



Date: May 20, 2015
To: House Taxation Committee
From: Larry R. Baer
Legal Counsel
Re: HB 2435
Testimony in Opposition

Thank you for allowing me to present testimony on House Bill 2435 on behalf of the League of Kansas Municipalities and our member cities. HB 2435 would remove the current sales tax exemptions granted to cities and other political subdivisions for the direct and indirect purchase of tangible personal property used in the construction, equipping, reconstruction, remodeling, and similar improving of facilities constructed and or owned by a city. This action would require cities to pay sales tax on all such materials.

The League stands in strong opposition to HB 2435.

HB 2435 would have a direct negative fiscal impact upon all construction and maintenance projects undertaken by every city in Kansas, with no benefit derived by local taxpayers for this unwarranted expense. The cost of any project would increase by the amount of the sales tax, at the then current state rate and any applicable local rate, on taxable materials going into the project. For example, on a \$1,000,000 project in Topeka where 50% of the cost consists of taxable materials, the cost would increase by \$44,250 by applying the current state rate of 6.15%, the county rate of 1.15%, and the city rate of 1.5%. As HB 2435 applies to both new construction and reconstruction, this would also add to the costs of operating and maintaining a city's infrastructure. Most Kansas cities' operations and maintenance budgets are already stressed. Local taxpayers would see additional deferred maintenance, with the primary beneficiary being the state's coffers.

The collection of sales tax from cities on public building projects results in the State's fiscal dilemma being solved on the backs of local taxpayers. The State's budget problems should not be pushed to local units of government and their citizens to fix. Local governments work hard to make difficult decisions prioritizing their communities' needs. The State must do the same.

The imposition of sales tax upon city building projects is not unlike an unfunded mandate upon cities and their residents. HB 2435 will result in cities making payments and receiving no benefits in return.

HB 2435 increases the cost of public projects and results in a tax shift to city taxpayers. For these and the other reasons stated above, the League stands in opposition to HB 2435.

LEAGUE OF KANSAS MUNICIPALITIES



1910 • A CENTURY OF SERVICE • 2010

300 SW 8TH AVENUE, STE. 100
TOPEKA, KS 66603-3951
P: (785) 354-9565
F: (785) 354-4186
WWW.LKM.ORG