

Approved: Jan 18, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:05 a.m. on January 12, 1994 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Reynolds, Senator Sallee, Senator Wisdom

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Bill Edds, Revisor of Statutes
Don Hayward, Revisor of Statutes
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee: Bill Edds, Revisor
Bud Grant, KCCI
Art Brown, Mid-America Lumbermens Association
Frances Kastner, Food Dealers Association
Pam Somerville, Kansas Automobile Dealers
Bill Ervin, Municipal Accounting Section

Others attending: See attached list

REQUESTS FOR BILL INTRODUCTIONS

Bill Edds, Revisor's office, appeared to request the introduction of bills for "clean-up", bringing the statutes into conformity with other laws which have been passed.

Senator Tiahrt moved the introduction of these bills. The motion was seconded by Senator Sallee. The motion carried.

SB 225 - SALES TAX - MERCHANT'S DISCOUNT

Bud Grant, KCCI, appeared in support of **SB 225**. He read from a prepared statement. (Attachment 1) He said there are real costs to the retailers for calculation, collection and remittance of the sales tax and the retailers should be adequately compensated for these costs. He quoted from the 1993 Price-Waterhouse study which is on file in the office of Senator Langworthy.

Mike Reece, AT&T, did not speak but presented testimony in support of **SB 225**. (Attachment 2)

Art Brown, Mid-America Lumbermens Association, read from a prepared statement (Attachment 3) He also spoke in support of **SB 225**.

Frances Kastner, Food Dealers Association, also was a proponent for **SB 225**. She read from a prepared statement. (Attachment 4) She requested favorable passage for this bill.

Alan Alderson, Western Retail Implement and Hardware Association, did not speak but presented testimony in support of **SB 225**. (Attachment 5)

The hearing was closed on **SB 225**.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:05 a.m. on January 12, 1994.

SB 477 - REPEAL OF CERTAIN FUND LEVY LIMITS

Staff Briefing

Bill Edds, Revisor, stated this bill was requested by the interim Assessment and Taxation Committee. It does eliminate individual mill levy limitations imposed on cities, counties and townships. It eliminates a number of sections. The bulk of the bill is clean-up of language and references no longer needed. Provisions for referendums for tax levies for cities, counties and townships have not been changed. He reviewed some of the new sections for the committee.

Staff was requested to bring information on how this bill affects libraries.

Bill Ervin, Municipal Accounting Section, spoke from a prepared statement (Attachment 6). He said the main purpose of **SB 447** is to simplify accounting and budgeting systems for cities, counties and townships affected by the tax lid law. The committee had a number of questions for Mr. Ervin regarding the effect of this bill on different entities such as libraries, if the funds could be eliminated entirely by the cities, counties and townships, and if the mill levies could be cut or raised over the maximum limit.

The meeting adjourned at 12:00 noon.

The next meeting is scheduled for January 13, 1994.

GUEST LIST
SENATE ASSESSMENT AND TAXATION COMMITTEE

DATE: Jan 12, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
HAROLD PITTS	TOPEKA	AARP-CTF
Frances Kastner	TOPEKA	Ks Food Dealers Assn
Alan Steppat	TOPEKA	PETE McGill & Assoc.
Alice Hamilton Nida	TOPEKA	KDOT
Michelle Clum	TOPEKA	att. Brad Smart
Suzi Benker	Wichita	Sdg County Clerk's Office
Brent Shelton	Wichita	Sdg County Clerk's Office
Pam Somerville	TOPEKA	Ks Auto Bldg Assn
Art Brown	—	KS. LBR Dealers
Mary Woodland	TOPEKA	KDOT
Jacque Dakes	TOPEKA	KIATA
Denise Farland	Overland Park	O.P. Chamber
Gerry Bay	Overland Park	City of O.P., Johnson County
Radney Biesenthal	Ogden, KS	Pott Co.
William T. Smith	TOPEKA	KDA
Dennis Peterson	Manhattan, KS	Riley County
Bob Corkins	TOPEKA	KCCI
Chris Wilson	Wamego	Ks Ag Aviation Ass'n
Dennis Carter	Syracuse	Hamilton County
Anne Smith	TOPEKA	Ks. Assoc. of Counties
Jeff Betterberg	Lawrence	Betterberg & Assoc.

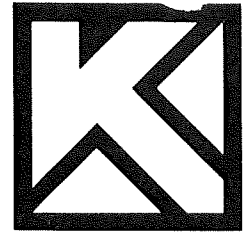
GUEST LIST (continued)

DATE: 1-12-94

[illegible]

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

SB 225

January 11, 1994

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Tax Committee

by

Bud Grant

Vice President and General Manager

Madam Chair and members of the Senate Tax Committee:

My name is Bud Grant. I am Executive Director of the Kansas Retail Council and Vice President and General Manager of the Kansas Chamber of Commerce and Industry. I appreciate the opportunity to appear before the Committee today in support of SB 225.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

*Senate Assess + Tax
Jan. 12, 1994
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The bill was introduced by this Committee during the 1993 legislative session, and would provide a three percent vendors' allowance to those businesses this legislature has determined should collect and remit the state sales tax. This is not a decision over which the retailer has control.

Recognizing that should this bill become law it will reduce revenues, the bill also would raise by one-tenth of one percent the state sales tax to offset the revenue reductions.

There are really two issues or questions that are raised by SB 225. First, are there real costs to the retailers for calculation, collection, and remittance of the sales tax? If the answer to the first question is YES, then the second question is raised. Should retailers be adequately compensated for these costs? We think the answer to both questions is YES!

Compensation through a vendors' allowance does not represent a "slush fund" for retailers. Retailers bear real costs to collect Kansas' sales tax revenue. A 1990 study by Price-Waterhouse for the National Retail Federation shows that the national average collection costs are 3.48 percent. A 1993 Price-Waterhouse study, commissioned by the Kansas Retail Council and applying the same methodology as the national study, revealed the average collection costs in Kansas are 2.86 percent. A copy of the Price-Waterhouse study is attached to my testimony. The Kansas study is consistent with previous state based studies.

Some argue that computers have so reduced collection costs that it makes compensation unnecessary. While true that computers are a great benefit, other factors offset computer benefits. For example:

1. Compliance Costs: This Committee on Assessment and Taxation can certainly appreciate the growing complexity of the sales tax with exempt items or groups added and removed each year. Added to this are changing legal interpretations through administrative and judicial interpretations. A rule of thumb is that as a retailer's percentage of taxable sales decreases, its costs as a

percentage of sales tax liability will increase. Particularly impacted by compliance costs are food and drug stores.

2. Bankcard Processing Fees: Retailers pay processing or bankcard fees for collecting the sales tax on credit card sales involving third party cards like Visa or Mastercard. These fees can range from 1.5 percent to 5 percent per transaction based on volume and average ticket price. In effect, retailers are paying these fees to banks and other processors for collecting Kansas' sales tax. When you realize the popularity today of third party credit cards and that they can be as much as 40 percent of sales, you realize why the Price-Waterhouse study found that these fees can account for as much as 15 percent of collection costs. Particularly impacted are department and general merchandise stores, apparel and other specialty stores.

Moving up the remittance date, as Kansas has done on several occasions the past ten years, also exacerbates the problem with retailers that provide their own credit, either through a revolving or closed-end plan. In these instances, a retailer must remit the full sales tax before it is even collected. For example, in a sale made on January 31 for which the tax must be remitted by February 15, a retailer will not see the first payment until late February or even March. Particularly impacted are furniture and household goods stores that sell to a lower income market. Many of their customers do not qualify for bank credit so the retailer must provide credit to sell their bigger ticket items.

There is no question that the retailer faces costs in collecting the state sales tax. While these costs probably would not put any retailer out of business, the Kansas Retail Council believes retailers should be adequately compensated for these costs. Is the retailer performing a service to collect the state's second largest source of revenue? Or, is collection solely a condition of the privilege to be a retailer in Kansas? Or, is the whole process just another "unfunded mandate" from the Kansas Legislature? Legally, retailers must collect and remit the state sales tax. We believe it is also a service that the state should, if not fully, at least adequately compensate.

A common argument against compensation is that no other tax provides compensation and the income tax is the commonly cited example. First, compensation is provided for collection of other state revenues such as motor vehicle taxes and lottery revenue. Second, unlike the individual and corporate income tax whose collection costs are spread on a broad industry base, the sales tax collection and remittance process is borne almost exclusively by retailers and thus causes a disproportionate expense to the industry. Third, payroll deductions for state income tax are far simpler and less costly to process than collecting and remitting the state sales tax.

You will find attached a list of those 29 states that now provide a vendors' allowance to their retailers. Note that the list includes all four states surrounding Kansas.

Madam Chair, Committee members, I appreciate you taking your valuable time so early in the session to hear SB 225. It was important that you hear this issue, one that has been ignored through the years, but one that will not go away.

ST. SALES TAX DISCOUNT

Alabama	5.0% first \$100; 2.0% excess
Alaska	No state - local only, and rates vary
Arkansas	2.0% tax due; \$1,000 maximum (state only) per corporation
Colorado	3.33% tax due
DC	1.0% tax due; \$5,000 maximum
Florida	2.5% first \$1,200
Georgia	3.0% first \$3,000; 0.5% excess
Illinois	1.75% tax due
Indiana	1.0% tax due
Kentucky	1.75% first \$1,000; 1.0% excess
Louisiana	1.1% tax due
Maryland	1.2% tax due first \$4,200, 0.6% excess
Michigan	pmts 1st-7th=0.75%; pmts 8th-15th=0.50%; \$20,000 maximum per month
Mississippi	2.0% tax due; \$50 maximum per month per location
Missouri	2.0% tax due
Nebraska	0.75% first \$2,000; 0.25% excess
Nevada	1.25% tax due
New Hampshire	8.0% tax due on meals only
North Dakota	1.5% tax due; \$85 maximum per month for all locations
Ohio	0.75% tax due
Oklahoma	2.25% tax due
Pennsylvania	1.0% tax due
South Carolina	2.0% tax due; \$3,000 maximum per corporation per state fiscal year
South Dakota	1.5% tax due; \$70 maximum per month per location
Tennessee	2.0% first \$2,500
Texas	0.5% tax due; additional 1.25% if tax pre-paid
Utah	1.5% tax due (state only), 1.0% local and public transit
Virginia	3.43% first \$62,500; 2.57% of \$62,501-\$208,500; 1.71% excess
Wisconsin	2.0% first \$10,000; 1.0% second \$10,000; 0.5% excess



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WRITTEN COMMENTS ON BEHALF OF AT&T
BEFORE THE SENATE TAX COMMITTEE
MIKE REECHT
SB 225
JANUARY 12, 1994

Madam Chairperson and members of the Committee:

AT&T submits the following comments in support of KCCI's position on Senate Bill 225 specifically relative to the three percent (3%) vendors' allowance.

Retailers incur real costs to collect sales tax revenue on behalf of the state. A 1990 study by Price-Waterhouse for the National Retail Federation shows that the national average collection costs are 3.48%. This study is consistent with other state based studies. In fact, a similar study was commissioned by the Kansas Retail Council (KRC) to determine the cost to the average retailer for collecting and remitting the Kansas state sales tax. The results revealed that the average retailer spent \$2.86 for every \$100 tax collected. Currently, twenty-seven states provide at least partial reimbursement to their retailers for these costs, including the bordering states of Colorado, Nebraska, Missouri, Arkansas and Oklahoma.

It has been argued that computers reduce collection costs, which would make compensation seem unnecessary. While it is true that computers are a great benefit to some retailers, other factors offset any computer benefits. For example:

1. Compliance Costs: This Committee can certainly appreciate the growing complexity of sales tax collection with exempt items or groups being added and removed each year. It was only two years ago that legislation changed the exemptions associated with state sales tax on interstate long distance. While this legislation netted the state an approximate \$10 million in additional revenue, it represented significant compliance costs for AT&T to implement these changes in its billing systems. There was no vendor compensation to help offset these costs.

Senate Assess + Tax
Feb Jan 12, 1994
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I have attached an article written by the Kansas Legislative Research Department and published in State Tax Notes on July 26, 1993. It points out the fact that the imposition of local sales taxes are on the rise. The article depicts the complexity of applying not only state sales tax but also the many different local tax rates to retail sales. For AT&T, this represents significant costs since we provide long distance service in every taxing jurisdiction in the state.

2. Bankcard Processing Fees: Retailers pay processing or bank card fees for collecting the sales tax on credit card sales involving third party cards like Visa or Mastercard. These fees can range from 1.5% to 5.0% per transaction based on volume and average ticket price. In effect, retailers are paying these fees to banks and other processors for collecting Kansas' sales tax. When you realize the popularity today of credit cards and that they represent as much as 40% of total sales, you realize why the Price-Waterhouse study found that these fees can account for as much as 15% of collection costs.

There is no question that the retailer faces costs in the collection of state sales tax. The retailer has the legal responsibility to collect and remit sales tax revenue. AT&T believes the state should adequately compensate the retailer for the costs that are incurred, and urges your support on the measure.

personal legal right or a direct injury to a personal pecuniary interest. The county in this case admitted that it suffered no unitary injury and would receive the same amount of tax dollars whether or not taxpayer's values are adjusted.

The court concluded that the right to appeal under K.S.A. 74-2438 does not provide an opportunity for a county to participate; a county has no authority or involvement whatsoever in the valuation and assessment of public utility property. ☆

Full Text Citation: *Pipeline*. AccServ & Microfiche: Doc 93-51546

Tax Appeals Board Again Rejects Stipulated Property Values

by C. David Newbery and Thomas J. Schultz,
Alderson, Alderson, Montgomery & Newbery,
Topeka

The Kansas Board of Tax Appeals has issued another order in which a stipulation as to value of property was rejected (*In the Matter of the Appeals of Construction Developers Inc./Dillard's for the Years 1991 and 1992 from the Decision of the County Board of Equalization of Shawnee County, Kansas*, July 9, 1993).

The board ruled that "insufficient evidence exists to establish that the stipulated value represents fair market value." The board's valuation of the property rejected the valuation model used by the parties in computing the stipulated value.

This decision comes on the heels of *Foxcross Associates Inc., and DWM Ltd./BOMAC Inc. v. Timothy L. Kennedy, Shawnee County Appraiser and the Board of County Commissioners of the County of Shawnee, Kansas* (June 25, 1993), in which the Shawnee County District Court found "that the determination of fair market value is a question of fact" and held that the tax appeals board in that case had erroneously rejected property values stipulated to by the parties. (For coverage of this case, see *State Tax Notes*, July 12, 1993, p. 73.) ☆

Full Text Citation: *Dillard's*. AccServ & Microfiche: Doc 93-51545

Imposition of Local Sales Taxes on the Rise

by Chris W. Courtwright,
Kansas Legislative Research Department, Topeka

The number of city and county governments in Kansas imposing local sales taxes has been increasing steadily in recent years along with the local rates, according to a study released to the House Committee on Taxation. Junction City now features the highest combined state and local sales tax rate in Kansas at 7.15 percent (4.9 percent, state; 1.25 percent, Geary County; 1 percent, Junction City).

As of July 1, 134 cities and 63 counties were charging local sales taxes. (Kansas has 627 incorporated cities and 105 counties.) Of the 134 cities, 88 were imposing a 1-percent rate; 43 were imposing a 0.5-percent rate; two were imposing taxes of 1.75 percent; and one city was charging a 2-percent tax. Of the 63 counties, 48 were imposing a 1-percent rate; eight were imposing a 0.5-percent rate; two were

imposing 1.25-percent taxes; two were charging 1.5-percent taxes; and three additional counties were imposing rates of 0.6 percent, 0.75 percent, and 1 percent, respectively.

Virtually all Kansas local sales taxes (with the exception of a 0.1-percent sales tax in one county for storm water management) were approved by voters in mandatory elections. ☆

Local sales taxes were first authorized by the Legislature in 1970, and three cities — Lawrence, Topeka, and Manhattan — in 1971 became the first local entities to implement the authority by imposing taxes of 0.5 percent. By 1981, 35 cities and 5 counties were imposing taxes. The numbers had grown to 100 cities and 57 counties with taxes by 1985.

Legislation enacted in 1992 increased from 1 to 2 percent the normal maximum rate for both cities and counties. Subject to a few exceptions, all revenue received from a tax in excess of 1 percent must be earmarked for "health care purposes."

The combined state and local sales tax rate is now at least 6.5 percent in 38 cities and the entirety of one county (Jackson).

The current Kansas local sales tax base is actually somewhat broader than the state base to the extent that certain residential utility services exempt from state taxation are subject to the local taxes, according to the report.

Total collections from local sales taxes were approximately \$248 million in fiscal 1992. (Data for fiscal 1993, which ended June 30, are not yet available.) This figure compares with \$3.6 million in total calendar year 1972 receipts from the first three cities to impose taxes. ☆

Full Text Citation: *Sales Tax Memo*. AccServ & Microfiche: Doc 93-51548

Kentucky

Physicians Group Sues Over Health Care Provider Tax

by Mark F. Sommer,
Greenebaum, Doll & McDonald, Louisville

The Kentucky Medical Association recently filed a class action lawsuit against the commonwealth in response to the recently enacted health care provider tax.

The class action lawsuit was filed in the Franklin Circuit Court in Frankfort, Ky. The Kentucky Medical Association's action seeks an immediate cessation of the collection of the health care provider tax on the basis that it unconstitutionally singles out physicians. A hearing date has not been set. ☆

Revenue Cabinet Removes Administrator From Office

by Mark F. Sommer,
Greenebaum, Doll & McDonald, Louisville

The property valuation administrator (PVA) of Johnson County, Ky., recently became the first PVA to be removed from office by the Kentucky Revenue Cabinet. The administrator was removed for failing to follow instructions regarding the reappraisal of Johnson County's property.



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MID-AMERICA LUMBERMENS ASSOCIATION

SENATE ASSESSMENT AND TAXATION COMMITTEE

January 12, 1994

Senate Bill 225

Room 519

Madam Chair, members of the Senate Tax Committee, it is my pleasure to visit with you today as a proponent of Senate Bill 225, which provides a 3% remittance to retailers for the computation of their sales tax to the State of Kansas.

I want to make it clear that this issue is a matter of principle as much as it is an issue of finance. Simply stated, if 27 other states feel that they can compensate their retail business community for the computation of sales tax, then there should be a way that Kansas can do the same.

As one of our dealers so aptly put it, "you would think that they could at least provide the postage to mail the thing back to them". "Thing," in this case, being the computed sales tax from the business.

We don't want to sound like "whiners" on this issue. We realize that much of the tax money sent into the State does come back to the communities in which they have a business and are utilized by same. Our business is one that is fraught with such idiosyncrasies as shipping material into several different taxing districts and keeping this in a correct fashion to make sure payment to the State is in the right amount. Also, as with many construction projects, there are always several returns for an assorted amount of reasons, and this again takes time to sort out and the correct remittance figure takes time to ascertain.



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Jan 12, 1994*

IN PARTNERSHIP WITH THE NATIONAL LUMBER AND BUILDING MATERIAL DEALERS ASSOCIATION

att 3-1

For some of our bigger members who have the computer capacity, this time feature is not as severe a concern as it is to the smaller dealers who, without computer assistance, end up taking more time to make these computations and in the end, for the service rendered, get no compensation for same.

As a matter of principle, we do not feel this is good policy, and 27 other states feel the same way.

As you have heard many times, and I could certainly assure you I will remind all legislators when given the opportunity to do so, there are regulations from the Federal and State Governments that really have no place in the small business community. They take time and cost a great deal of money. Add to this a service that there is no payment for, and we feel some sort of relief would be welcomed to take some of this burden off the businesses in the State.

As you have heard from the Chamber of Commerce and Industry, you have this vehicle in place. It puts Kansas on a "level playing field" with several other states in the surrounding area. We urge passage of this bill by this committee.

I stand ready to answer any questions you may have, or discuss any comments. I thank you for the opportunity to visit with you today on this issue.

ARTHUR L. BROWN
KANSAS REGIONAL MANAGER



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

OFFICERS

PRESIDENT
SKIP KLEIER
Carbondale

SENATE ASSESSMENT AND TAX COMMITTEE

1-12-94

1st VICE-PRESIDENT
MIKE BRAXMEYER
Atwood

SUPPORTING SB 225

2nd VICE-PRESIDENT
TREASURER
DUANE CROSIER
Seneca

ASST. TREASURER
JOHN CUNNINGHAM
Shawnee Mission

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association. Our membership includes manufacturers, wholesalers, distributors and retailers of food products throughout the State of Kansas.

BOARD OF DIRECTORS

CHAIRMAN
J. R. WAYMIRE
Leavenworth

We support SB 225 which would allow a 3% administrative allowance to Kansas retailers.

GLEN CATLIN
Herington

According to information presented by the State Department of Revenue several years ago, retailers collect about 80% of the sales tax. Our members, as retailers of food products certainly contribute their share of time and effort in collecting and transmitting this major revenue producing tax totally uncompensated by the State.

TOM FLOERSCH
Fredonia

ROY FRIESEN
Syracuse

We respectfully request that you recommend SB 225 favorable for passage.

ARNIE GRAHAM
Emporia

STAN HAYES
Manhattan

Frances Kastner
Frances Kastner, Director

BOB McCREARY
Goddard

Governmental Affairs, KFPA

JOHN McKEEVER
Louisburg

LEONARD McKINZIE
Overland Park

CLIFF O'BRYHIM
Overbrook

BILL REUST
Parsons

LEROY WARREN
Colby

BILL WEST
Abilene

DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

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Jan 12, 1994
att 4-1

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DANIEL B. BAILEY

January 11, 1994

Honorable Audrey Langworthy
Chairman, Senate Assessment
and Taxation Committee
Room 143-N, Statehouse
Topeka, Kansas 66612

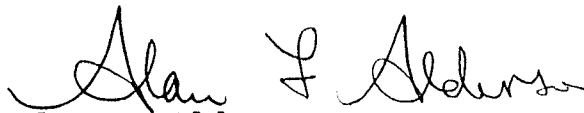
Re: SB 225

Dear Senator Langworthy:

Due to a conflict in my schedule, I am unable to appear as a proponent for SB 225 on the date it has been scheduled for hearing. I have been directed by the Western Retail Implement and Hardware Association to show support for this bill, however.

On behalf of the Western Retail Implement and Hardware Association, I am asking that you convey to the members of the Senate Assessment and Taxation Committee the fact that this association supports the passage of Senate Bill 225, which would provide for an allowance to retailers for the collection of sales tax. We urge you and the members of the committee to give serious consideration to the passage of this measure.

Sincerely,



Alan F. Alderson

ALDERSON, ALDERSON, MONTGOMERY & NEWBERY

AFA:tlp

Senate Assessment & Tax

Feb 12, 1994

att 5 -1

SENATE BILL 447
SENATE ASSESSMENT AND TAXATION COMMITTEE
Bill Ervin, Municipal Accounting Section
January 12, 1994

The main purpose of S.B. 447 is to simplify accounting and budgeting systems for cities, counties, and townships affected by the tax lid law by cutting down the number of operating funds that levy taxes. Because of its close relationship to the tax lid law, we need to first quickly review the tax lid law.

Quick Review of Tax Lid Experience

There are two pieces to the tax lid law which was amended last in 1990 and is to be sunsetted July 1, 1995:

1. The piece with the biggest effect is the tax lid itself, referred to in Kansas law as the "aggregate levy limit." Cities, counties, townships, Washburn, and community colleges, which levy about 50 percent of ad valorem taxes, are covered by the tax lid which limits the amount of ad valorem taxes they may levy. Generally, all levies are subject to the tax lid unless the law specifically exempts them.

2. The second piece applies to taxing subdivisions which are not subject to the tax lid (these taxing subdivisions levy about four percent of ad valorem taxes) but are subject to fund levy limits. Examples of fund levy limited units are sewer, hospital, cemetery, watershed, and drainage districts.

The fund levy limits (one mill for Fund A, two mills for Fund B, etc.) were suspended by 1985 and 1988 tax lid law amendments, and dollar levy limits (\$800 for Fund A, \$1,200 for Fund B, etc.) were substituted, using 1988 limits as the base. The purpose of this suspension was to prevent a "tax windfall" which would result if the reappraisal property values were higher than the pre-reappraisal property values.

The Tax Lid Has Played A Major Role in Limiting Taxes

We believe the tax lid law has been effective in limiting taxes levied by municipalities, see Attachment 1. The overall increase from 1990 to 1993 was about 2.5 percent. As we have lived the current tax lid rules since 1988-1989, we have come to realize that most fund levy limits are not needed. As the tax lid law has sunsetted, been renewed, sunsetted again, and been renewed again, however, there have been concerns about what would happen if the tax lid law were to be changed in a way that would re-activate the fund levy rate limits suspended by the current tax lid law.

During the early 1993 Session, we were requested to provide possible results of reverting to the fund levy limits which would occur if the tax lid law in its current form is sunsetted July 1, 1995. Our study concluded that reverting to the fund levy limits would cause significant problems. A strategy incorporated into S.B. 447 is to fold the authority of most of the former fund levies into the General Fund.

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att 6-1

Authorized Funds for Cities and Counties

Today, both cities and counties have at least 125 authorized funds scattered throughout the statutes. Of these authorized funds, cities can levy in 84, and counties can levy in 96. This system results in a large number of funds and complicated accounting and budgeting systems.

Proposed Elimination of Statutory Fund Levy Limits

S.B. 447 would allow expanded use of the General Fund and eliminate fund levy limits for cities, counties, and townships. This would enable governing bodies to manage the resources more efficiently and simplify their accounting and budgeting systems.

Possible Changes

Section 29 relates to township road authority. We feel this needs further consideration to harmonize this with county road levy authority.

Section 48 relates to township acquisition of land. We feel there are some extraneous words that could be removed.

With these changes, we feel that counties, cities, and townships will be able to levy up to the tax lid amounts with few statutory fund levy limits. If they use home rule to exempt themselves from the tax lid, they would be basically unlimited but each year the budget must be published and a public meeting held. This process gives the opportunity for taxpayer input into the amount of the levies.

Summary

The current tax lid law has effectively controlled ad valorem levies. Reverting to the statutory fund levy rate limits--without first overhauling them--could bring significant disruption. Thus, we support S.B. 447 as a major step in simplifying municipal accounting and budgeting systems.

Statewide Ad Valorem Levies By Type of Taxing District for 1990 to 1993

(Amounts are expressed in millions)

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>Percent of 1993 Total</u>
State	\$ 21.38	21.95	21.90	22.31	1.31%
County	372.75	392.83	413.55	454.29	26.78%
City	248.37	260.61	271.42	285.32	16.82%
Township	22.98	23.44	24.05	26.45	1.56%
USD	840.56	976.14	709.68	731.33	43.11%
Other Schools	79.38	83.99	92.35	96.42	5.68%
Out District Tuition	9.33	10.09	9.18	8.14	0.48%
Other Districts	<u>59.93</u>	<u>63.61</u>	<u>65.60</u>	<u>72.12</u>	<u>4.25%</u>
Totals	<u>\$ 1,654.68</u>	<u>1,832.66</u>	<u>1,607.73</u>	<u>1,696.37</u>	<u>100.00%</u>
Percent of Increase	5.4%	10.8%	-12.3%	5.5%	
CPI Increase	5.4%	4.2%	3.0%	3.2% Est.	

The levy data was taken from the Department of Revenue's publication "Statistical Report of Property Assessment and Taxation" with adjustments by Kansas Legislative Research Department.

Municipal Accounting Section
January 12, 1994