

SB 13 Proponent Testimony – in person
Public notice, vote requirement to raise property tax
House Taxation Committee
Dave Trabert, CEO
January 26, 2021



Chairman Smith and Members of the Committee,

We appreciate this opportunity to testify in support of SB 13, 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 13 does not do.

- SB 13 does not change how property is appraised.
- SB 13 does not limit the amount of money that cities and counties can spend.
- SB 13 does not limit the amount of property tax that cities and counties can charge.
- SB 13 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.

It merely requires city and county officials to be honest about the entire property tax increase they impose. This transparency measure is necessary because citizens are furious that local officials refuse to tell the truth about property tax increases. For example,

- Douglas County, in its 2021 budget message – the official statement to residents – says, "Acknowledging that COVID-19 has had a significant economic impact for many, the mill levy remains flat..." But the budget shows a 4.8% property tax increase.
- The Johnson County budget message touts a small reduction in the mill rate but there's a 4.3% property tax increase buried in the 445-page document.

These aren't isolated incidents. Voters all across Kansas are being told that local officials are 'holding the line' on property taxes but **our analysis of 50 of the largest cities and counties show an average property tax increase of almost 4% coming this year; that's about four times the inflation rate, while many Kansans are struggling to make ends meet.**

SB 13 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. **According to their Property Tax Annual Statistical Reports, Utah's effective tax rate declined by 7.5% between 2000 and 2018.¹ At the same time, the effective tax rate in Kansas increased by more than 22%.²**

Under SB 13, once a city or county gets new valuation totals each year, a 'Revenue-Neutral 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 Revenue-Neutral Rate and hold a public meeting where people can comment. They have to vote to increase the Revenue-Neutral Rate, which means 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 its 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. In Utah, valuations increased by about 179% since 2000 (compared to 75% in Kansas) because it is 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.

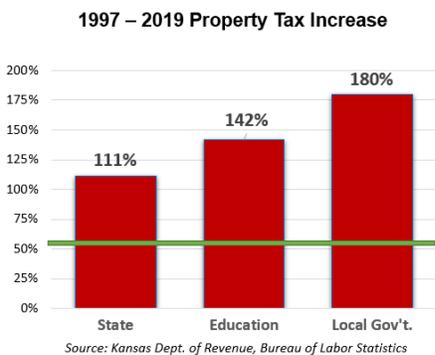
% Change 2000 to 2018		
Description	Utah	Kansas
Population	41.6%	8.3%
Assessed Valuation	178.8%	75.2%
Property Tax charged	170.4%	113.9%
Effective Tax Rate	-7.5%	22.1%

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

The co-sponsors of SB 13 were informed by Utah's experience and included new construction in calculating the Revenue-Neutral Rate.

Exorbitant property tax increases

Voters want the transparency provided in SB 13 because they are quite disturbed about excessive property tax increases, and property tax for local government operation draws the most ire.



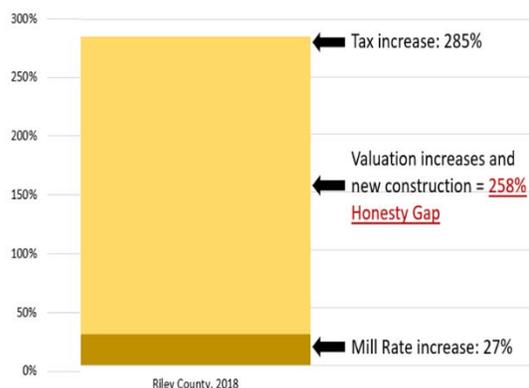
Only \$57.3 million, or about 1% of the \$5.1 billion in property tax assessed in 2019, is for the operation of state government, according to the Kansas Department of Revenue; \$2.3 billion (45%) is for education (including school districts and community colleges), and \$2.8 billion (54%) is for the operation of local government entities (cities, counties, townships, fire districts, etc.).³

The state portion increased the least, going up 111%. Education-related property taxes increased by 142%, and local government had the largest increase, at 180%.

SB 13 closes the 'honesty gap'

According to the Kansas Department of Revenue, the adjacent chart shows Riley County increased property tax by 285% between 1997 and 2019. And yet, the mill rate only went up 27%. That vast, 258-point difference between the actual tax increase and the mill rate change has created an honesty gap in taxpayers' minds.

According to the Kansas Department of Revenue, Johnson County increased property tax by 263% between 1997 and 2019; the mill rate increased by 24%. That vast, 239-point difference between the actual tax increase and the mill rate change has created an 'honesty gap' in taxpayers' minds.



The mill levy in Johnson County went up 24%, but tax revenues increased 264%, creating an honesty gap of 239%.

Saline County increased the mill levy by went up 127%, but tax revenues increased 332%, creating an honesty gap of 205%.

Of the remaining counties in the adjacent table, Miami County has the largest honesty gap, at 182%, followed by Wallace County (173%), Atchison County (163%), Ellis County and Morris County (159%), McPherson County (152%), Pottawatomie County (137%), Montgomery County (136%), Sedgwick County (114%), Shawnee County (106%), and Labette County (101%).

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

Charts showing the property tax increase for all local government units within the home counties of Committee members are attached to this testimony.

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

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

1997-2019 Honesty Gap - the Difference Between the Total Tax Increase and the Mill Rate Change			
County	Tax increase	Mill Rate Change	Honesty Gap
Atchison	191%	28%	163%
Ellis	178%	19%	159%
Johnson	264%	24%	239%
Labette	176%	76%	101%
Miami	195%	12%	182%
Montgomery	188%	52%	136%
Morris	216%	57%	159%
McPherson	167%	15%	152%
Pottawatomie	153%	16%	137%
Saline	332%	127%	205%
Sedgwick	112%	-3%	114%
Shawnee	135%	30%	106%
Wallace	261%	88%	173%

Source: KS Dept. of Revenue; rounded to nearest whole number. County-only tax.

2019 Property Tax Effective Tax Rate (ETR) Rankings				
Classification	Largest Rural Area	Tax Owed	Effective Tax Rate	ETR National Rank (1 = highest)
Rural Commercial property	Iola, KS	\$ 52,830	4.403%	#1
Rural Commercial property	Savannah, TN	\$ 12,380	1.032%	#43
Rural Commercial property	Richfield, UT	\$ 16,177	1.348%	#30
Rural Industrial property	Iola, KS	\$ 48,364	2.418%	#3
Rural Industrial property	Savannah, TN	\$ 18,839	0.942%	#35
Rural Industrial property	Richfield, UT	\$ 17,904	0.895%	#38
Rural Homestead \$150,000	Iola, KS	\$ 2,928	1.972%	#14
Rural Homestead \$150,000	Savannah, TN	\$ 1,009	0.673%	#42
Rural Homestead \$150,000	Richfield, UT	\$ 1,048	0.699%	#40
Classification	Largest Urban Area	Tax Owed	Effective Tax Rate	ETR National Rank (1 = highest)
Urban Commercial property	Wichita, KS	\$ 32,497	2.708%	#11
Urban Commercial property	Nashville, TN	\$ 14,513	1.209%	#43
Urban Commercial property	Salt Lake City, UT	\$ 15,440	1.287%	#40
Urban Industrial property	Wichita, KS	\$ 29,567	1.478%	#23
Urban Industrial property	Nashville, TN	\$ 22,085	1.104%	#36
Urban Industrial property	Salt Lake City, UT	\$ 20,778	1.039%	#40
Urban Homestead \$150,000	Wichita, KS	\$ 1,776	1.184%	#27
Urban Homestead \$150,000	Nashville, TN	\$ 1,183	0.789%	#41
Urban Homestead \$150,000	Salt Lake City, UT	\$ 1,097	0.731%	#45

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.

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

The disparity between taxes paid on a \$150,000 valued home in Kansas and the states with Truth in Taxation laws – Utah and Tennessee – is stark. An Iola homeowner pays \$2,958 versus just \$1,048 in a similar Utah community and \$1,009 in a similar Tennessee community.

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 510.7 local government employees per 10,000 residents versus a national average of 376.2; that's 36% more than the national average
- Kansas has 184.3 state government employees per 10,000 residents versus the national average of 134.6; that's 37% more than the national average

Therefore, Kansas taxpayers pay for many more government employees than the per-capita national average; about 14,000 more state government employees (which includes universities) and about 39,000 more local government employees.

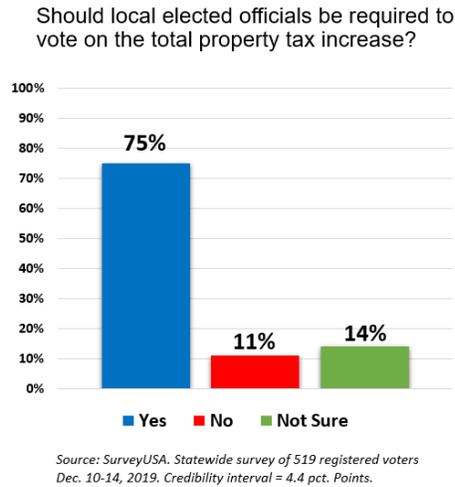
Property tax blamed for productivity lag, economic stagnation in Kansas

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, which 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

Overwhelming voter support



Voters overwhelmingly support the concept in SB 13. 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.’⁶

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

There is much more at stake than the transparency elements of this bill. Some taxpayers are being taxed out of their homes, and others fear they’ll have to sell and leave Kansas.

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

Some city and county officials will ask you to add loopholes in SB 13, so they don’t have to vote on increases from new construction or inflation; that effort was resoundingly defeated on the Senate floor by a vote of 8-27 with vocal objection from Democrats and Republicans. [Loopholes for many spending categories in the property tax lid frustrated voters because it seriously diminished the lid’s effectiveness; adding loopholes for new construction or inflation would do the same to SB 13.](#)

We encourage Committee members to support voters’ wishes and approve SB 13 as written.

Thank you for your consideration.

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.

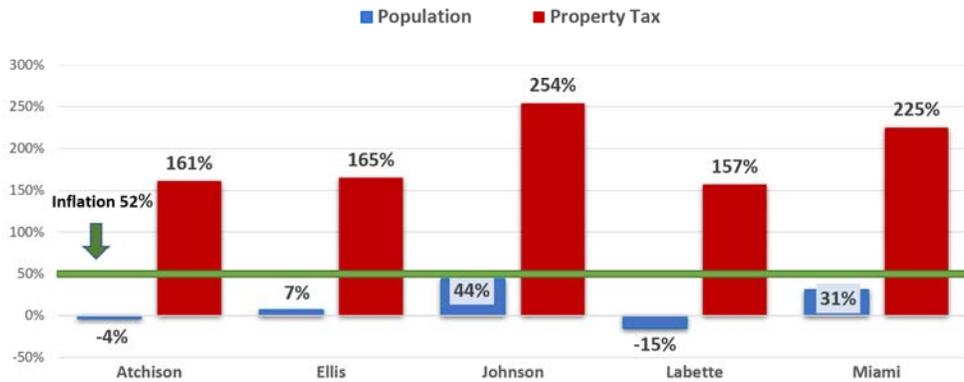
⁴ Hall, Arthur P., PhD. Local Government and the Kansas Productivity Puzzle. Lawrence, KS: Center for Applied Economics, University of Kansas School of Business, 2006.

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 SurveyUSA on behalf of Kansas Policy Institute, December 2019.

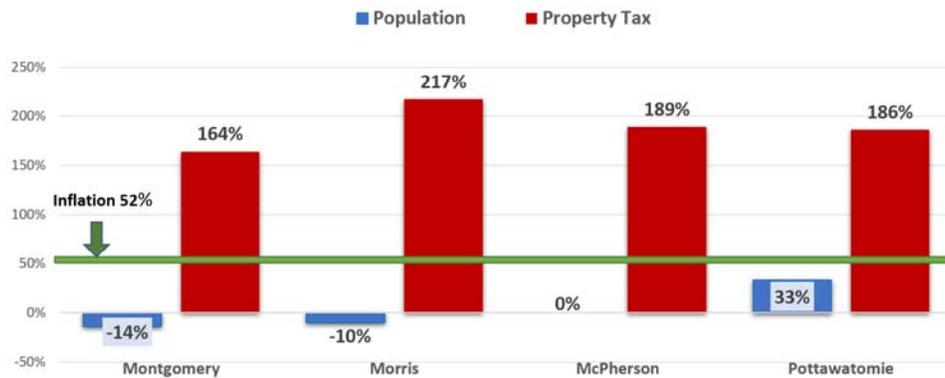
<http://www.surveyyusa.com/client/PollReport.aspx?g=f42ed964-8f02-480c-ac9a-205440612514>

1997 – 2019 Property tax increase for local government operations
(cities, county, townships, fire districts, etc. all combined; education excluded)



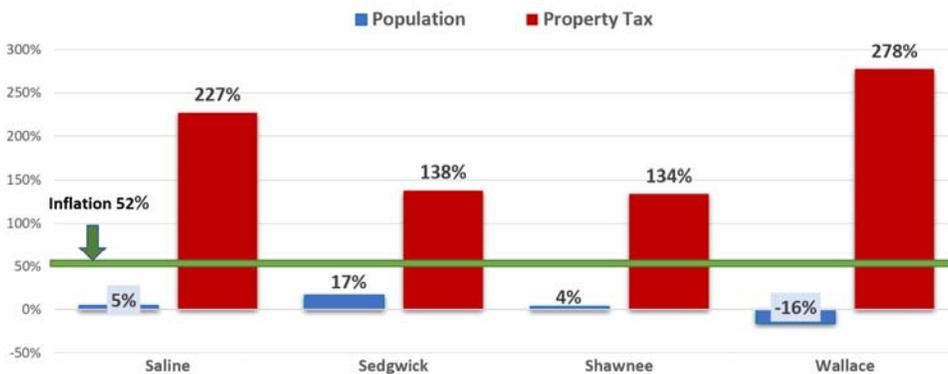
Source: Kansas Dept. of Revenue, US Census, BLS

1997 – 2019 Property tax increase for local government operations
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