



PERFORMANCE AUDIT REPORT 100-Hour Audit

**Financing Local Governments:
Determining How To Avoid Future Problems
Caused by State Revenue Shortfalls**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
February 2003**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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Audits are performed at the direction of the Legislative Post Audit Committee. Legisla-

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February 19, 2003

To: Members, Legislative Post Audit Committee

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This report contains the findings and conclusion from our completed performance audit, *Financing Local Governments: Determining How To Avoid Future Problems Caused by State Revenue Shortfalls*.

The report also contains appendices showing details of locally generated sources of funding for local governments in Kansas and 5 surrounding states as well as differences between city and county governments in Kansas in the types of taxes and fees that make up their own funding sources.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

What Options Other Than Transfers From Revenue Sharing Funds Exist For Funding Local Government Operations, And What Are the Advantages and Disadvantages of Each Option?

Transfers from revenue sharing funds have been less than required over the last decade. page 3
Aside from other payments the State provides to local government, cities and counties receive moneys from the local ad valorem tax reduction fund, the city-county revenue sharing fund, and the special city-county highway fund. While the amounts the State is to transfer into each fund is based on formulas defined in law, the Legislature hasn't appropriated the full amounts for at least 10 years. Recent actions by the former and current Governors to withhold most transfers would, if passed, represent about a 2% cut in local governments' total calendar year 2003 budgets, and about 5% of their general fund budgets. Sampling 5 counties, we found that some counties will be impacted more than others.

Local governments provide most of their own funding, but vary widely in how they raise those funds. page 5
Cities and counties in Kansas provide about 82% of their general revenue from their own taxes and fees. While the surrounding states and Iowa have similar proportions, there are differences between all 6 states in the extent to which they rely on specific taxes (such as property taxes) and fees (such as hospital fees). In addition, Kansas city and county governments differ from each other in their reliance on specific taxes and fees.

The Legislature could take a number of actions to help local units become less dependent on State transfers. page 5
These options fall into 4 broad categories:

- 1. Removing or raising caps on existing taxes or fees, or rates for those taxes or fees: This could be done for the local sales tax, intangibles tax, mortgage registration tax, and city vehicle tax. In addition, other existing tax statutes could be changed to broaden the tax base or allow for a different distribution which could lead to higher general revenues at the local level. This could be done on the local sales tax, property tax, motor vehicle property tax.*
- 2. Allowing local units to redirect the use of "earmarked" taxes or fees: This could be done for the emergency phone 911 fee, transient guest tax, and state liquor drink excise tax.*
- 3. Allowing local units to institute new taxes: These include local individual or corporate income tax, local earnings or payroll tax, corridor sales tax, local option excise taxes and seat taxes.*

4. *Repealing statutory requirements could lower local units' expenditures: Allowing idle municipal funds to be invested in non-Kansas chartered banks, allowing legal notices to be published on the internet, and allowing cities and counties to consolidate could all lower city and county expenditures. Other new ways to create local revenues could include use of video enforcement of stoplight violations and allowing local option gaming.*

All of these options have associated advantages and disadvantages, described in the full report.

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This audit was conducted by Katrin Osterhaus and LeAnn Schmitt. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Osterhaus at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Financing Local Governments: Determining How To Avoid Future Problems Caused by State Revenue Shortfalls

The State provides about \$100 million annually to assist in the funding of local government operations from 3 funds: the Local Ad Valorem Tax Reduction Fund, the City County Revenue Sharing Fund, and the Special City County Highway Fund.

In November 2002, in response to recent State revenue shortfalls, then-Governor Graves announced that the payments from these funds totaling \$48 million for the second half of the fiscal year would not be made. Because cities and counties built their budgets for calendar year 2003 in anticipation of receiving these moneys and have no way to replace them with other revenues, they filed a lawsuit questioning the Governor's legal authority to make those cuts. In January 2003, Governor Sebelius announced her intention to withhold most of these moneys for fiscal year 2004 as well, which means cities and counties would receive almost no moneys from these funds in calendar year 2003.

Legislators recently have questioned what could be done to avoid the situation where serious shortfalls in revenues at the State level end up having such a profound impact on the funding available for local governments. This performance audit answers the following question:

1. What options other than transfers from revenue sharing funds exist for funding local government operations, and what are the advantages and disadvantages of each option?

To answer this question, we analyzed data to determine the impact of the State's actions on local government budgets, and reviewed census data to see how Kansas compares with neighboring states in the sources and proportions of local revenues for city and county governments. We reviewed literature and talked with representatives from the League of Kansas Municipalities, the Kansas Association of Counties, professors from Wichita State University, and others to understand how local governments currently can raise revenues, and to identify potential revenue options. In talking to these contacts and using our own resources, we also identified some of the advantages and disadvantages of each of those options.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in Appendix A.

In conducting this audit, we followed all applicable government auditing standards.

What Options Other Than Transfers From Revenue Sharing Funds Exist For Funding Local Government Operations, And What Are the Advantages and Disadvantages of Each Option?

Transfers from 3 revenue sharing funds to local governments have been underfunded over the last decade, and with the current budget situation the State is in, payments to cities and counties from those funds may continue to be cut or withheld. Recent proposals, if passed, would reduce the overall local governments' calendar year 2003 budgets by about 2%. The Legislature could take a number of actions to help local units become less dependent on State transfers. These actions include removing or raising statutory caps on existing taxes or fees, allowing local governments to redirect earmarked revenues for general operating purposes, allowing local units to institute new taxes or fees, and repealing certain statutory requirements which would result in lower expenditures, thus freeing up more money for city and county governments. These and other findings are discussed in the sections that follow.

Transfers From 3 Revenue Sharing Funds Have Been Less Than Required Over the Last Decade

The State provides funding support to local governments to help operate many programs, from mental health and education to corrections. This audit focuses only on the 3 large revenue sharing funds described below.

- Local Ad Valorem Tax Reduction Fund. Created in 1965 to provide property tax relief for local units of government, this fund draws its money from State sales and use tax receipts. It's distributed to all counties, 65% on the basis of population and 35% on the basis of assessed tangible valuation. At the county level, the moneys are further shared with all taxing subdivisions except school districts.
- City-County Revenue Sharing Fund. Created in 1978 to provide property tax relief, this fund draws its money from State sales and use tax receipts. It's distributed to counties in the same manner as the Local Ad Valorem Tax Reduction Fund. Half the moneys a county receives from this fund are passed on to its cities, based on population.
- Special City-County Highway Fund. Created in 1979 to help prevent the deterioration of city and county roads, this fund draws its money from State property taxes on motor carriers such as semi-tractors and trailers.

Recent transfers from the 3 revenue sharing funds have been less than called for by statutes. The amount of money the State is to transfer from its General Fund into each of these funds for localities is based on formulas defined in law. However, the Legislature hasn't appropriated the full amounts for at least 10

years. Table I-1 shows, for the last 6 years, the amounts that local governments would have received if transfers had been made at the statutory level, and the actual payments made to local governments.

Table I-1			
Fiscal Year	Transfers Due Based On Statutory Formulas (in millions)	Actual Payments Made to Localities (in millions)	Difference (in millions)
1998	\$ 106.0	\$ 94.2	\$ 11.8
1999	\$112.3	\$102.7	\$9.6
2000	\$118.4	\$106.0	\$12.4
2001	\$122.9	\$99.0	\$23.9
2002	\$125.3	\$100.0	\$25.3
2003	\$127.0	\$48.0 (a)	\$79.0

(a) This amount reflects not only legislative appropriations reducing the statutory amount to be transferred into the revenue sharing funds, but also the action by then-Governor Graves to withhold the second half of FY 2003 payments from these funds to localities.
Source: LPA analysis of data from Legislative Research and the State Treasurer's Office

The amount proposed to be withheld in calendar year 2003 represents about 2% of local governments' total 2003 budgets, and about 5% of their general fund budgets. If proposals to withhold transfers to the 3 funds for the last half of fiscal year 2003 and all of 2004 take effect, cities and counties will lose more than \$90 million in their current budget year, which began January 1, 2003. The impact won't be uniform; some cities and counties will be affected much more than others. The scope of this audit didn't allow us to calculate effects for all recipients, but Table I-2 shows the differences for the entire state and for 5 counties and their cities.

Table I-2		
	Proportion of Lost Revenues from Local Governments' Total Budgets	Proportion of Lost Revenues from Local Governments' General Fund Budgets
KS - Statewide	1.9%	4.8%
Chautauqua	2.8%	10.6%
Cheyenne	1.9%	6.6%
Logan	1.6%	5.2%
Sedgwick	2.0%	4.4%
Shawnee	2.3%	4.1%

Source: LPA analysis of city and county calendar year 2003 budgets and data from the State Treasurer's office.

***Local Governments
Provide Most of Their
Own Funding,
But Vary Widely in How
They Raise
Those Funds***

To help identify other ways Kansas' local units of government could raise revenue, we looked to see how cities and counties in other states were funded. Using U.S. Census data from 1996-1997 (the most recent available), we found that cities and counties in Kansas provide about 82% of their general revenue from their own taxes and fees. The surrounding states and Iowa have similar percentages, ranging from 75% to 87%. However, the states vary widely in the extent to which they rely on specific taxes and fees to generate income. Appendix B provides more detailed information about those differences.

In addition, city and county governments in Kansas differ from each other in how they raise revenues. For example, within the revenues generated at the local level, property taxes make up 75% of all the taxes that county governments rely on, while this type of taxes makes up only 56% of the taxes of city governments. More detail is provided in Appendix C. Because of the variations between city and county governments in Kansas, the reader should be aware that options discussed later in this report to increase certain taxes or fees will affect them differently.

***The Legislature Could
Take a Number of
Actions To Help Local
Units Become Less
Dependent on State
Transfers***

As mentioned earlier, this audit focuses only on 3 revenue sharing funds. Funding streams between the State and localities are complex and inter-related. We recognize that other actions that the Legislature has taken over the years also have served to raise or lower funding or expenses at the local levels. Given the narrow focus of this 100 hour audit, we didn't attempt to analyze all those relationships.

Cities and counties have limited ability to offset the loss of revenues from revenue-sharing transfers. State law prohibits them from implementing certain types of taxes, or requires them to follow certain business practices, such as investing idle funds only in Kansas-chartered banks.

This section of the audit identifies options the Legislature could consider taking that would allow local units to become more self-sufficient. They can do that by either by increasing the amount of money available for general purposes or by reducing expenses.

In general, these options fall into 4 broad categories:

- removing or raising caps on existing taxes or fees, or rates for those taxes or fees

- allowing local units to redirect the use of taxes currently dedicated to specific purposes
- allowing local units to institute new taxes
- repealing statutory requirements that result in increased expenses for local units

The audit doesn't address things local units already could do without legislative intervention, such as increasing existing property taxes or raising fees for services.

Table I-3 summarize these options as they could be applied to current revenue sources, and Table I-4 lists potential new revenue sources.

Conclusion The Legislature will likely need to consider a package of actions in order to help cities and counties become less dependent on cash transfers from the State. Individual options will benefit cities and counties to a greater or lesser extent depending on the size of their population, income level, assessed valuation, existing retail base, and so on. Some cities and counties may need to make changes in several different taxes to replace State transfers.

Current Revenue Sources		How It Works		What Could Be Done To Generate More Money from This Source		Pro's	Con's
General revenue taxes							
Local sales tax	<p>Authorized by statute and capped at 1% for cities and 2% for counties (with some exceptions), this is the principal non-property tax revenue source for cities and counties.</p> <p>Distribution in calendar year 2002: Counties: \$24.4 million Cities: \$19.8 million</p> <p>As of 1997, 33 states allow local governments to levy sales taxes. In all, 23 of these provide authority to both cities and counties, and 10 limit the tax to one unit or the other.</p>	<ul style="list-style-type: none"> ■ raise or remove cap ■ repeal some or all of the current exemptions ■ collect sales tax on internet and out-of-state catalog sales 	<ul style="list-style-type: none"> + + + + 	<p>easy to administer because collection system is already in place</p> <p>more acceptable to taxpayers than property taxes</p> <p>broadening the tax base by repealing exemptions and collecting tax on internet and out-of-state catalog sales increases the perception of fairness</p> <p>broadening the tax base could allow more money to be generated without raising rates or could even allow rates to be lowered</p>	<ul style="list-style-type: none"> - - - 	<p>increasing local sales taxes may limit the State's ability to increase its sales tax rate</p> <p>allowing cities and counties to raise their sales tax rates may encourage overbuilding of retail space as local governments hope to collect more revenues</p> <p>sales taxes are regressive; they impact lower income people more than higher income people</p>	

Table I-3

What Could Be Done To Generate More Money from This Source

Current Revenue Sources

How It Works

Pro's

Con's

<p>Ad valorem property tax</p>	<p>Property taxes are collected by counties and are their primary source of revenue. This tax is calculated based on the value of certain types of property, including real estate and certain categories of personal property such as trailers and industrial machinery. Kansas law exempts household goods and personal effects from property tax, as well as farm machinery, hand tools, and many other types of goods.</p> <p>Distributions for calendar year 2000: Counties: \$647.4 million Cities: \$393.7 million School districts: \$1.1 billion</p>	<ul style="list-style-type: none"> ■ expand to include other types of property, such as household goods or farm animals ■ remove some or all current property tax exemptions, such as the one on adult independent living units associated with elder care facilities ■ create pro-rated rates so that businesses that use more public services, such as bars, would have to pay higher property tax. 	<ul style="list-style-type: none"> + + <p>broadening the tax base increases the perception of fairness</p> <p>broadening the tax base could allow more money to be generated without raising rates, or could even allow rates to be lowered</p>	<ul style="list-style-type: none"> - - <p>Kansas reportedly already taxes the same or more types of property than neighboring states—no obvious options to broaden tax</p> <p>higher property taxes can encourage urban flight</p>
<p>Intangibles tax</p>	<p>This tax is levied on income from certificates of deposit, savings and loan shares, mutual funds, bonds, etc. Limits are set by statute at .75% for counties and 2.25% for townships and cities.</p> <p>Currently, 31 counties and 110 cities in the State impose this tax.</p> <p>Collections in fiscal year 2000: Counties: \$2.1 million Cities: \$1.5 million</p>	<ul style="list-style-type: none"> ■ raise or remove cap 	<ul style="list-style-type: none"> + + <p>progressive</p> <p>considered fair because of all the exemptions for older people</p>	<ul style="list-style-type: none"> - - - <p>low rate of compliance</p> <p>minimal return for effort of collecting</p> <p>may discourage people with these types of assets from living in areas that impose this tax</p>

Table I-3

What Could Be Done To Generate More Money from This Source

How It Works

Pro's

Con's

Current Revenue Sources	How It Works	Pro's	Con's
Mortgage registration tax	<p>This county revenue source is collected by the counties at the rate of .26% of the principal debt or obligation being secured. 1/26th of the fee (up to \$100,000 per county annually) is remitted to the State's Heritage Trust Fund; the rest goes into the county's general fund.</p> <p>Collections in fiscal year 2000: State: \$771,000 Counties: \$35.5 million</p>	<ul style="list-style-type: none"> ■ increase statutorily set rates 	<ul style="list-style-type: none"> + paid infrequently (only when registering a new mortgage) and usually financed with other closing costs, so not cash out of hand
Motor and recreational vehicle registration fees and property tax	<p>Motor and recreational vehicles are excluded from general property tax assessment. Owners annually pay these special taxes, which are calculated with a formula that considers the type and age of the vehicle. Owners also pay an annual vehicle registration fee.</p> <p>The majority of the <u>tax</u> stays at the county level and is disbursed to levying entities such as school districts, libraries, and the like. A small part of the tax is remitted to the State Building Fund.</p> <p>Collections in calendar year 2000: Counties: \$228 million</p> <p>The majority of the <u>registration fees</u> go to the State Highway Fund. The remainder of the registration fees stay at the county to cover administrative costs.</p> <p>Distributions in calendar year 2000: State Highway Fund: \$146.3 million Counties: \$11.6 million</p>	<ul style="list-style-type: none"> ■ change <u>tax</u> rate formula to increase the revenues ■ increase <u>registration fees</u> 	<ul style="list-style-type: none"> + fairly stable source of revenue

Current Revenue Sources		How It Works		What Could Be Done To Generate More Money from This Source		Pro's		Con's	
Dedicated taxes/fees									
Emergency phone "911" tax	Used to pay for 911 services, the tax can't exceed \$.75 per month per exchange access line. Wireless users are currently exempt.	<ul style="list-style-type: none"> ■ extend fee to wireless phone users ■ raise or remove cap 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -
Transient guest tax	Currently the revenue from this tax is to be used for tourism only. It is statutorily capped at 2% of gross receipts from the rental of hotel and motel guest rooms. The 2% can be exceeded if a county or city adopts a resolution or ordinance. Collections for fiscal year 2002: Counties (26): \$1.1 million Cities (66): \$17.3 million	<ul style="list-style-type: none"> ■ raise or remove cap ■ allow revenues to be used for general operations 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -
State liquor drink excise tax	This is a 10% tax on the gross receipts from the sale of alcoholic beverages. The tax is collected by drinking establishments and submitted to the State. Currently 70% is returned to counties to be split among general operations, parks and recreation, and substance abuse prevention. Distributions fiscal year 2000: State: \$6.8 million Counties: \$15.8 million	<ul style="list-style-type: none"> ■ raise or remove cap ■ allow all revenues to be used for general operations 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> + 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -

Current Revenue Sources	How It Works	What Could Be Done To Generate More Money from This Source	Pro's	Con's
City vehicle tax	<p>Cities may impose this tax with an ordinance subject to voter approval. The rate is \$5 or \$10 per vehicle usually kept, garaged, or stored within the city during night, weekends, and holidays, irrespective of legal residence of owner.</p> <p>Revenues are earmarked for improvement of highways and regulation of vehicular traffic.</p> <p>This tax has never been imposed by a city in Kansas.</p>	<ul style="list-style-type: none"> ■ rates could be raised 	<ul style="list-style-type: none"> ➕ raising rates may make tax more worthwhile to collect 	<ul style="list-style-type: none"> - benefits larger cities more than others

Table I-4 What Would Have To Be Done To Make This Happen			
Potential New Revenue Sources	How It Would Work	Pro's	Con's
Taxes Local individual or corporate income tax	Local income taxes (individual or corporate) would "piggyback" on to the State income tax. An income tax is based on a person's or corporation's total income, and there are many deductions possible.	<ul style="list-style-type: none"> + a progressive tax; generally considered a fair tax because it's graduated + easy to collect if tied to the State's income tax collection system + large tax base allows relatively low rate, which results in less opposition + beneficial for communities where residents commute to work elsewhere 	<ul style="list-style-type: none"> - may encourage people or businesses to move out of the city or county levying the tax - may reduce the State's flexibility to levy higher income taxes - potentially high administrative costs for the entity collecting the tax - cities with a large commuter workforce would provide services to commuters who don't help pay for them

Table I-4

What Would Have To Be Done To Make This Happen

How It Would Work

Potential New Revenue Sources

Pro's

Con's

<p>Local earnings or payroll tax</p>	<p>An earnings tax is collected by a municipality on all wages earned in that municipality, regardless of where the worker lives. It's levied on total wages earned, with no deductions, and doesn't include income from interest, dividends, and the like. A payroll tax is collected and paid by businesses based on its payroll size.</p>	<ul style="list-style-type: none"> ■ requires statutory authorization 	<ul style="list-style-type: none"> + <p>requires those who benefit from the infrastructure and services the city provides to help pay for it</p>	<ul style="list-style-type: none"> - primarily benefits cities that are regional employment centers - may encourage people or businesses to move out of the municipality levying the tax - high administrative costs for the entity collecting the tax
<p>Corridor sales tax</p>	<p>Imposed in high-traffic, high sales areas and distributed to all counties based on some type of formula. May be most cost-effective in a retail area such as that surrounding the Kansas Speedway in Wyandotte County.</p>	<ul style="list-style-type: none"> ■ requires statutory authorization 	<ul style="list-style-type: none"> + <p>tax gets spread to non-Kansas residents</p>	<ul style="list-style-type: none"> - may not generate much money overall because of the limited number of tourists in Kansas
<p>Local option excise taxes</p>	<p>Special sales taxes could be imposed for certain products such as cigarettes, liquor, or fuel.</p>	<ul style="list-style-type: none"> ■ requires statutory authorization 	<ul style="list-style-type: none"> + <p>can curb use of unhealthy products, which could lead to reduced health-related expenses</p> <ul style="list-style-type: none"> + <p>can stimulate conservation of scarce resources</p>	<ul style="list-style-type: none"> - may create illegal market for the taxed goods - these products already taxed heavily at the State level - a regressive tax - because tax is levied on a per-unit basis, the tax doesn't keep pace with price inflation and economic growth

Table I-4 What Would Have To Be Done To Make This Happen			
Potential New Revenue Sources	How It Would Work	Pro's	Con's
Seat taxes	Allow cities or counties to impose a fee or tax on tickets for entertainment-events such as concerts or shows.	<ul style="list-style-type: none"> + easy to collect 	<ul style="list-style-type: none"> - primarily benefits cities that have large event facilities
Non-Tax Options			
Idle municipal funds	<p>Allow idle municipal funds to be invested in non-Kansas chartered banks. KSA 12-1675 currently prohibits this.</p> <p>Reportedly, Kansas is the only state that requires idle funds to be invested in state-chartered banks.</p>	<ul style="list-style-type: none"> + increased competition should lead to higher return on taxpayer dollars 	<ul style="list-style-type: none"> - Kansas chartered banks may lose revenues and be less able to invest locally
Legal notices	Allow legal notices, such as new city ordinances, to be published on the internet. Currently, KSA 28-137 requires legal notices to be published in the local newspaper.	<ul style="list-style-type: none"> + reduces expenses + relatively easy to implement + may increase accessibility for those who regularly use computers + information is available for an unlimited time 	<ul style="list-style-type: none"> - local newspapers will lose revenues - may reduce accessibility for those who don't use computers regularly

Table I-4 What Would Have To Be Done To Make This Happen			
Potential New Revenue Sources	How It Would Work	Pro's	Con's
City/county consolidation	Allow cities and counties to consolidate without the statutory approval required under current law.	<ul style="list-style-type: none"> + would allow governmental units to provide better services through economies of scale and sharing of resources 	<ul style="list-style-type: none"> - potential loss of localized control and access
Video enforcement of stoplight violations	<p>Video cameras capture images of motor vehicles entering an intersection on a red light. The person to whom the car is registered receives a ticket.</p> <p>Reportedly, video enforcement on stoplight violations is used in 15 states.</p>	<ul style="list-style-type: none"> + improves traffic safety 	<ul style="list-style-type: none"> - violation of privacy is a concern
Local option gaming	Allow cities or counties to vote to allow local gaming.	<ul style="list-style-type: none"> + promotes the development of tourist attractions which results in new revenues 	<ul style="list-style-type: none"> - moral opposition to expansion of gaming - impacts only a limited number of municipalities

APPENDIX A

Scope Statement

This appendix contains the scope statement that has been authorized by the Chair of the Legislative Post Audit Committee on Wednesday, January 22, 2003. The requesting Legislator was Senator Oleen.

SCOPE STATEMENT

Financing Local Governments: Determining How to Avoid Future Problems Caused by State Revenue Shortfalls

The State provides major amounts of money to assist in the funding of local government operations from three funds, the Local Ad Valorem Tax Reduction Fund, the City County Revenue Sharing Fund, and the Special City County Highway Fund.

In November 2002, in response to recent State revenue shortfalls, the Governor announced that the payments from these funds totaling \$48 million for the second half of the fiscal year would not be made. Because cities and counties have built their budgets for the current year in anticipation of receiving these moneys and they have no way to replace them with other revenues, they have filed a lawsuit questioning the Governor's legal authority to make those cuts.

Legislators have recently questioned what could be done to avoid the situation where serious shortfalls in revenues at the State level end up having such a profound impact on the funding available for local governments.

A performance audit of this topic would address the following question.

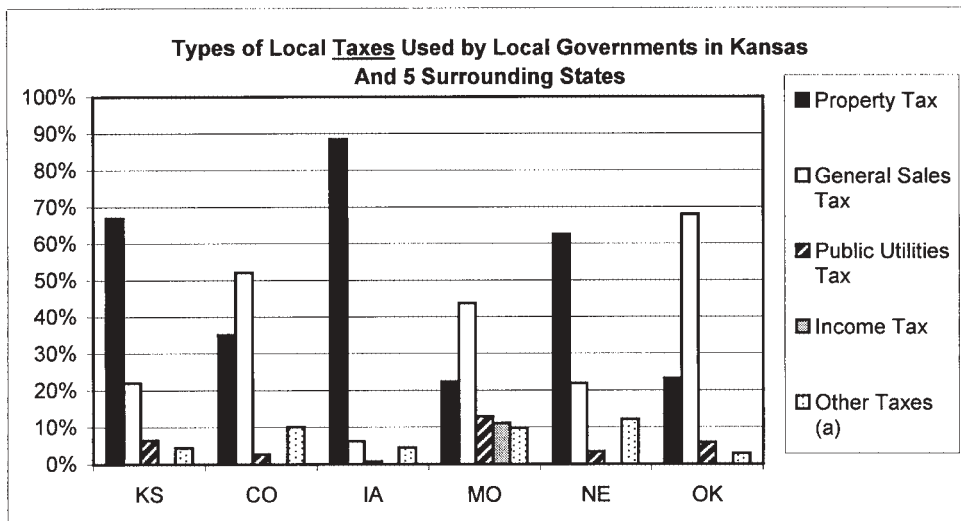
- 1. What options other than demand transfers from revenue sharing funds exist for funding local government operations, and what are the advantages and disadvantages of each option?** We would obtain a basic understanding of the powers and responsibilities of the State and local units with regard to financing local government operations. Through interviews with representatives from the League of Kansas Municipalities, the Kansas Association of Counties, and other relevant groups or organizations, and contacts with local officials as needed, we would identify what options could be substituted for revenue sharing to fund local units of government, and what the advantages and disadvantages of each of those options would be. Also, we would contact the national organizations and other states as necessary to determine what approaches other states have taken to fund local municipalities.

Estimated time to complete: 100 hours or less.

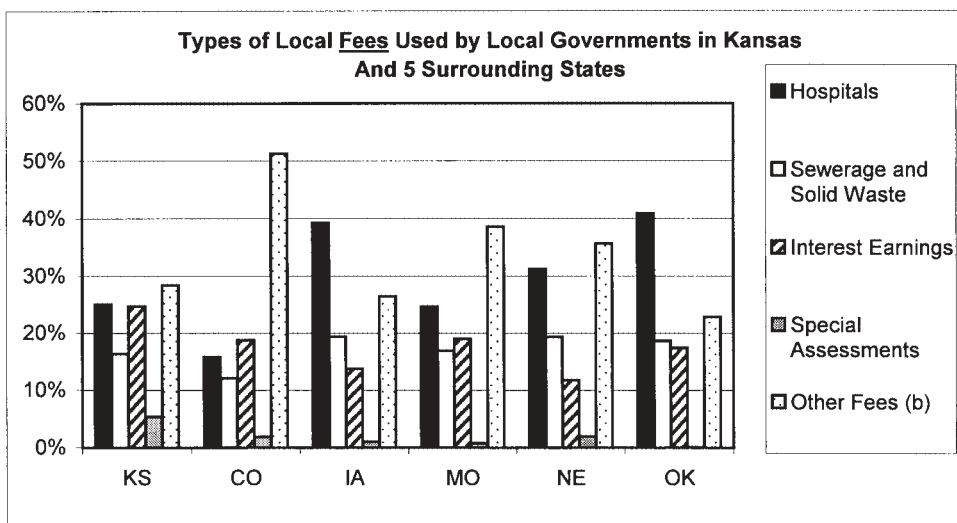
APPENDIX B

Details of Locally Generated Sources of Funding for Local Governments in Kansas And 5 Surrounding States

As noted in the report, Kansas cities and counties provide about 82% of their general revenue from their own taxes and fees. The surrounding states and Iowa have similar percentages, ranging from 75% to 87%. For these states, taxes and fees each make up about half of the locally generated sources of funding. The following graph shows the types and proportions of **taxes** within this category that Kansas and its surrounding states collect:



The following graph shows the types and proportions of **fees** within this category that Kansas and its surrounding states collect:



Source: 1996-1997 US Census Data

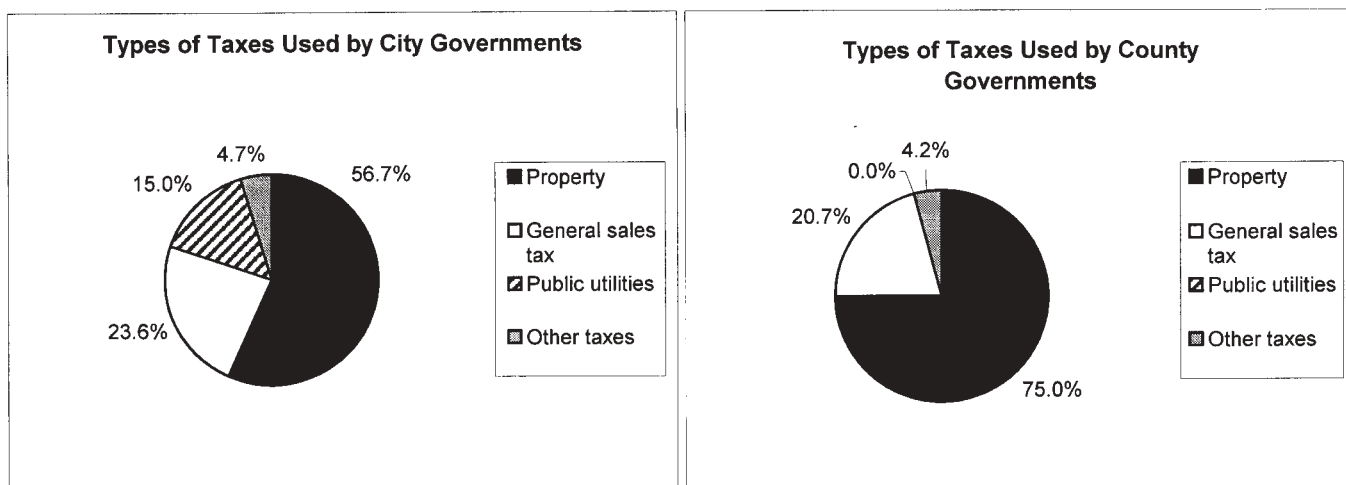
(a) Other taxes include motor fuel, motor vehicle, alcoholic beverage, tobacco products, and other taxes

(b) Other fees include education, sale of property, highways, airports, parks and recreation, and other fees

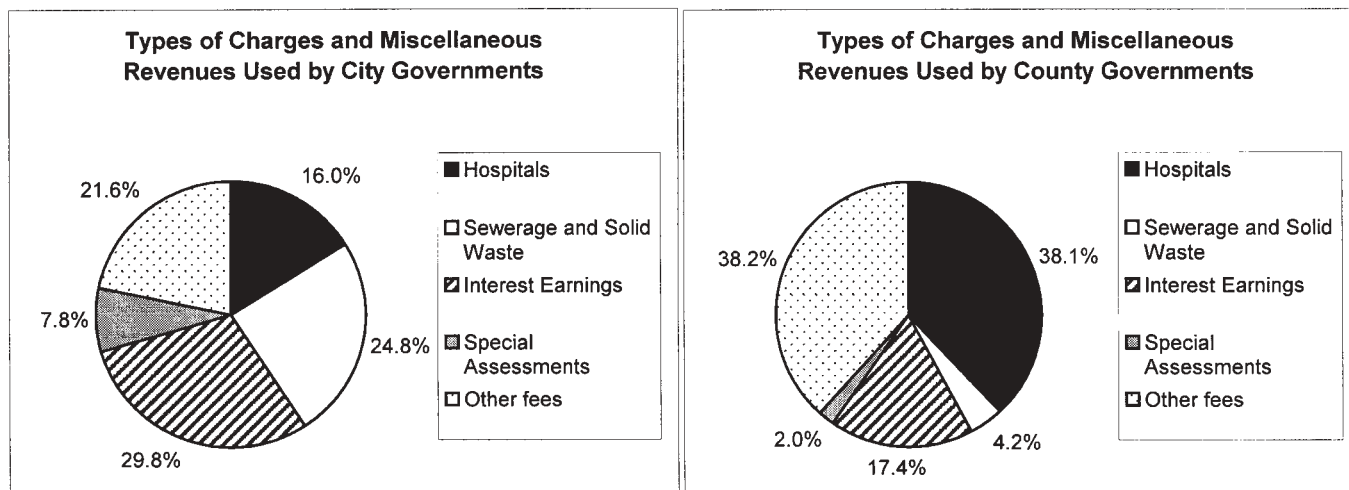
APPENDIX C

Differences Between City and County Governments in Kansas in the Types of Taxes and Fees That Make Up Their Own Funding Sources

As noted in the report, Kansas city and county governments differ from each other in how they raise revenues. Taxes represent about 46% of city government local sources and 61% of county government local sources. The following 2 pie charts show the types and proportions of **taxes** that cities and counties receive:



Fees represent about 54% of city government local sources and 39% of county government local sources in Kansas. The following 2 pie charts show the types and proportions of fees that cities and counties receive:



Source: 1996-1997 US Census Data