



KACIR

Kansas Advisory Council on Intergovernmental Relations

2006
Annual
Report

Table of Contents

- 1 KACIR Statutory Charge and Membership**
- 2 KACIR Roster**
- 3 Report of Meetings**
- 5 Reports of the KACIR**
- 17 Report of Summit on Consolidation**
- 21 Conclusions of Summit on Consolidation**
- 22 KACIR Policy Recommendations**

Statutory Charge and Membership

Statutory Charge (K.S.A. 12-4001 - 4008)

The 2002 Kansas Legislature created the 15-member Kansas Advisory Council on Intergovernmental Relations (KACIR). The Council has the duty to engage in continuous study of the services provided by the various types and levels of government within the state, the division of responsibility for providing and financing governmental services, possibilities of improving the organizational structure and operational efficiency of the various governmental units serving the citizens of the state; and the state and local tax structure and the revenue requirements and fiscal policies of the state and its local units of government.

The KACIR is required to give particular attention to modernization of the structure of Kansas local government, the impact of urbanization on the organization and functions of local government, the impact of technology on the organization and functions of local government, and the relationships between state and local governments.

In addition, the KACIR is required to make an annual report in writing to the Governor and Legislature.

Membership

The Governor appoints 11 of the 15 members:

- Two members shall be elected county officials of which, one shall be a member of a board of county commissioners
- Two members shall be elected city officials
- One member shall be an elected township official
- One member shall be an elected school board member
- Two members shall be executive branch officials
- Three members shall be private citizens

The remaining 4 members are as follows:

Two members of the Council shall be members of the Kansas Senate – one shall be appointed by the President of the Senate and one by the Senate Minority Leader.

Two members of the Council shall be members of the Kansas House of Representatives – one shall be appointed by the Speaker of the House and one shall be appointed by the House Minority Leader.

Members shall serve without compensation but may be reimbursed for expenses. No more than seven members may be from the same political party.

KACIR Roster

<u>KACIR Position</u>	<u>Term End</u>	<u>Last Name</u>	<u>First Name</u>	<u>Title</u>
School Board Member	June 30, 2008	Campbell	Carolyn	Member, USD 501 BOE
Township Official	June 30, 2008	Finney	Tom	Zeandale Township Officer
House Min Ldr Apptee	Jan 2005	Gatewood	Doug	Representative District 1
Exec Branch Official (1 of 2)	June 30, 2008	Harkins	Joe	Nat Resources Policy Advisor
Private Citizen (1 of 3)	June 30, 2010	Hixson	Warren	Retired
City Official (1 of 2)	June 30, 2008	Jackson	Richard	Mayor Pro Tem, City of Ottawa
Private Citizen (1 of 3)	June 30, 2010	Kinser	Sandi	Board member, Cloud Co. CC
City Official (1 of 2)	June 30, 2010	Lawless Jr.	Patrick	Mayor, Osage City
County Official (1 of 2)	June 30, 2008	Norton	Tim	Sedgwick Co Commissioner
House Maj Ldr Apptee	Jan 2005	Owens	Tim	Representative District 19
Private Citizen (1 of 3)	June 30, 2007	Pisciotta	Joe	Professor, Wichita State University
Sen President Apptee	January, 2009	Reitz	Roger	Senator District 22
Senate Min Ldr Apptee	Jan 2005	Steiniger	Chris	Senator District 6
County Official (1 of 2)	June 30, 2010	Traster	Matt	Grant County Commissioner
Exec Branch Official (1 of 2)	June 30, 2010	Wagnon	Joan	Secretary of Revenue

The following people also served as members of the KACIR in Calendar Year 2006:

Michael Boehm, Mayor of Lenexa

Laverne Courtney, Instructor, Seward County Community College

Report of Meetings

The KACIR convened five (5) times during Calendar Year 2006. The venues for these meetings were Topeka (Congressional District 2); Kansas City (Congressional District 3); Wichita (Congressional District 4); and Concordia (Congressional District 1). In addition, the Council held a Local Government Consolidation Summit in Salina (Congressional District 1).

The final meeting for 2006 was held by teleconference on December 21, 2006 to discuss this report and upcoming KACIR business.

All meetings were staffed by Lynn Robinson.

February 9, 2006 – Topeka, KS – Congressional District 2

Council members present: Michael Boehm, Tom Finney, Joe Harkins, Richard Jackson, Sandi Kinser, Tim Norton, Tim Owens, Roger Reitz, and Joan Wagon.

Other interested parties in attendance: Nickolaus Hernandez, Dr. John D. Wong, and Dr. Bart Hildreth from Wichita State University, Representative Kenny Wilk and Don Moler, League of Kansas Municipalities.

The Council discussed local government consolidation issues. The Chair invited Representative Kenny Wilk to the meeting to share his views on consolidation.

The Council listened to two presentations. The first presentation was by Dr. John D. Wong – Kansas Tax Incidence Study: Who Pays Kansas Individual Income, Retail Sales, and Residential Property Taxes. The second presentation was by Dr. Bart Hildreth – State of Kansas Debt Affordability Report.

The Council reaffirmed its continued support of the consolidation bills introduced last session, as well as Senate Bill 379, which was introduced this session. The group discussed ways to educate the people of the state on consolidation.

April 20, 2006 – Kansas City, KS – Congressional District 3

Council members present: Carolyn Campbell, Doug Gatewood, Richard Jackson, Sandi Kinser, Tim Norton, Matt Traster, and Joan Wagon.

Other interested parties in attendance: Randall Allen, Kansas Association of Counties; Don Moler and Kimberly Winn, League of Kansas Municipalities; and Senator Dave Kerr.

Randall Allen and Don Moler gave the group an update on the progress of consolidation legislation of interest to KACIR (SB 379, HB 2093, and HB 2809).

Senator Dave Kerr gave his presentation showing the excessive number of local governments in Kansas. He expressed the need for gateway legislation to allow local units of government to consolidate without legislative approval.

The Council agreed to push its support forward for local government consolidation legislation. The group continued discussion on ways to educate the people of the state on consolidation.

Report of Meetings (cont)

June 29, 2006 – Wichita, KS – Congressional District 4

Council members present: Carolyn Campbell, Tom Finney, Sandi Kinser, Tim Norton, Tim Owens, Matt Traster, and Joan Wagnon.

Other interested parties in attendance: Randall Allen, Kansas Association of Counties; Ben Cleaves, Budget Division; Chris Courtwright, Legislative Research; Richard Cram, Department of Revenue; Pete Davis, Department of Revenue; Martha Dorsey, Legislative Research; Ann Durkes, Budget Division; Tony Folsom, Department of Revenue; Roger Hamm, Department of Revenue; Mark Hixon, Shawnee County Appraiser, Lana McPherson, city of DeSoto; and Don Moler, League of Kansas Municipalities.

The Council was given the following presentations: Kansas Tax Incidence Study: Who Pays Kansas Individual Income, Retail Sales, and Residential Property Taxes, by Dr. John D. Wong; Erosion of the Property Tax Base, by Dr. Glenn Fisher and Ms. Crystal Gile; Erosion of the Sales Tax Base, by Dr. John D. Wong and Mr. Nickolaus Hernandez; and Local Debt Affordability Study, by Mr. Anthony Swartzendruber, Dr. Bart Hildreth, and Mr. George VanRiper. Dr. Ed Flentje distributed Policy Choices for Discussion, outlining a variety of policy choices on state tax, property tax, and sales tax for policy matters.

The members discussed how to educate the people of Kansas on local government consolidation.

September 22, 2006 – Concordia, KS – Congressional District 1

Council members present: Tom Finney, Joe Harkins, Warren Hixson, Richard Jackson, Sandi Kinser, Tim Norton, Matt Traster, and Joan Wagnon.

Other interested parties in attendance: Dr. Glenn Fisher and Dr. Ed Flentje from Wichita State University; Lana McPherson from city of DeSoto and Don Moler from League of Kansas Municipalities.

The Council discussed the studies that were presented to them on June 29, 2006 at Wichita State University as well as the Principal Findings and Policy Choices report from the September 2006 interim tax committees.

The members discussed having a local government consolidation summit in Salina. The purpose of the summit is to provide local government officials and community business leaders the opportunity to learn more about the recent legislation passed regarding local government consolidation and to discuss possible efficiencies gained by consolidating local governments throughout the state of Kansas. The summit will also provide the chance to extend an invitation from KACIR members to visit areas within the state that are interested in learning more about local government consolidation.

Reports of the KACIR

Together, the Kansas Advisory Council on Intergovernmental Relations and the Kansas Department of Revenue determined a need for the State of Kansas to produce comprehensive tax studies that inform legislators and the public how the state tax burden is distributed among the population. Analyses of such studies can provide information regarding how specific proposals might change that burden.

Three studies were conducted by faculty of the Kansas Public Finance Center, a part of the Hugo Wall Center of Urban and Public Affairs at Wichita State University. The studies were funded by the Kansas Department of Revenue. The studies are as follows: Erosion of the Kansas Property Tax Base, Dr. Glenn Fisher, Principal Investigator; Erosion of the Kansas Sales Tax Base, Dr. John Wong, Principal Investigator; and Local Debt Affordability in Kansas, Dr. Bart Hildreth, Principal Investigator.

The Executive Summaries for these studies are included in this annual report. The complete studies are located on KACIR's web page at: <http://www.ksrevenue.org/kacir.htm>

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Property Tax Base Dr. Glenn W. Fisher

The principal investigator for this project was Dr. Glenn W. Fisher. Dr. Fisher received his PhD in Economics from the University of Wisconsin. He came to Wichita State University as Regents Professor of Urban Affairs in 1970 and became Professor Emeritus in 1993. Dr. Fisher is an honorary member of the International Association of Assessing Officers and was recently awarded the Wildavsky Award by the Association for Budgeting and Financial Management “for lifetime contributions to public budgeting and finance.”

Principal Findings

- The Kansas property tax is evolving into a real estate tax, and residential real estate is becoming a more important part of taxable real estate. Real estate made up 44 percent of the total ad valorem base in 1988 and 65 percent in 2005. Residential real estate made up 22 percent in 1988 and 40 in 2005.
- The original constitutional exemptions of property used for educational, governmental, religious and similar purposes have been clarified and expanded by statute and total \$20 billion, but now are smaller, in relation to all taxable property, than they were fifteen years ago. In 1989, the real estate exempted under this provision equaled 20 percent of the value of taxable property but by 2005 had declined to 15 percent.
- Beginning in the 1970s, the exemption of personal property, especially business and agricultural property, has accelerated. Most exempt personal property is neither listed nor appraised, but the number of exemptions has risen greatly.
- Local option exemption of real and personal property deemed important for economic development is common in Kansas. In 2005, \$3.4 billion in appraised value, two percent of total appraised value, was exempted by cities and counties as IRB property or under the constitutional provision allowing exemption of certain property for economic development. Since 1993, total economic development exemptions have fluctuated from a low of 1.5 percent of the appraised value to a high of 2.8 percent.
- The assessment of locally assessed real estate, the fastest growing category of property, is closely monitored by the state and is appraised close to market value. In 2005, the statewide ratio of appraised value to sale price was 96 percent.
- State assessed utility property values are not subject to sales-ratio studies nor auditing by outside firms, and appraised value of this property is growing less rapidly than locally assessed real estate. In 1988, public utility property made up

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Property Tax Base Dr. Glenn W. Fisher (continued)

18 percent of assessed value, but dropped to 16 percent after the 1992 constitutional amendment and has since declined to 10 percent.

- The value of vehicles appraised by the statutory formula is close to that which would be produced by market-value appraisal, but the phase-in of a reduced assessment ratio in the 1990s resulted in a \$1.5 billion reduction in assessed value. Current motor vehicles make up 11 percent of assessed value, as compared with 14 percent in 1988.
- Use-value appraisal of agricultural land has resulted in appraised value far below market value. Statewide, agricultural land was sold at a median of 12 percent of use-value assessment. In some large counties, agricultural lands sell for more than one-hundred times their use-value appraisal. Detailed, county-by-county analyses have not been made, but much of the benefit of use-value appraisal does not go to those continuing in the farming business. Residential property owners in most agricultural counties pay much higher taxes as the result of use-value assessment.
- County appraisers report “abuse” or difficulty caused by exemptions of farm equipment, neighborhood revitalization property, and industrial property. Taxpayers often claim agricultural exemption on equipment that is used largely for uses other than agriculture. Exemption for repairs and additions to complex industrial properties are often granted at several different times for the same building. Neighborhood revitalization property is not exempt, but taxes on the incremental increase in value are earmarked for uses that benefit the property owner by cash refund or repayment of bonds. Keeping track of these many increments and property owners greatly complicates the appraiser’s job.

Policy Choices

The property tax began as a simple tax on all wealth. Since it was adopted in Kansas in the mid1800s, statutory and constitutional changes have transformed it into a tax that is largely a real estate tax supplemented by a tax on utility property and motor vehicles, both of which are declining in relative importance. In view of the importance of the property tax as a source of local government revenue, Kansas faces painful choices. Among the possible policies are the following.

- Continue on the current path. This choice will undoubtedly make financing local government more difficult and will raise the burden on residential property. This choice may eventually spark a taxpayer revolt that could lead to the kind of arbitrary tax or expenditure limitations that have hampered the provision of government services in California and many other states.

Reports of the KACIR (cont)

**Executive Summary
Erosion of the Kansas Property Tax Base
Dr. Glenn W. Fisher
(continued)**

- **“Clean up” the property tax laws and develop rational policy for exemptions and then examine all present and proposed exemptions in light of the policy. This approach has severe limitations since some needed changes would likely require constitutional amendments and any attempt to repeal existing statutory or constitutional exemptions would meet fierce opposition.**
- **Return toward “uniform and equal.” Drafting and passing such an amendment would require the agreement of major interest groups and might require a commission or some kind of “mini”constitutional convention.**
- **Repeal all taxes on personal property and reconfigure local government and government functions so that local governments finance only property-related services from the property tax. For example, social services now funded with local property taxes would have to be financed by state revenues or other revenue sources.**
- **Authorize local government broader access to sales and income taxes. This choice might be done by consolidating small governments or by creating taxing districts that could more effectively levy income or sales taxes. More governmental functions, for example, schools, could be shifted to the state level.**

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Sales Tax Base Dr. John D. Wong

The principal investigator for this project was Dr. John D. Wong. Dr. Wong is a Professor in the Hugo Wall School of Urban and Public Affairs at Wichita State University. He received his Bachelor of Business Administration and Master of Arts in Economics degrees from WSU, a Juris Doctorate from Washburn University, and a Doctor of Philosophy degree from Northeastern University. Professor Wong served the Kansas Governor's Tax Equity Task Force as a consultant on the distributional impact of tax reform and the effect of taxation on economic development. He has also previously served as a consultant for several cities and counties.

Principal Findings

- **Although the sales tax is generally perceived by many to be a broad-based tax on final consumption, in most states it is neither broad-based nor limited to final consumption.**
 - **Economic changes and policy decisions have coalesced to accelerate changes in the sales tax base in recent years.**
 - **The principal causes of erosion of the sales tax base include:**
 - **Legislated statutory exemptions,**
 - **Attempts to tax services,**
 - **Cross-border shopping, and**
 - **Technological change.**

- **One important reason for the erosion of the Kansas sales and use tax base is the passage of a large number of statutory exclusions and exemptions to the tax.**
 - **Since 1937 there have been 71 original exemptions and exclusions from the sales and use tax, 53 expansions in exemptions or exclusions, 20 restrictions in exemptions and exclusions, and 62 other changes in the sales and use tax statutes, for a total of 206 legislative enactment or changes in the Kansas sales and use tax statutes.**
 - **In 1938 the total value of exclusions and exemptions from the sales and use tax base was \$121.4 million of sales.**
 - **By 2005 this had mushroomed to \$68,633.8 million of sales.**
 - **The value of the exclusions and exemptions is actually nearly twice the size of the actual sales and use tax base in 2005 of \$35,706.0 million.**
 - **In 1938 the total value of exclusions and exemptions was \$2.4 million.**
 - **By 2005 this had mushroomed to \$3,637.6 million.**
 - **The value of the exclusions and exemptions is actually nearly twice the size of the actual sales and use tax collections in 2005 of \$1,892.4 million.**
 - **The largest increases in exemptions and exclusions in the sales and use tax base occurred during the early 1970s and the early 1990s.**

- **The most significant exclusion is for component parts and items consumed in the**

Reports of the KACIR (cont)

Executive Summary Erosion of the Kansas Sales Tax Base Dr. John D. Wong (continued)

production process.

- In 2005 this item alone accounted for \$43,787.0 million of sales that were not taxed.
 - The exclusion of component parts and items consumed in production alone amount to a sales and use tax loss of \$2,320.7 million.
 - The second largest exclusion is for government and nonprofit purchases.
 - This exclusion resulted in the loss of approximately \$299.9 million in state sales and use tax revenue in 2005.
- The statutory exemption of specifically enumerated services resulted in the loss of approximately \$258.0 million in state sales and use tax receipts in 2005.
 - One study estimated that extending the sales tax to all readily-taxable services would increase state sales tax revenues by approximately \$500 million or 29 percent.
 - Overall if all services broadly construed were included state sales tax revenue could be increased by as much as \$1,944.6 million.
 - This value is actually higher than 2005 sales and use tax receipts which were \$1,892.4 million.
 - Almost as significant the exclusion of agricultural and land use related transactions resulted in the loss of approximately \$251.7 million in sales and use tax revenue in 2005.
 - Another significant exemption is the exemption of items otherwise subject to specific excise taxes.
 - In 2005 the total value of this exemption was \$202.6 million in sales and use taxes.
 - Finally the exemption of the transactions of benevolent organizations resulted in the loss of approximately \$181.7 million in sales and use taxes in 2005.

Policy Choices

- In addition to actual sales and use tax receipts of \$1,892.4 million in FY 2005, the State of Kansas could anticipate as much as:
 - \$3,637.6 million in additional revenue from the elimination of the identified exclusions and exemptions,
 - \$1,994.6 million in additional revenue from the comprehensive taxation of services, broadly defined, and
 - \$286.2 million in additional revenue from the taxation of remote sales.
 - All total, theoretical sales and use taxes for fiscal year 2005 could be as high as \$7,760.8 million, approximately 4.1 times present sales and use tax collections.
- The future of the sales tax is tied to addressing four problems (Fox, 1998):

Reports of the KACIR (cont)

**Executive Summary
Erosion of the Kansas Sales Tax Base
Dr. John D. Wong
(continued)**

- **Avoiding proliferation of sales taxes on business inputs,**
- **Keeping household purchases of tangible personal property inside the tax base,**
- **Bringing household purchases of services into the tax base, and**
- **Getting Congress to help states enforce use taxes.**

- **Problems with legislative statutory exemptions**
 - **The cumulative fiscal impact of the exemptions is huge.**
 - **Tax exemptions that may benefit only a few shift the burden, either by taking money away from the vital services or by forcing others to pay higher taxes to compensate for revenue losses.**
 - **Exemptions are adopted piecemeal, often in response to specific industry requests, without being weighed against each other or against needs for public programs.**
 - **Once adopted, exemptions are rarely evaluated or repealed, even though economic pressures and needs change dramatically over time.**
 - **Public revenues are growing more slowly than the demand for public services, since the tax system is based on the economy of the 1930s, rather than on the economy of the twenty-first century.**

- **The Hodge Committee (1970: 10) recommended that the retail sales tax should remain focused on consumption rather than on production. This is consistent with contributing to the long-run economic development of the state by putting Kansas in a better position competitively in seeking to attract new industry.**
 - **The committee recommended that the component part rule be retained and refined.**
 - **The committee suggested that it would be more desirable to exempt “consumables” as a class than to continue the policy of selective exemption through listing specific items.**
 - **However, the committee concluded that a general exemption for machinery and equipment used in production was not warranted.**

- **Arguments for inclusion of services in the sales tax base**
 - **The sales tax should be as broadly applicable to consumer expenditures as possible and therefore the tax should be imposed on services as well as tangible property because both satisfy personal needs and wants.**
 - **Taxation of services makes the sales tax less regressive because expenditures for services tend to increase as personal income rises.**
 - **Revenue from the sales tax is more responsive to rising levels of personal income and economic activity if services are taxable, because under such conditions expenditures for services increase relatively more than purchases of basic commodities.**

Reports of the KACIR (cont)

**Executive Summary
Erosion of the Kansas Sales Tax Base
Dr. John D. Wong
(continued)**

- Administration of the sales tax is simplified if the tax is applicable to services rendered in conjunction with sales of tangible personal property, i.e., it is not necessary to separate the amount charged for services from the amount charged for such property.
- The Hodge Committee (1970: 16) recommended that the sales tax should not be extended to include personal and professional services.
 - The committee concluded that if additional services were to be taxed, the most practical approach would be to start with services associated with the sale of tangible property and performed generally by firms already registered under the sales tax act.
 - One of the difficulties of taxing services is determining the situs of intangible services, their allocation, and the application of the *use* tax to such services.
- Without the use tax, purchases from out-of-state sources would be encouraged to the disadvantage of local suppliers.
- Thus, it would be difficult to apply the use tax to purchases of services.
- The Hodge Committee (1970: 12) recommended that the educational exemption should be retained because to remove it would merely mean an increase in property taxes. Further, the committee suggested that expenditures constituting a legitimate part of the school program should be exempt and that the same rules should apply to public and private non-profit schools at all levels of education.
- The Hodge Committee (1970: 12) recommended that that the exemption of purchases by hospitals operated by religious or other non-profit organizations should be continued. It was concluded that a general exemption of purchases by non-profit hospitals would be consistent with the granting of an exemption for purchases of prescription drugs and prescribed medical devices.
- The Hodge Committee (1970: 11) recommended that the exemption of purchases by religious, charitable, and benevolent organizations should be repealed.

Reports of the KACIR (cont)

Executive Summary Local Debt Affordability Dr. W. Bartley Hildreth

(Note: This report is in the process of editing and a final executive summary will be included in Dr. Hildreth's full report.)

The principal investigator for this project was Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance in the Hugo Wall School of Urban and Public Affairs and the W. Frank Barton School of Business. Dr. Hildreth received his Doctorate in Public Administration from the University of Georgia (1979), Masters in Public Administration from Auburn University (1975), and Bachelors of Arts degree in political science from the University of Alabama (1971). Dr. Hildreth served on the Kansas Development Finance Authority from 1998 to 2003, and in 1999 served as an advisor to the Governor on structuring a second comprehensive transportation program.

Purpose of Study

- To provide a better understanding of the debt levels of Kansas' local governments, and the debt's impact on overlapping and underlying jurisdictions, in addition to the impact on the citizens within these jurisdictions.
- To promote fiscal policies that will protect the credit quality of local government debt instruments and ensures the sustainability of these jurisdictions' financial position.

Overview of All Kansas Local Government Debt

- All Kansas Local Government Debt increased from \$2.67 billion in 1990 to \$7.90 billion in 2005, at a compound annual growth rate of 7.50%.
- Local government debt per capita rose from \$1,259 per person in 1993 to \$2,865 in 2005, or an annual growth rate of 7.10%. Given wide variation, the county mean (or average) is \$1,688 and the medium is \$1,521.
- By the debt burden measure of debt per capita as a percentage of Kansas personal income per capita, local government debt increased from 5.95% in 1990 to 8.76% in 2005. The county mean is 6.55% and the medium is 5.80%.

Profile of Selected Categories of Debt

- **School District Debt:** Comprised 18.48% (or \$493.5 million) of all local debt in 1990, but its share rose sharply to 39.25% (or \$3.10 billion) in 2005. For the entire period, the annual growth rate was 13.03%, while from 2000-2005, the annual growth rate was 8.46%. The largest increase occurred between 1993 and 1994 as debt increased 28.73%, reflecting the start of the 1992 School District Bond Principal and Interest Obligation

Reports of the KACIR (cont)

Executive Summary Local Debt Affordability Dr. W. Bartley Hildreth (continued)

State Aid Payments program. As a result, school debt is the most significant factor in the growth of Kansas local government debt.

- **County General Debt:** Comprised 12.4% (or \$331.1 million) of all local debt in 1990, but its share declined to 6.61% (or \$522.3 million) in 2005. For the 15-year period, it grew at an annual rate of 3.08%, but for the last five years, debt decreased by 1.23% per year. The largest increase was between 1992 and 1993 (by 21.67%) and the greatest decline was between 2003 and 2004 (by -15.14%).
- **City Debt:** Comprised 35.03% (or \$935.3 million) of all local debt in 1990, but declined to a 28.90% share (\$2.3 billion) in 2005. The amount grew at an annual growth rate of 6.13% over the entire period. City debt only decreased one time during this 15 year period, and the largest increase (14.55%) occurred between 2003 and 2004.
- **Revenue Debt:** As the category that includes enterprise operations (e.g., water and sewer bonds) and selected dedicated tax-backed debt, revenue debt declined from 22.56% of all local debt in 1990 to 16.66% in 2005. The annual growth rate was 5.35%.

Profile of Industrial Revenue Debt

- **Industrial Revenue Debt** increased from \$4.51 billion in 1990 to \$8.60 billion in 2005, or an annual growth rate of 4.40%. It is inappropriate to include Industrial Revenue Bonds in local government debt because the local government is only the conduit for the private business to access the capital market and the local government does not have any legal liability for the debt.

All Local Government Debt Per Capita, By County, 2005

- The highest amount of all local government debt per capita is found in Wyandotte County (\$5,101), Butler (\$4,833), Sumner (\$4,284), Scott (\$4,259) and Johnson (\$4,047). The lowest amounts per capita are in Meade (\$82), Jewell (\$198), Woodson (\$223), Smith (\$237) and Sheridan (\$273).

School District Debt Per Capita and Per Student, 2005

- Highest aggregate school debt per capita is Scott County (\$3,458), Butler (\$2,755), Johnson (\$2,108), Sumner (\$1,996) and Wabaunsee (\$1,974). Mean is \$679 per capita.
- Highest aggregate school debt per student is Scott (\$17,772), Wabaunsee (\$13,896), Johnson (\$13,078), Butler (\$12,442), and Sumner (\$12,327). Mean is \$3,977 per student.

Reports of the KACIR (cont)

**Executive Summary
Local Debt Affordability
Dr. W. Bartley Hildreth
(continued)**

- **There is no School District Debt in 25 counties.**

Debt of Individual Municipalities

- **A comparison of Kansas cities with comparable data reveals many with higher levels of overlapping debt (especially by School Districts). Despite higher debt ratios, few cities enjoy a more diverse local economy as measured by the top 10 property taxpayers as a percentage of the tax base. These trends affect credit quality.**

State Debt compared to Local Government Debt

- **State Debt Per Capita for 1993 was \$363 and \$1,435 in 2005, representing an annual growth rate of 12.12% [Data from: State of Kansas 2005 Debt Affordability Report].**
- **Local Debt Per Capita for 1993 was \$1,259 and \$2,865 in 2005, a 7.10% growth rate.**

Policy Choices

- **Monitor the growth. Although Kansas local government debt has grown faster than the growth in state population and Kansas personal income, current debt levels remain in the moderate range by certain aggregate credit measures. School debt reflects significant growth consistent with state policy.**
- **Weigh tighter limits. Just as state lawmakers prefer to have flexibility to respond to state needs, local government officials prefer similar flexibility. Efforts to tighten tax limits, impose spending limits, or constrain debt issuance can adversely hinder elected officials from responding to citizen demands for local services and needed capital assets at affordable rates.**
- **Preserve bond security. Eroding local revenue sources through more exemptions to the property and sales taxes or imposing new mandates can negatively impact the ability of local governments to repay current or future obligations and borrow at the lowest possible interest rates.**
- **Promote debt coordination. Local governments could be encouraged to coordinate their debt plans when they share the tax base.**
- **Enhance transparency. On each debt transaction, locally elected officials have determined that the debt is needed for public purposes, citizens have the opportunity to express disapproval at the next election, and the market has determined that the debt**

Reports of the KACIR (cont)

**Executive Summary
Local Debt Affordability
Dr. W. Bartley Hildreth
(continued)**

issuer can repay and afford the debt. Still, local governments could formally address the details of each debt transaction through a timely and easy-to-understand “Truth in Borrowing” information statement.

- **Enable taxpayer comparison shopping.** The State could compile detailed financial records on each local government and provide timely and easy public access through a single electronic database, thereby promoting accountability by helping taxpayers vote with their feet if they are not satisfied with a local government and its finances.

* By WSU Public Finance Center authors, Dr. W. Bartley Hildreth (bart.hildreth@wichita.edu) and Anthony Swartzendruber (alswartzendruber@wichita.edu), 316-978-6332. Date of this draft summary is September 12, 2006

Report of Summit on Consolidation

On November 1, 2006 the Kansas Advisory Council on Intergovernmental Relations held a Local Government Consolidation Summit in Salina, KS at the Salina Area Chamber of Commerce.

Council members present: Warren Hixson, Richard Jackson, Tim Norton, Tim Owens, Matt Traster, and Joan Wagnon.

There was considerable attendance at the Salina Summit. Over eighty (80) attendees came to listen to the scheduled speakers talk about tools for local government. Those attending came from an array of organizations - city and county managers and administrators; city and county clerks, treasurers, council members, and registers of deed; professors, lobbyists, members of the business community, and interested citizens.

Chairperson Joan Wagnon gave the introduction and closing, and facilitated the question/answer and discussion period.

The keynote address was given by Terry Woodbury. Since 2004, Mr. Woodbury has served as President of Kansas Communities, LLC. While at Kansas Communities, LLC, Mr. Woodbury works with cities and counties on community building, delivers keynote addresses across the state, and attends numerous leadership seminars.

He has served as President/CEO for United Way of Wyandotte County and other positions in the Kansas City, Ks area, including positions as a Business and Community Consultant; Co-founder/Executive Director of Franklin Center, Inc.; and Management Specialist for the National Institute on Drug Abuse.

In Mr. Woodbury's presentation, he discussed how his approach to the issue of consolidation grows from two core values - 1) personal and community assets vs problems; and 2) placing the ultimate value on strategies and actions, which strengthen the fabric of a community.

In three separate stories, he demonstrated how the same core values emerge: specific personal and institutional assets are identified, affirmed and multiplied by the community. And, extraordinary examples of "consolidating" assets, or people, or services, or institutions take place. He explained that in each case, the process is "bottoms-up" and organic -driven by the genuine behavior and unique desires of citizens.

He left the audience with two recommendations to consider about consolidation:

- 1) Focus on the assets - on what is good in your community.
- 2) Keep "the community" engaged from day one to day last. He stated that bottoms-up citizen-driven democracy produces hope and enthusiasm and creativity.

Report of Summit on Consolidation (cont)

Representative Ward Loyd from the 123rd District gave a presentation about Thinking and Promoting Regionally. Mr. Loyd is a lawyer in Garden City, KS where he maintains a private law practice. He received his B.A. from Southwestern College at Winfield in 1965 and his J.D. with Honors from Washburn University Law School in 1968. Mr. Loyd has served 8 years as a state representative, is active in many professional organizations, is on the Board of Governors of Washburn University Law School Alumni Association, a member of the Kansas Bar Association, and a Fellow of the Kansas Bar Foundation.

Representative Loyd discussed ways to think and promote on a regional basis. He talked about ensuring the viability of rural areas and the need to recognize that traditional agricultural policies, standing alone, are no longer sufficient to meet the needs of the new global economy and that our challenge is to identify ways to create new institutions or forms of government, which can forge regional partnerships.

He reviewed House Bill 2406 – a bill passed in the 2005 legislature, which was designed and originally introduced in an effort to facilitate regionalization and cooperative effort in rural Kansas. In addition to this piece of legislation, the Public Improvement District Act puts in place a taxing authority of which geographic communities of interest in Kansas may avail themselves, should they elect to do so.

In his closing, Representative Loyd made the point that in rural Kansas we must leverage our resources and use them in ever smarter ways for the collective, public good. The key to the survival of our rural communities is facilitating conditions that will encourage a sense of community, and that will promote business starts and expansions – the true anchors of any new rural economy.

Mike Taylor, Director of Media and Public Relations of the Kansas City/Wyandotte Unified Government shared their experiences of consolidation. Mr. Taylor received his degree in journalism from Wichita State University and has completed advanced coursework at the Poynter Institute for Media Studies in St. Petersburg, Florida.

Mr. Taylor's duties with the Unified Government include media relations, crisis communications, lobbying the Kansas Legislature and Congress on behalf of the Unified Government. He also advises the County Administrator, Mayor, Commission and Department Directors on community issues. Mr. Taylor served a similar role for the City of Wichita from 1995 to 2003.

Mr. Taylor reflected upon his memories of his community being on a road of partisan political patronage, which resulted in contentious acrimony and the selfishness of putting personal gain over the good of the community. He stated that his city was stagnated and that people were leaving.

Report of Summit on Consolidation (cont)

By taking a “road less traveled,” Mr. Taylor then revealed that the citizens and their elected leaders were able to reach their goal of a better community – a community with a proud past and a strong sense of its history, in addition to a community that is breaking new ground in the way local government undertakes economic development.

Recollecting the history of that road, Mr. Taylor talked about the history behind the success of Kansas City and Wyandotte County. In 1995, Carol Marinovich entered the mayor race, firmly convinced that they should consolidate their local governments. Her goal was to get beyond local power struggles and, as one body, develop a clear vision for the future. He said the success that finally came was due to what can happen when different levels of government and different political parties work together for the good of the community.

Charles Moser, Greeley County’s Chairman of the Unification Planning Committee and Alan Peter, member of the Unification Planning Committee talked about Greeley County’s and Tribune’s road to unification.

Mr. Moser was born and raised in Greeley County. He received an Associates of Science degree from Barton County in 1984, a Bachelors of Business Administration from Fort Hays State University in 1987, and his Juris Doctorate from Oklahoma City University School of Law in 1990 where he was named the Outstanding Graduate. In 2006, Mr. Moser began a general law practice in Greeley County. In January 2007, he will begin his duties as County Attorney for both Greeley and Wallace Counties. He is currently serving as chairperson of the Tribune/Greeley County Unification Study Commission and is a member of the Greeley county Recreation Board.

Mr. Peter has been a life-time resident of Greeley County. Currently, he works as a loan officer with over twenty-five years experience operating his own irrigated and dryland farming operation consisting of 2,800 acres in Greeley and Wallace Counties. Additionally, he was a farm manager of a 4,000 acre dryland farming operation for eight years. For the past twenty years, Mr. Peter has served as a board member for the local Co-Op, ten of which he has been elected Chairman. He was also a board member for the Kansas Corn Growers Association and was elected President for five years.

In Mr. Moser’s and Mr. Peter’s presentation, they discussed how it no longer makes sense for them to have a city council and a county commission. Mr. Moser pointed out that he didn’t feel they were losing anything – they are getting the benefits of being a city and of being a county.

Report of Summit on Consolidation (cont)

Alvan Johnson, Riley County Commissioner and Mike Watson, Director of the Riley County Police Department talked about the Riley County Law Enforcement Experience.

Mr. Johnson received his Bachelor of Science degree (Magna Cum Laude) and the Certificate of Applied Science/Administration from Wichita State University. He was a graduate of the National F.B.I. Academy in Quanico, Virginia and is a graduate of the Law Enforcement Administration from the SouthWest Legal Foundation, University of Texas, Richardson, Texas. Mr. Johnson served as the Director of the Riley County Police Department for 34 years. He has served as Chairman of the Riley County Commission and has served on the Riley County Law Board since 2001.

Mr. Watson received his Bachelor of Science degree from Kansas State University and performed significant graduate work in Administration of Justice at Wichita State University. He taught Administration of Justice at WSU. He is a graduate of the Federal Bureau of Investigation's national Executive Institute. He served as a member of the Wichita Police Department for twenty-five years where he rose through the ranks from patrolman to Chief of Police.

Mr. Johnson and Mr. Watson discussed the 1974 consolidation of the Riley County Sheriff's office, the Manhattan Police Department, and the Ogden Police Department. This consolidation formed the Riley County Police Department. The presentation included the politics of the consolidation campaign, the ballot issue in 1972 that passed with 56% voters, and the petition and second ballot issue in 1976 that passed with 70% voters.

The Riley County Police Department is a success. It has been and continues to be a very successful police department with an excellent resolution rate of crimes. The Department has a good reputation with the community and has an efficient operation throughout the county.

A program for the Summit and the powerpoint slideshow given by Chairperson Joan Wagon is attached to this annual report. Also included with this report are several articles regarding local government consolidation and about the Salina Summit.

Conclusions of Summit on Consolidation

There was general agreement on the following recommendations from participants:

1. Widespread agreement that state-mandated consolidation would never work; it should be locally-driven. The role of the state was to remove barriers to local determination.
2. Introduce legislation in 2007 to remove the remaining barriers to consolidation, particularly city-county consolidation. The dual majority requirement was discussed, and many did not want it included in the bill, although there was not unanimity on this provision. Some participants suggested that the local governments consolidating should be able to designate whether this provision would apply in their ordinances and resolutions putting the issue on the ballot.
3. Introduce legislation to allow for the consolidation of city-county law enforcement and provide a customized model for how it should be done. The only consolidated city-county law enforcement now is Riley County. Other jurisdictions may have utilized interlocal agreements to affect a similar result, but the only true consolidation is Riley County.
4. KACIR should provide proven, successful consolidation models to local governments and be an informational resource on this issue. These models should draw from other states and other communities as well as Kansas.
5. KACIR should study the question of cost-effectiveness of services provided by townships, and provide information about the status of townships statewide.
6. KACIR should provide models for handling some of the questions that arise when 2 jurisdictions are discussing combining: examples, what happens to the elected officials? What is reasonable to expect in staff reductions or salary issues?

KACIR Policy Recommendations

- 1. KACIR should request introduction of legislation in 2007 to remove the remaining barriers to consolidation, particularly city-county consolidation and provide incentives to consolidate.**¹

- 2. KACIR should undertake a study with a university in Kansas and the Department of Revenue to study further the issues related to consolidation and to construct a model which can be used by local governments to determine the efficacy of consolidation. These issues include:**
 - How to Budget, consider general budgeting needs or needs specific to one or more entities that merge.
 - How to apply and distribute levies.
 - How to handle some of the questions that arise when two jurisdictions are discussing combining: for example, what happens to the elected officials? What is reasonable to expect in staff reductions or salary issues?
 - A model statute to allow for the consolidation of city-county law enforcement and provide a customized model for how it should be done. The only consolidated city-county law enforcement now is Riley County. Other jurisdictions may have utilized interlocal agreements to affect a similar result, but the only true consolidation is Riley County.
 - Proven, successful consolidation models from other states/localities for Kansas local governments.

- 3. KACIR should study the question of cost-effectiveness of services provided by townships, and provide information about the status of townships statewide. Much of this information can be obtained from Property Valuation.**

¹The 2006 Special Committee on Assessment and Taxation recommended that the Secretary of Revenue, in conjunction with the League of Kansas Municipalities and Kansas Association of Counties, compile an exhaustive list of statutory impediments and submit it to the Special Committee on Assessment and Taxation and Local Government Committees during the first week of the 2007 Legislative Session. These impediments should be addressed in the legislation.