

To: Senate Assessment and Taxation Committee
From: Jocelyn Gunter, Director, Office of Accounts and Reports
Date: February 5, 2019
Re: Neutral Testimony on Senate Bill (SB) 294

Madam Chair and members of the committee,

Thank you for the opportunity to provide testimony regarding SB 294. The Department of Administration has a neutral position on SB 294, but would like to offer our perspective regarding implementation efforts. SB 294 creates a certified tax rate (CTR) and improves transparency in property taxation by making the CTR and supporting documentation available to the public online, giving taxpayers an opportunity to voice concerns and objections to increasing tax rates. The state of Kansas has approximately 4,000 taxing subdivisions and taxing districts (taxing entities) and OAR anticipates conservatively that 3,000 or more could be impacted by SB 294.

The Municipal Services team is a self-funded on-budget program within OAR, and would be responsible for the collection, review, notification, and publication of CTRs. The Municipal Services team is small and staffed with two approved FTE (Full Time Equivalent) positions. Under the provisions of SB 294 the team would have from July 1 to July 31 (22, or less, working days) to review for compliance and accuracy the approximate 3,000 CTRs and supporting documentation from taxing entities and notify each entity of the results of the review. Municipal Services would need to review and respond to more than 136 calculated CTRs daily during each July. At this volume, assuming eight hours per day dedicated to SB 294 requirements, allows just 3.5 minutes to perform these tasks for each CTR, during the entire month of July. Current staffing is insufficient to perform these tasks within this 22 day window. Normal work for the team involves a high volume of inquiries/requests from these same taxing entities related to their budget preparations.

Note: SB 294 does not require CTRs and supporting documentation to be submitted electronically to OAR. Kansas budget law (KSA 79-2930) and municipal audit law (KSA 75-1124) both require filings of budgets and audits to be electronic. OAR recommends similar language to be added to SB 294.

Note: Logistically, receiving the CTRs from the 3,000 taxing entities won't be feasible without eventually developing and providing a web portal for the uploading of the CTR and supporting documentation. Alternatively, consider using the county clerks as the conduit for their respective taxing entities.

OAR estimates needing the equivalent of two FTE on a temporary full-time basis for two months, prior to July 1, 2020 to initially develop methodology and begin preliminary collection of the necessary information for compliance and accuracy review. During FY 2021, OAR estimates needing the equivalent of three FTE on a temporary basis during the July/August timeframe to meet the compliance and accuracy review requirements under SB 294. This would be in addition to 0.5 FTE for ongoing efforts through FY 2021 and future fiscal years to continue to collect, review, and respond to the necessary information.

SB 294 would require OAR to make the calculated CTR, supporting documentation, and notification available to the public via the Department of Administration's website by September 1 each year. To increase efficiency and minimize

long term costs, OAR would implement a website portal, allowing taxing entities to upload CTRs and supporting documentation directly to OAR, as opposed to transmitting the documents via email, fax, or mail. OAR assumes a one-time cost of development to be similar to that of another project with similar objectives to be approximately \$20,000.

As a new service provided by the Municipal Services team, OAR would develop a new fee for the CTR compliance and accuracy review. The CTR compliance fee would need to be set such that all startup one-time and continuing costs could be recovered while maintaining an adequate month to month cash flow and FY ending balance. Rate increases to the local units of government are the only funding mechanism to fund new initiatives for the program. Based on cost estimates and the number of taxing entities that would be required to comply with SB 294, OAR estimates a CTR Compliance Fee of \$30 per year beginning in FY2021. This fee would be reassessed during future fiscal years considering actual revenues and expenditures, with an expectation to lower the fee once one-time costs are recovered and the process is established.

Per subsection (c) the governing body of each taxing entity would be required to submit to OAR the actual CTR on or before August 1 to meet OAR's September 1 website publication deadline.

Note: With (1) the compliance review due from OAR to the taxing entities before August 1, and (2) the taxing entities subsection (c) reporting requirements due back to OAR on or before August 1, the potential volume of separate communications will be quite high (2 x 3,000 = 6,000) in a very compressed timeframe. The concern is that most of these communications will center around the August 1 shared deadline.

SB 294 would require the governing body to approve a resolution or ordinance in order to levy a tax rate increase in excess of the CTR. Further, they must (1) give public notice of intent to exceed the CTR via newspaper and website at least 10 days prior to public hearing, (2) by August 1 notify the county clerk who must then notify taxpayers directly also within 10 days prior to the public hearing, and (3) hold the public hearing on or before September 15 not conflicting with date/time of another such public hearing within the county.

Note: The public hearing deadline occurring on or before September 15, while not specifically conflicting with existing municipal budget timelines, does not correlate with existing budget timelines found in Kansas budget law (KSA 79-2925 *et seq.*) and tax levy provisions (KSA 79-1801). KSA 79-1801 would require budgets to be submitted to the county clerk by August 25, unless a city or county were holding an election under the provisions of KSA 79-2927c.

A majority vote of the resolution or ordinance by the governing body is required.

Note: SB 294 is silent on the reporting requirements of taxing entities to OAR after holding a public hearing regarding an increased CTR, as allowed by subsection (d). Thus, the Department of Administration is uncertain of its transparency responsibility.

SB 294 requires any taxing entities that must conduct a public hearing to approve exceeding the CTR to certify, on or before October 1, the amount of tax to be levied.

Note: This provision appears to conflict with current law. KSA 79-1801 requires budgets to be submitted to the county clerk by August 25, unless an election is required. OAR recommends providing an amendment to KSA 79-1801 to allow budget adoption and filing for taxing entities adopting an increased CTR to be due on or before October 1. Also, SB 338 should be considered for effect on the process and timeline, if passed.

SB 294 Section 2. puts the act in effect after its publication in the statute book (July 1).

Note: If passed, SB 294 provisions would be effective July 1, 2020. This is the same day the taxing entities' CTR submission is due to OAR under Section 1. The Dept. of Administration questions if this is legislative intent.

Thank you for the opportunity to provide testimony for Senate Bill 294. OAR appreciates your time and consideration. We are happy to answer any questions at the appropriate time.

Respectfully,

Jocelyn Gunter, Director
Office of Accounts and Reports