

Kansas Government Finance Officers Association

Tax Lid – Survival Stories and Lessons Learned

Kansas Department of Administration
Office of the Chief Financial Officer
Municipal Services

October 12, 2017

Tax Lid – Survival Stories and Lessons Learned

Presented by

Roger Basinger

(785) 296 – 8083

Roger.Basinger@ks.gov

Rico B Aguayo

(785) 296 – 6033

Rico.B.Aguayo@ks.gov

Fax Number (785) 296 – 1477

www.admin.ks.gov/offices/chief-financial-officer/municipal-services

Tax Lid – Survival Stories and Lessons Learned

The impact of the tax lid was probably not fully realized in the 2018 budget cycle due to the following factors:

- The tax base was increased in the 2017 budgets for many counties and cities in anticipation of the tax lid legislation.
- Many counties and cities taking a ‘wait and see’ approach concerning the legislation.
- Many counties and cities just using prior year computation – performing the CPI and valuation adjustments used in the past and living with the result. Found the new computation complex and burdensome.
- The legislation is still evolving, and because of that, we are anticipating the 2019 budget cycle to also be atypical. We may not see the full impact of the tax lid until the 2020 or 2021 budget cycle.

Trends in the 2018 Budgets Filed

- Average percentage increase in tax levy between 2017 and 2018 budgets.
- Range of tax levy percentage increases.
- Average percentage of computed limit levied.
- Range of percentages of computed limit levied.

Trends in the 2018 Budgets Filed

Counties (12 of 105)

- An average increase of 5.5% in tax levy between 2017 and 2018 budgets. Range of a (12.65%) to 16.82%.
- Counties, on average, executed 93% of the computed limit in the 2018 budgets. Range of 79% to 100%.
- Three counties levied at the limit, while nine counties levied under the computed limit.

Cities (54 of 625)

- An average increase of 5.1% in tax levy between the 2017 and 2018 budgets. Range of a (21.50%) to 23.61%.
- Cities, on average, executed 96% of the computed limit in the 2018 budgets. Range of 83.82% to 121.58%
- 26 cities at the limit, 24 cities under the computed limit, and four cities levied above computed limit with no election.

Issues Found in 2018 Budgets Filed

- Not performing the correct computation (template), but using prior year's computation.
- Not using the correct CPI percentage/not recognizing separate legal entities (i.e. fire districts).
- Failing to realize there are two different budget laws now in effect.
- Some counties and cities continue to question if they need to perform the resolution and Notice of Vote publication requirements.

Issues Found in 2018 Budgets Filed

- Continue to receive questions on what constitutes 'Law Enforcement'.
- Tax levies on behalf of other entities – what qualifies as an outside computation (hospital and extension council levy by counties).
- Based on calls coming into the office in July/August/September – we really did not receive that many complaints about the tax lid – some very positive comments concerning the lid being more flexible than first thought.
- Some counties or cities not completing the Computed Limit test - just performing the Declining Revenue or Lost Valuation tests incorrectly.

Law Enforcement Definitions

- Black's Law Dictionary - The detection and punishment of violation of the law. Police officers and other members of the executive branch of government charged with the carry out and enforcement of the criminal law.
- Wikipedia – The system by which some members of a society act in an organized manner to enforce the law by discovering, deterring, rehabilitation, or punishing people who violate the rules and norms governing that society. Although the term may encompass entities such as courts and prisons, **it is most frequently applied** to those who directly engage in patrols or surveillance to dissuade and discover criminal activity, and those who investigate crimes and apprehend offenders, a task typically carried out by the police or other law enforcement agency. (Emphasis added).
- Law enforcement agency is defined as the government agency responsible for the enforcement of laws – i.e. police, sheriffs, Federal Bureau of Investigation.

Tax Levies on Behalf of Other Governmental Entities

K.S.A. 2016 Supp. 79-2925c (b)(5)

Whenever a city or county is required by law to levy taxes for the financing of the budget of any political or governmental subdivision of this state that is not authorized by law to levy taxes on its own behalf, **and the governing body of such city or county is not authorized or empowered to modify or reduce the amount of taxes levied therefore**, the tax levies of the political or governmental subdivision shall not be included in or considered in computing the aggregate limitation upon the property tax levies of the city or county. (Emphasis added).

Tax Levies on Behalf of Other Governmental Entities

Extension Councils – K.S.A. 2-610

County appropriations; budgets, approval; tax levies, use of proceeds. (a) On or before July 15 each year, the executive board of the county extension council shall file with the county commissioners in the office of the county clerk: . . .

(4) a proposed budget prepared in cooperation with the director of extension of Kansas state university of agriculture and applied science for the ensuing calendar year.

(b) If the commission does not approve the proposed budget within 10 days after receipt thereof, it shall return the budget to the board. Upon receipt of the returned budget, the board shall consider amendments or modifications and may consult with the commission concerning the budget. Within 10 days after receipt of the returned budget, the board shall resubmit its proposed budget, with or without amendment or modification, to the commission. **Within 10 days after resubmission of the proposed budget, the commission shall approve, or amend or modify and approve as amended or modified, such proposed budget.** The commission shall adopt the proposed budget as approved and shall make the same a part of the regular county budget. The board of county commissioners shall make an appropriation and certify to the county clerk the amount of tax necessary to be levied on all tangible taxable property of the county sufficient to provide a program of county extension work and to pay a portion of the principal and interest on bonds issued under the authority of K.S.A. 12-1774, and amendments thereto, by cities located in the county.

Tax Levies on Behalf of Other Governmental Entities

Conservation Districts – K.S.A. 2-1907b

The board of county commissioners, upon request of the board of supervisors of the conservation district, may pay to the district moneys from the county general fund for the supervisors to carry out their duties under this act. In addition to moneys from the county general fund, the board of county commissioners **may levy** an annual tax against the taxable tangible property within the district, not to exceed 2 mills or \$55,000 whichever is less, to provide additional moneys for the operation of the conservation district. (Emphasis added).

Tax Levies on Behalf of Other Governmental Entities

County Hospital Levy – K.S.A. 19-4606

(a) The commission or, in the case of an elected board, the board **may annually levy a tax** for the purpose of operating, maintaining, equipping and improving any hospital managed and controlled under the provisions of this act and for the purpose of paying a portion of the principal and interest on bonds issued under the authority of K.S.A. 12-1774, and amendments thereto.

Tax Lid Elections

- No county elections – three city elections.
- Election results.
- Sample election ballot question.

Elections – September 15, 2017

Agency	County	Cost of Election	Type of Election	Voter Turnout %	Increase Amount	Election Result
Onaga	Pottawatomie	\$1,892	In-Person	14% (392 registered voters)	\$17,692	PASS
Pretty Prairie	Reno	\$583	Mail Ballot	38% (425 registered voters)	\$40,197	FAIL
Tescott	Ottawa	\$1,024	Mail Ballot	41% (189 registered voters)	\$7,453	PASS

Sample Ballot Questions

Shall Resolution No. 17-05 adopted by the governing body of Pretty Prairie, Kansas, on July 10, 2017, increasing the City Property tax by \$40, 197 to fund the 2018 City budget for municipal operations be approved?

Shall the following be adopted? "Shall the governing body of the City of Onaga adopt and approve the proposed 2018 budget in the amount of \$200,913 to fund the City budget for municipal operations be approved, pursuant to K.S.A. 79-2925c? The amount being levied in the 2018 budget are greater than the 2017 budget, after being adjusted by the Consumer Price Index by the amount of \$17,692."

"Shall Resolution No. 02-17 adopted by the governing body of Tescott, Kansas, on July 10, 2017, increasing the City property tax levy in the 2017 budget, as adjusted pursuant to K.S.A. 79-2925c, by the amount of \$7,453.00, to fund the 2018 City budget for municipal operations be approved?"

Changes to Computation and 2019 Budget Workbooks

- Starting point of 2019 budgets – 2018 tax levy.
- Line added for increase in valuation over the base for TIF's, Redevelopment Districts, Rural Housing Districts when such districts discontinue.
- Modification to Law Enforcement, Fire and Emergency Medical Service calculation.
- Computation page back in budget workbooks.
- Considering mandatory use of 2019 budget workbooks for all municipalities.

Changes to Computation and 2019 Budget Workbooks

K.S.A. 2016 Supp. 79-2925c

On and after January 1, 2017, the governing body of any city or county shall not approve any appropriation or budget which provides for funding **by property tax revenues in an amount exceeding that of the next preceding year** as adjusted to reflect the average changes in the consumer price index for all urban consumers as published by the United States department of labor for the preceding five calendar years, which shall not be less than zero (Emphasis added).

Changes to Computation and 2019 Budget Workbooks

Added to the Computation Page under Percentage Adjustments

Line 10

Increased assessed valuation over the base is added as an percentage adjustment **with the expiration** of a tax increment financing district (TIF), rural housing incentive district, neighborhood revitalization area or similar property tax rebate or reduction program.

Changes to Computation and 2019 Budget Workbooks

Added to the Computation Page under Increased Tax Revenue Adjustment

Line 22 - Contingent upon passage of House Bill 2424 (or like legislation)

Increase property tax revenues that will be spent on: (G) increases in employer contributions for social security, workers compensation, unemployment insurance, health-care costs, employee benefit plans and employee retirement and pension programs.

Be sure not to include the costs listed above for police, fire, and EMS personnel if the amounts are being used as part of the Law Enforcement, Fire, or Emergency Medical Service adjustments.

Changes to Computation and 2019 Budget Workbooks

Change to Law Enforcement, Fire, and EMS calculation – 2018 carry over amount only needs to be completed if you used the adjustments to increase tax revenues in 2018 budget and did not spend the entire amount budgeted for such purposes.

23)	Law Enforcement Expenses - 2019 Budget (Do not Include building construction or remodeling costs)		0	
	2018 Budget Carryover		0	
	Net 2019 Budget Amount		0	
	Law Enforcement Expenses - 2018 Budget (Do not Include building construction or remodeling costs)	0		
	CPI Adjustment - 1.4%	0		
	Law Enforcement Expenses - 2108 Budget (Indexed by CPI)		0	
	Increased Law Enforcement Expense in 2019 Budget			0

Other Issues

- Estimated CPI percentages for 2019 – could be a greater variance between counties/cities and other tax entities in the 2019 budgets.
- House Bill 2424 – Allowing another exemption for employers share of fringe benefits.
- December 7, 2017 – Assessment and Taxation Interim Committee – Possible discussion of the tax lid.
- Proponents to the tax lid legislation interest in the 2018 budgets.

Estimated CPI for 2019

CPI-All Urban Consumers (Current Series) 12-Month Percent Change

Series Title: All items in U.S. city average, all urban

Area: U.S. city average

Years: 2007 to 2017

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2	Yearly Average
2007	2.1	2.4	2.8	2.6	2.7	2.7	2.4	2.0	2.8	3.5	4.3	4.1	2.5	3.1	
2008	4.3	4.0	4.0	3.9	4.2	5.0	5.6	5.4	4.9	3.7	1.1	0.1	4.2	3.4	
2009	0.0	0.2	-0.4	-0.7	-1.3	-1.4	-2.1	-1.5	-1.3	-0.2	1.8	2.7	-0.6	-0.1	
2010	2.6	2.1	2.3	2.2	2.0	1.1	1.2	1.1	1.1	1.2	1.1	1.5	2.1	1.2	
2011	1.6	2.1	2.7	3.2	3.6	3.6	3.6	3.8	3.9	3.5	3.4	3.0	2.8	3.5	
2012	2.9	2.9	2.7	2.3	1.7	1.7	1.4	1.7	2.0	2.2	1.8	1.7	2.3	1.8	
2013	1.6	2.0	1.5	1.1	1.4	1.8	2.0	1.5	1.2	1.0	1.2	1.5	1.5	1.4	1.5
2014	1.6	1.1	1.5	2.0	2.1	2.1	2.0	1.7	1.7	1.7	1.3	0.8	1.7	1.5	1.6
2015	-0.1	0.0	-0.1	-0.2	0.0	0.1	0.2	0.2	0.0	0.2	0.5	0.7	-0.1	0.3	0.1
2016	1.4	1.0	0.9	1.1	1.0	1.0	0.8	1.1	1.5	1.6	1.7	2.1	1.1	1.5	1.3
2017	2.5	2.7	2.4	2.2	1.9	1.6	1.7	1.9	2.1	2.3	2.5	2.6	2.2		2.2

County/City - Five Year Average - December Over December 1.5

County/City - Five Year Average - Yearly Average 1.3

Other - December Over December 2.6

Other - Yearly Average 2.2

Tax Lid and Audit Issues

Was the tax lid legislation used to increase tax revenues for law enforcement, fire, and emergency medical services purposes in the 2018 budget, and at the end of 2018 there are unspent budgeted amounts for these purposes.

Are there controls in place to ensure such unspent budgeted amounts are carried forward and will be used for their respective purposes in subsequent budget years?

The 2019 edition of the *Kansas Municipal Audit and Accounting Guide* (KMAAG) will ask auditors to review and report if adequate controls are in place.

Tax Lid and Audit Issues

Possible solutions –

The creation of separate funds for law enforcement, fire, and emergency medical which would allow the carryover of unused budget in future years.

Possible transfer of excess budget to Equipment Reserve Fund with controls in place to ensure dollars are spent on designated purpose. Possible issues with reverse transfers.

Controls in the General Fund to ensure unspent budgeted dollars for these purposes that are carried over are spent on designated purposes in subsequent years.

Legislative Update

House Bill 2424... 'increases in employer contributions for social security, workers compensation, unemployment insurance, health-care costs, employee benefit plans and employee retirement and pension programs.'

Introduced in the House on May 2, 2017 and referred to Committee on Taxation.

The Committee on Taxation held a hearing on the bill May 9, 2017.

The committee amended the bill and recommend passage on May 12, 2017.

The bill should be in the General Orders in the House when the Legislature convenes in January 2018.

Municipal Services Monitoring

Municipal Services plans to do an extensive review of county and city budgets for 2018 focusing on the tax lid computation.

Reflecting on the 2017 Budget Process

It's your turn! We want to hear from you on how the process worked for your city/county this year.

Please provide us...

- Comments
- Feedback
- Suggestions, etc.

...on how we can improve for next year!

Closing Out the 2017 Budget Cycle

- Continue to monitor revenues and expenditures (2017).
- Make adjustments accordingly.
- If needed, amend the 2017 budget before **December 31, 2017.**
- Please note that if amending the budget, the city/county is subject to the following requirements:
 - Notice of Budget Hearing
 - 10-day rule
 - Public Hearing

Budget Workshops 2018

Date	Location	
May 2 nd	Iola	Allen County Courthouse
May 15 th	Garden City	Lee Richardson Zoo
May 16 th	Colby	Colby Community Building
May 17 th	Hays	Fort Hays State University
May 23 rd	Salina	Webster Conference Center
May 24 th	Wichita	WSU Metro Complex
May 30 th	Topeka	Topeka & Shawnee County Library
May 31 st	Overland Park	KU Edwards Campus

Questions & Thank you!

Roger Basinger

(785) 296 – 8083

Roger.Basinger@ks.gov

Rico B Aguayo

(785) 296 – 6033

Rico.B.Aguayo@ks.gov

Fax (785) 296 – 1477

www.admin.ks.gov/offices/chief-financial-officer/municipal-services