop providing property tax relief to the cities and, ultimately, the taxpayers. Despite the state legislature having opted to not fund the LAVTRF since 2004, city officials have been required to stretch the tax dollar constantly farther than they would have the year before. For instance, between 2004 and 2015, the state was statutorily supposed to transfer **$917,748,861** to cities and counties specifically for the purpose of property tax relief – they chose not to.[16] In that same time frame, the total growth in property taxes between both cities and counties has been **$685,921,051**, or **25.3%** less than what cities and counties were supposed to receive from the state. This total net accumulation comes on the heels of cities keeping the increase in net property taxes collected at a reasonable rate in relation to growth in median per capita income for Kansas residents. The end result is that taxpayers are only putting in a fair, proportional amount of their paychecks to property taxes.

For instance, the proportion of municipal property tax revenue per capita compared to the per capita median income illustrates balance and small growth exercised by cities. Between 2000 and 2015, the average annual increase of the proportion of your paycheck going to a city government was **0.34%**. Over 16 years, it amounts to a total of **5.42%**. Of specific interest, since the economic recession in 2008, the proportion of one's income being spent towards their municipal property tax bill has actually decreased by **3.47%**.[17]

Final Thoughts and A Look Forward to the Tax Lid

As cities deal with the abandonment of revenue transfers, an eroding property tax base, and a municipal economy still in recovery, the tax lid threatens the ability of local government to invest in the municipal services that Kansans rely on.

The ability of Kansas cities to maintain property tax revenues at gradual levels highlights the fiscal acumen of city appointed and elected officials to stretch your tax dollar further and this ensures that basic necessities – whether it is mental healthcare services or maintenance to roads – can be provided year in and year out. In other states, municipalities have figured out limitations on local government's property tax revenue often comes with an inability to invest in your city's future and prepare for natural or economic disasters when they do arise.

Make no mistake, when Kansans pay their property tax bill, they are making an investment in their high quality of life and their community. Since the last property tax lid sunset in the late 1990s, Kansas communities have been responsible and fair in their collection of property tax revenue. While this property tax lid might save Kansas taxpayers a few dollars in the short-term, the inability for cities to strategically plan for a healthy financial future and adapt to each year's new economic environment could hurt all Kansans in the long-run.

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