

PERFORMANCE AUDIT REPORT

**Reviewing The Effectiveness Of Property Tax
Limitations Enacted In Response To Statewide
Reappraisal--Leavenworth and DeSoto**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 1989**

Legislative Post Audit Committee

Legislative Division of Post Audit

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LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@mail.ksleg.state.ks.us
Website: <http://skyways.lib.ks.us/ksleg/PAUD/homepage.html>
Barbara J. Hinton, Legislative Post Auditor

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PERFORMANCE AUDIT REPORT

REVIEWING THE EFFECTIVENESS OF PROPERTY TAX LIMITATIONS ENACTED IN RESPONSE TO STATEWIDE REAPPRAISAL-- LEAVENWORTH AND DE SOTO

OBTAINING AUDIT INFORMATION

This audit was conducted by Mary Beth Green, Senior Auditor, and Rakesh Mohan and Rick Riggs, Auditors, of the Division's staff. If you need any additional information about the audit's findings, please contact Ms. Green at the Division's offices.

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REVIEWING THE EFFECTIVENESS OF PROPERTY TAX LIMITATIONS ENACTED IN RESPONSE TO STATEWIDE REAPPRAISAL -- LEAVENWORTH AND DE SOTO

Summary of Legislative Post Audit's Findings

By 1989 all tangible real property in Kansas was reappraised. To minimize the possibility of dramatically increased local property tax revenues as a result of presumably increased property tax valuations, the Legislature enacted legislation limiting local governments' 1989 property tax levies. With some exceptions those limitations required that local governments' property tax levies in 1989 would produce an amount no greater than the amount produced in the prior year. Legislative concerns have been raised that local units of government have been finding ways around this limitation to raise property taxes, or the increased levies were the result of exceptions in the law. This audit addressed legislative concerns about the effectiveness of property tax limitations.

To what extent have local units of government levied aggregate property taxes in the reappraisal year in excess of the amount levied in the previous year? In general, we found that both Leavenworth and De Soto communities, their counties, and their school districts increased their budgeted property tax revenues from budget year 1989 to 1990. The percentage increases ranged from 8.0 percent, or \$178,674, for Unified School District 232 located in De Soto to 33.4 percent, or \$1,575,855, for Leavenworth County.

Did those local units of government whose aggregate property taxes were higher in the reappraisal year than in the previous year comply with State laws regarding property tax levies? In attempting to identify the reasons for aggregate property tax increases and to review the changes for compliance with legal requirements, we found that the depth of our analysis was constrained by the limited timeframe of our audit assignment. We analyzed the increases between 1988 and 1989 budgeted property tax levies for each local unit. Based on these analyses, it appeared that property tax increases were in compliance with legal requirements. All the increases in property tax levies were either allowable because of increases allowed due to additional valuation or because the increases were made for functions that are statutorily exempt from the 1989 tax lid.

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



Meredith Williams
Legislative Post Auditor

REVIEWING THE EFFECTIVENESS OF PROPERTY TAX LIMITATIONS ENACTED IN RESPONSE TO STATEWIDE REAPPRAISAL-- LEAVENWORTH AND DE SOTO

By 1989 all tangible real property in Kansas was reappraised. In conjunction with that reappraisal, a State Constitutional amendment was approved in 1986 to allow for the classification of property for taxing purposes in 1989 and thereafter.

The impact of these two changes on various classes of property owners was not known with certainty. There were legislative concerns that one effect would be dramatically increased local property tax revenues as a result of presumably increased property tax valuations. To help minimize this possibility, the Legislature enacted legislation that would require most taxing subdivisions to limit their 1989 property tax levies so that, in total, those levies would produce an amount that would be no greater than the aggregate produced in the previous year.

Recently, legislative concerns have been raised that cities, counties, and other taxing entities have been finding ways around this limitation, and that the taxing subdivisions have been levying taxes so as to produce an aggregate amount in excess of that raised in the prior year. Concerns have also been raised about whether or not these increased levies were the result of exceptions in the law. To help address legislative concerns in this area, the Chairman of the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a special audit of property tax levies for two communities (Leavenworth and De Soto), their counties, and their school districts for a three-year period. This audit addressed the following questions for those local units of government:

- 1. To what extent have local units of government levied aggregate property taxes in the reappraisal year in excess of the amount levied in the previous year?**
- 2. Did those local units of government whose aggregate property taxes were higher in the reappraisal year than in the previous year comply with State laws regarding property tax levies?**

To answer these questions, we examined State and local records of property tax revenues, budgeted expenditures, assessed valuations, and mill levies for the local government units over a three-year period. We interviewed officials from each local unit of government as well as officials from both the Department of Administration's Municipal Accounting Section and the Department of Education. Finally, we reviewed State laws to determine whether those local units that increased property taxes did so in compliance with State law.

In general, we found that all six local units increased their property tax levies from 1988 to 1989. The percentage increases ranged from eight percent for Unified School District 232 located in De Soto to 33.4 percent for Leavenworth County. All of the increases in property tax revenues appeared to comply with State laws regarding the 1989 levies.

In attempting to identify the reasons for those changes and to review the changes for compliance with legal requirements, we found that the scope of our reviews were constrained by the limited timeframe of our 100-hour audit assignment

and that the conclusions we could draw about compliance were limited in two different ways by the nature of the budgeting process.

First, local budgets, including tax levies, are based on estimated expenditures. Accordingly, it can be difficult to determine whether or not an expenditure to be funded by a tax levy will actually require the level of taxes budgeted until the budget year is completed.

Second, the statutory exemptions to the limit on 1989 property tax levy increases relate to functions (e.g., employee benefits) regardless of the fund from which the expenditures are made. To document compliance with exemptions related to function would require recording and reporting expenditures by function. However, the local budget documents filed with the State are organized by fund. In many cases, exempted functions are included in a fund that is otherwise limited. In those cases, we would need to perform detailed reviews of local records to attempt to verify information provided by the local units concerning tax levies to support limited functions and tax levies to support exempt functions. Our limited time frame for this audit did not allow for such detailed local reviews.

With these limitations in mind, we analyzed the increases between 1988 and 1989 budgeted property tax levies for the City of Leavenworth, Leavenworth County, Unified School District 453 (located in Leavenworth), the City of De Soto, Johnson County, and Unified School District 232 (located in De Soto). Based on these analyses, we discussed the situations that appeared questionable with local officials. Our analyses and the results of our reviews are presented in the following sections.

To What Extent Have Local Units of Government Levied Aggregate Property Taxes In the Reappraisal Year In Excess of the Amount Levied In the Previous Year?

To help minimize the effects of reappraisal, the 1985 reappraisal law established a tax lid to prevent local units of government from raising more in 1989 property tax levies (the year reappraisal became effective) than they did in 1988 levies (before reappraisal took effect). The 1985 statutes stated that for 1989 and all future years, the dollar amount of tax levies, except those that are statutorily exempt, would be limited to the amount of the 1988 levies. In 1988, the Legislature amended State law to limit use of the 1988 tax lid to the 1989 levies only. After 1989, local units of government will return to their historical tax levy limits.

Under the statutory tax lid provisions, a local unit of government generally is limited to levying the same amount of property taxes in 1989 as it did in 1988. However, State law also specifies numerous exceptions to this tax lid limitation. Those exceptions include tax levies for these functions:

- principal and interest payments on bonds and temporary notes;
- employer contributions for employee benefits such as social security, workers compensation, unemployment insurance, health care costs, retirement and pension plans;
- county expenses for district court operations;
- special assessments;
- law enforcement and ambulance services;
- community mental health and mental retardation facilities;
- economic development programs; and
- out-district tuition for community colleges.

In addition, State law permits levy increases for increased valuation due to new improvements to real estate and adjustments for the valuation of any property that is annexed or de-annexed. Finally, K.S.A. 79-5035 specifically exempts the general fund levies of unified school districts from the tax lid. Growth in school district general fund budgets is limited by the School District Equalization Act.

To determine whether the communities of Leavenworth and De Soto, as well as their counties and school districts, levied higher property taxes in 1989 than they had in 1988, we examined State and local records of property tax revenues, budgeted expenditures, assessed valuations, and mill levies. We then interviewed local officials to identify reasons for the most significant changes in property taxes levied in 1988 and 1989.

In general, we found that each of the six local units increased their property tax levies between 1988 and 1989. These increases ranged from eight percent for Unified School District 232 in De Soto to 30.6 percent for Leavenworth County. The increases in each local unit of government, as well as explanations for the increases as provided by local officials, are summarized on pages 5-13. In reviewing the following results, it should be noted that our analysis compares the budgeted property tax revenues and expenditures reported by the local units to the Department of Administration for budget years 1989 and 1990; final actual property tax figures may vary slightly from these budget figures. Also, the 1988 property tax levies are used to fund a local unit's 1989 budget year and 1989 property tax levies are used to fund a local unit's 1990 budget year.

**Did These Local Units of Government Whose Aggregate
Property Taxes Were Higher In the Reappraisal Year
Than In the Previous Year Comply With State Laws
Regarding Property Tax Levies?**

To answer this question, we reviewed budget documents for each of the six local units to determine whether their 1989 tax levies complied with the requirements of State law. In conducting this testwork, we verified that each local unit's budgeted property tax levies in 1989 that were subject to the tax lid were not more than the 1988 levies for those functions.

During our review, nothing came to our attention that would indicate that the six local units were not in compliance with State laws regarding the 1989 property tax levies. In other words, all the increases in property tax levies were either allowable because of increases allowed due to additional valuation or because the increases were made for functions that are statutorily exempt from the 1989 tax lid.

The property tax increases in each local unit of government, as well as descriptions of the funds those increases affected, are summarized on pages 5-13. The summary for each locality will indicate the fund or function where significant changes occurred.

Conclusion

All six local units of government reviewed during this audit increased their property tax levies from 1988 to 1989. The percentage increases, by unit of government were:

- City of Leavenworth: 28.7 percent;
- Leavenworth County: 33.4 percent;
- Unified School District 453 in Leavenworth: 16.1 percent;
- City of De Soto: 11.7 percent;
- Johnson County: 17.2 percent;
- Unified School District 232 in De Soto: 8.0 percent.

During our brief review of these property tax levies, nothing came to our attention that would indicate that the six local units were not in compliance with State laws regarding the 1989 property tax levies. All of their increases appeared to be allowable due to additional valuation or because the increases were made for functions that are statutorily exempt from the 1989 tax lid. The scope of our reviews, however, was constrained by the limited timeframe of the audit assignment. Consequently, we could not determine the extent to which local units may have taken advantage of the tax lid exemptions by reallocating their mix of resources.

City of Leavenworth

Summary of Property Tax Changes

	Budget Year			Change From 1989 to 1990	
	1988	1989	1990	Amount	Percent
Budgeted Property Tax Levies	\$ 2,861,399	\$ 3,021,386	\$ 3,888,630	\$ 867,244	28.7%
Budgeted Expenditures	\$15,941,143	\$16,013,051	\$17,416,600	\$1,403,549	8.8%
Property Taxes as a Percent of Total Expenditures	18.0%	20.7%	22.3%	-	-
Total Assessed Valuation	\$61,456,518	\$62,781,098	\$96,037,053	\$33,255,955	53.0%
Mill Levy Value	\$ 61,457	\$ 62,781	\$ 96,037	\$ 33,256	53.0%
Total Mill Levy	46.557 mills	47.787 mills	40.487 mills	(7.330) mills	(15.3)%

As the table shows, 1989 property taxes to be levied for the 1990 budget increased \$867,244, or 28.7 percent, for the city of Leavenworth. We reviewed Leavenworth's 1989 and 1990 budget documents and found that the most significant increases to property tax levies were made in the employee benefit fund and the bond and interest fund. Also, the total assessed valuation increased by 53.0 percent while the total mill levy decreased by 15.3 percent.

We found that between 1989 and 1990, the city's budgeted property tax revenues to pay for employee benefits increased from \$150,376 to \$638,690, or \$488,314. According to city officials, this increase in property tax revenue for the employee benefit fund was partially offset by a decrease in property tax revenues for the city's general fund. Between 1989 and 1990, total budgeted expenditures for the employee benefits fund increased from \$423,703 to \$772,760, or \$349,057. Local officials indicated that \$349,057 of the increased property tax revenues will be used to fund anticipated increases in benefit costs, and \$21,470 will be used to compensate for decreases in other sources of funds, such as motor vehicle taxes.

Finally, local officials indicated that the remaining \$117,787 in additional property tax revenue was necessary to compensate for a relatively low cash carryover balance from 1989. Although we were not able to verify the information provided by local officials due to the limited time frame of this audit, we did verify that budget documents projected a carryover balance of only \$13,440 in the employee benefits fund for 1990 as compared to carryover balances of more than \$100,000 in 1988 and 1989.

We also found that the budgeted property tax levy for Leavenworth's bond and interest fund increased from \$357,417 in 1989 to \$810,110 in 1990, an increase of \$452,693. According to local officials, this increase was necessary because of declines in both the cash reserves and revenues from special assessments that were historically used to meet obligations in this fund. City officials told us that the revenue shortfall occurred because a significant portion of the special assessment revenue which the city needed to pay special assessment debt in 1990 and beyond had

already been paid in previous years by taxpayers. However, in those previous years city officials had failed to earmark the appropriate special assessment revenue for future payments on outstanding debt in the bond and interest fund. As a result, the city refinanced its outstanding debt in 1989 and plans to make up the revenue shortfall through increased property taxes.

Leavenworth County

Summary of Property Tax Changes

	Budget Year			Change From 1989 to 1990	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Amount</u>	<u>Percent</u>
Budgeted Property Tax Levies	\$ 4,116,792	\$ 4,720,728	\$ 6,296,583	\$1,575,855	33.4%
Budgeted Expenditures	\$12,857,686	\$13,250,893	\$15,665,947	\$2,415,054	18.2%
Property Taxes as Percent of Total Expenditures	32.0%	35.6%	40.2%	--	--
Total Assessed Valuation	\$123,792,799	\$128,338,468	\$193,959,115	\$65,620,647	51.1%
Mill Levy Value	\$123,793	\$128,338	\$193,959	\$65,621	51.1%
Total Mill Levy	33.240 mills	36.669 mills	32.449 mills	(4.220) mills	(11.5)%

(a) Amounts included in the table do not include a separate tax levy for local service roads in Leavenworth County.

As the table shows, property taxes to be levied for the 1990 budget increased \$1,575,855, or 33.4 percent, for Leavenworth County. We reviewed the county's 1989 and 1990 budget documents and found that an additional \$1.6 million in property taxes were levied in four funds: the employee benefits fund, the out-district tuition fund, the bond and interest fund, and the unified court cost fund. In total, property tax levies for the county's remaining funds actually declined between the 1989 and 1990 budget years. Finally, Leavenworth County's assessed valuation increased 51.1 percent between the 1989 and 1990 budget years while the total mill levy declined by 11.5 percent during the same period.

For the 1990 budget year, Leavenworth County levied \$746,000 more in property taxes for the employee benefit fund than were levied for 1989. According to county officials, the additional property taxes were levied to compensate for a low projected beginning cash balance for the fund and to replace local ad valorem tax reduction funds. Local ad valorem tax reduction funds, transfers from the State general fund to local government units, had been used to fund more than \$300,000 of employee benefit costs in 1988 and 1989. For the 1990 budget, the County anticipates receiving \$418,000 in local ad valorem tax reduction funds but does not plan to use any of those funds for expenditures from the employee benefits fund. Instead, county officials indicated that the local ad valorem tax reduction funds will be deposited in the general fund to help finance necessary capital improvements.

Leavenworth County's second largest property tax increase from 1989 to 1990 was budgeted for the out-district tuition fund. Budgeted property tax revenues for that fund increased from \$221,170 in 1989 to \$793,750 in 1990. According to local officials, this increase was necessary because the county has experienced a dramatic increase in out-district tuition since Kansas City Community College opened a satellite program in Leavenworth County.

We also noted that budgeted property tax revenues for the bond and interest fund increased from \$275,310 in 1989 to \$425,974 in 1990. This occurred even though total budgeted expenditures for the fund decreased by \$11,545 from 1989 to 1990. Local officials indicated that the property tax increase was necessary because the fund had less cash reserve for 1990 than for 1988 and 1989 (\$5,695 for 1990 compared with \$353,518 for 1988 and \$275,310 for 1989), and because motor vehicle tax receipts for the fund would decline by approximately \$30,000 in 1990.

Finally, we noted that budgeted property tax receipts for the county's unified court cost fund increased from \$135,318 in 1989 to \$284,960 in 1990. According to local officials this increase was due to an increase in fees paid to attorneys representing indigents as well as increases in computer costs and a \$65,000 capital reserve to update computer systems for the court system and child support.

Unified School District 453 (Leavenworth)

Summary of Property Tax Changes

	<u>Budget Year</u>			<u>Change From 1989 to 1990</u>	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Amount</u>	<u>Percent</u>
Budgeted Property Tax Levies	\$ 4,833,319	\$ 5,291,215	\$ 6,144,685	\$ 853,470	16.1%
Budgeted Expenditures	\$17,856,573	\$19,652,165	\$21,343,814	\$1,691,649	8.6%
Property Taxes as a Percent of Total Expenditures	27.1%	26.9%	28.8%	--	--
Total Assessed Valuation	\$62,080,182	\$63,460,421	\$96,717,976	\$33,257,555	52.4%
Mill Levy Value	\$62,080	\$63,460	\$96,718	\$33,258	52.4%
Total Mill Levy	77.855 mills	83.378 mills	63.530 mills	(19.850) mills	(23.80)%

As the table shows, property taxes to be levied for the 1990 budget increased \$853,470 or 16.1 percent. We reviewed 1989 and 1990 budget documents of Unified School District 453 in Leavenworth and found that the most significant increases to property tax levies were made in the general fund and the bond and interest fund. The district's total assessed valuation increased 52.4 percent from 1989 to 1990 while the total mill levy declined 23.8 percent.

We found that budgeted property tax levy for the school district's general fund increased by \$128,817. Since State law exempts all school district general funds from the tax lid limitations, we did not review changes in this fund in detail. However, we did discuss the district's general fund budget with Department of Education officials, and they indicated that the district's general fund budget was within the limits of the School District Equalization Act.

We also found that between 1989 and 1990, the school district's budgeted property tax revenues to pay for expenditures from the bond and interest fund increased by \$721,876. According to school district officials, the property tax increase was necessary because they issued \$4.25 million in new bonds to remodel and expand the high school.

City of De Soto

Summary of Property Tax Changes

	<u>Budget Year</u>			<u>Change From 1989 to 1990</u>	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Amount</u>	<u>Percent</u>
Budgeted Property Tax Levies	\$ 118,337	\$ 123,553	\$ 138,019	\$ 14,466	11.7%
Budgeted Expenditures	\$2,705,175	\$2,711,018	\$3,435,606	\$724,588	26.7%
Property Taxes as a Percent of Total Expenditures	4.4%	4.6%	4.0%	-	--
Total Assessed Valuation	\$3,230,786	\$3,366,716	\$8,050,901	\$4,684,185	139.1%
Mill Levy Value	(a)	(a)	(a)	(a)	(a)
Total Mill Levy (a)	36.250 mills	36.270 mills	17.394 mills (b)	(18.876) mills	(52.0)%

(a) Taxpayers in one area of De Soto receive fire protection services from the city and are taxed at the mill levy rate shown in the table. Taxpayers in another area do not receive city fire protection services and are taxed at a lower mill levy rate. A mill would have a different value for each of these two areas.

(b) According to city officials, the actual mill levy rate for De Soto in 1990 was 16.367 mills for the area with city fire protection services.

As the table shows, property taxes to be levied for the 1990 budget increased \$14,466, or 11.7 percent, for the city of De Soto. We reviewed De Soto's 1989 and 1990 budget documents and found that the most significant increases to property tax levies were made in the general fund and the bond and interest fund. Between the 1989 and 1990 budget years, De Soto's total assessed valuation increased 139.1 percent and its budgeted mill levy decreased 52.0 percent.

We found that between 1989 and 1990 the city's budgeted property taxes to be levied for the general fund increased from \$56,247 to \$76,674, or \$20,427. According to city officials, the special liability expense fund levy (which had been recorded in its own fund before) was incorporated into the general fund levy for 1990. This accounted for about \$11,000 of the increase in the general fund tax levy but caused no increase in total property taxes to be levied. The remaining increase was due to increased budgeted expenditures for the general fund. City officials told us that total budgeted expenditures from the general fund increased from \$465,832 in 1989 to \$537,632 in 1990, or 15.4 percent, because the city annexed additional land and needed to provide that new territory with police and fire protection, and other basic services.

We also found that the bond and interest fund expenditures decreased by \$14,296 between 1989 and 1990, but that the amount of property tax to be levied increased by \$6,370 in the same period. Officials said that bond and interest payments went down for 1990 by a total of \$14,407, but that other non-property tax revenues to the fund also decreased. Revenue from special assessments decreased by about \$4,000 for 1990. In addition, motor vehicle tax revenues decreased by about \$4,000. Because these other revenues went down, property tax revenue were raised to cover the difference.

Johnson County

Summary of Property Tax Changes

	<u>Budget Year</u>			<u>Change From 1989 to 1990</u>	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Amount</u>	<u>Percent</u>
Budgeted Property Tax Levies	\$27,919,377	\$ 33,731,315	\$ 39,543,701	\$5,812,386	17.2%
Budgeted Expenditures	\$99,787,127	\$107,669,099	\$117,491,663	\$9,822,564	9.1%
Property Taxes as a Percent of Total Expenditures	28.0%	31.3%	33.7%	--	--
Total Assessed Valuation	\$1,249,507,476	\$1,306,217,756	\$2,430,500,864	\$1,124,283,108	86.1%
Mill Levy Value	\$1,249,507	\$1,306,218	\$2,430,501	\$1,124,283	86.1%
Total Mill Levy	22.344 mills	25.824 mills	16.269 mills	(9.555)mills	(37.0)%

(a) Amounts included in the table do not include a separate tax levy for a library and a wastewater district in Johnson County.

As the table shows, property taxes to be levied for the 1990 budget increased \$5,812,386, or 17.2 percent. We reviewed Johnson County's budget documents and found that an additional \$7,162,818 in property taxes were levied in five funds: the general fund, the public works fund, the airport general fund, the nursing center fund, and the county bond and interest fund. In total, property tax levies for the county's remaining funds actually declined between the 1989 and 1990 budget years, for a net property tax increase of approximately \$5.8 million. Finally, Johnson County's assessed valuation increased 86.1 percent between the 1989 and 1990 budget years while the total mill levy declined by 37.0 percent during the same period.

For Johnson County's general fund, we found that budgeted property tax revenues increased \$2,446,629 from budget year 1989 to 1990. Total budgeted expenditures for the general fund also increased, going from about \$30.1 million to \$34.1 million, an increase of about \$4 million. According to county officials, expenditures for the general fund increased because the county plans to start paying for its employee benefits through the general fund in 1990. County officials also indicated that property taxes for the general fund increased significantly because they plan to use property tax receipts to fund a large portion of the increase in general fund expenditures. Because those expenditures were primarily for employee benefits, the increase applicable to those benefits is exempt from the tax lid limitation.

In the county bond and interest fund, county officials projected a 32.6 percent increase in property tax revenues from \$7,926,250 to \$10,509,687. Again, according to county officials, the property tax revenue increase will be used to fund all of county's increased debt service for a variety of projects in Johnson County.

Johnson County officials also projected an increase of \$1,660,496 in property tax revenues for the public works fund. County officials indicated that total

expenditures for the public works fund are expected to increase by about \$3.9 million due to the County Assisted Road System program and capital projects. The \$1,660,496 in increased property taxes will be used to pay for a significant portion of those increased expenditures.

For the remaining two funds, the airport general fund and the nursing center fund, Johnson County budgeted an increase of \$472,256 in property tax revenues. County officials indicated these increases were needed because of relatively low beginning cash balances in these two funds and decreases in other revenues for the funds.

Unified School District 232 (De Soto)

Summary of Property Tax Changes

	<u>Budget Year</u>			<u>Change From 1989 to 1990</u>	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Amount</u>	<u>Percent</u>
Budgeted Property Tax Levies	\$2,015,300	\$2,228,423	\$2,407,097	\$178,674	8.0%
Budgeted Expenditures	\$7,609,300	\$8,085,743	\$8,642,987	\$557,244	6.9%
Property Taxes as a Percent of Total Expenditures	26.5%	27.6%	27.9%	-	-
Total Assessed Valuation	\$20,937,425	\$21,897,334	\$44,205,847	\$22,308,513	101.9%
Mill Levy Value	\$20,937	\$21,897	\$44,206	\$22,309	101.9%
Total Mill Levy	98.525 mills	100.757 mills	54.452 mills	(46.305) mills	(46.0)%

As the table shows, property taxes to be levied for the 1990 budget increased \$178,674, or eight percent. We reviewed the district's 1989 and 1990 budget documents and found that the most significant increases to property tax levies were made in the general fund and bond and interest fund. Also, the district's total assessed valuation increased 101.9 percent while its total mill levy decreased 46.0 percent.

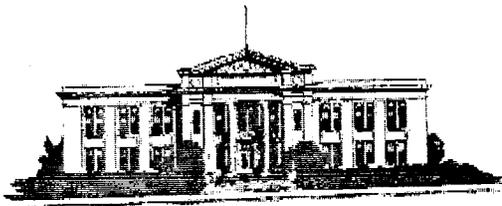
We found that the budgeted property tax levy for the district's general fund increased by \$304,331 between the 1989 and 1990 budget years. State law exempts school districts' general funds from the aggregate levy limit, so we did not review this fund in detail. However, Department of Education officials told us that the district's general fund budget was within the limits of the School District Equalization Act.

The increase in the general fund levy is counterbalanced somewhat by a decrease of \$124,812 in the district's bond and interest fund levy. District officials told us that the budgeted expenditures for bonds and interest went down for the 1990 budget year because a bond issue was paid off in that year.

APPENDIX A

Local Units' Responses

On November 29, 1989, we provided copies of the draft audit report to the City of Leavenworth, Leavenworth County, Unified School District 453 (located in Leavenworth), the City of De Soto, Johnson County, and Unified School District 232 (located in De Soto). Leavenworth school district officials indicated they would not be making a written response to the audit; the other responses are included in this Appendix.



City of
LEAVENWORTH, KANSAS

City Hall 66048
913-882-9201

November 30, 1989

Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285

Dear Ms. Williams:

I would like to thank you for the opportunity to respond to your analysis of the property tax changes that occurred in the City of Leavenworth between 1988 and 1989. Also, we are pleased with your conclusion that as one of six jurisdictions audited, the City of Leavenworth is in compliance with State Laws regarding its 1989 property tax levies.

Your report shows total City of Leavenworth budgeted expenditures for 1989 at \$14,623,764 and budgeted expenditures for 1990 at \$17,416,600. I would like to point out that 1989 budgeted expenditures do not include the Housing Authority budget in the amount of \$1,389,287. However, for 1990 we did include Housing Authority expenditures as shown on the State Budget forms. Even though the City is not required to include a federally funded program such as the Housing Authority on the State's budget forms, we did so in 1990 in order to show a more complete picture of the City's revenues and expenditures. The 1989 Housing budget of \$1,389,287 should be added to the \$14,623,764 shown as the City's 1989 budget, therefore bringing the City's total 1989 budget up to \$16,013,051. This number can then be compared fairly to the City's adopted 1990 budget of \$17,416,600 as it appears on the State's budget forms. The increase between the 1989 budget of \$16,013,051 and the 1990 budget of \$17,416,600 is \$1,403,549 or 8.8%, instead of the 19.1% as shown in your report.

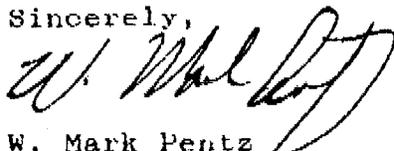
In your discussion of the City's Employee Benefit Fund, you state that \$349,057 of increased property tax revenue will be used to fund anticipated increases in benefit costs. However, I would like to point out that property taxes levied in the City's General Fund decreased by \$117,226 between 1988 and 1989 as shown on the State's budget forms. The City Commission decreased property tax revenue in the General Fund to help offset the tax increase in the Employee Benefit Fund. If you deduct the \$117,226 decrease in General Fund property taxes from the \$349,057 increase in Employee Benefit Fund property taxes the net increase is \$231,831.

Meredith Williams
November 30, 1989
Page 2

Lastly, your report states that in the Bond and Interest Fund "... the revenue shortfall occurred because a significant portion of the Special Assessment debt that the City needed to pay in 1990 and beyond had already been paid in previous years by taxpayers.". A more accurate statement would be that a significant portion of the Special Assessment revenue which the City needed to pay Special Assessment debt in 1990 and beyond had already been paid in previous years by taxpayers, resulting in reduced city-at-large Bond and Interest mill levies during most of the 1980's decade.

Once again, we appreciate your giving us the opportunity to respond to the report which you will be presenting to the Legislative Post Audit Committee.

Sincerely,



W. Mark Pentz
City Manager

cc:City Commission
file

(LEAVENWORTH COUNTY RESPONSE)

As the table shows, property taxes to be levied for the 1990 budget increased \$1,575,855, or 33.4 percent, for Leavenworth County. We reviewed the county's 1989 and 1990 budget documents and found that an additional \$1.6 million in property taxes were levied in four funds: the employee benefits fund, the out-district tuition fund, the bond and interest fund, and the unified court cost fund. In total, property tax levies for the county's remaining 34 funds actually declined between the 1989 and 1990 budget years. Finally, Leavenworth County's assessed valuation increased 51.1 percent between the 1989 and 1990 budget years while the total mill levy declined by 11.5 percent during the same period.

For the 1990 budget year, Leavenworth county Levied \$746,000 more in property taxes for the employee benefit fund than were levied for 1989. According to county officials, the additional property taxes were levied to compensate for a low projected beginning cash balance for the fund (\$47,805 for 1990 compared to \$493,830 in 1988 and \$199,024 in 1989) and to replace local ad valorem tax reduction funds. Local ad valorem tax reduction funds, transfers from the State general fund to local government units, had been used to fund more than \$300,000 of employee benefit costs in 1988 and 1989. For the 1990 budget, the County anticipates receiving \$418,000 in local ad valorem tax reduction funds but does not plan to use any of those funds for expenditures from the employee benefits fund. Instead, the local ad valorem tax reduction funds will be deposited in the County's general fund. The need for these funds was felt to be greater in the general fund because, had the county not done so, it would have faced a large shortfall in the capital improvements program which would have required much greater expenditure of tax monies in the near future to fund these capital projects and interest on the money ~~that~~ that would have had to have been borrowed to finance these necessary and unavoidable capital improvements.

These local ad valorem tax reduction funds can legally be used in any tax fund except bond and interest.

Leavenworth County's second largest property tax increase from 1989 to 1990 was budgeted for the out-district tuition fund. Budgeted property tax revenues for that fund increased from \$221,170 in 1989 to \$793,750 in 1990. According to local officials, this increase was necessary because the county has experienced a dramatic increase in out-district tuition since Kansas City Community College opened a satellite program in Leavenworth County.

Post-It™ brand fax transmittal memo 7671		# of pages ▶
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Dept 913 296-2247	Phone # 682-7611 Ext 222	
Fax #	Fax # 682-1248	

We also noted that budgeted property tax revenues for the bond and interest fund increased for \$275,310 in 1989 to \$425,974 in 1990. This occurred even though total budgeted expenditures for the fund decreased by \$11,545 from 1989 to 1990. Local officials indicated that the property tax increase was necessary because the fund had less cash reserve for 1990 than for 1988 and 1989 (\$5,695 for 1990 compared with \$353,518 for 1988 and \$275,310 for 1989), and because motor vehicle tax receipts for the fund would decline by approximately \$30,000 in 1990.

Finally, we noted that budgeted property tax receipts for the County's unified court cost fund increased from \$135,318 in 1989 to \$284,960 in 1990. According to local officials this increase was due to a State-mandated increase in fees paid to attorneys representing indigents as well as increases anticipated in computer costs and a \$65,000 capital reserve to update computer systems for the court system and child support.

City of DeSoto

CITY HALL — 33150 W. 83rd. St., P.O. Box C — DeSoto, Kansas 66018

November 30, 1989

Legislative Division of Post Audit
109 West 9th., Suite 301
Topeka, Kansas 66612-1285

Dear Sirs:

The City of DeSoto has received by facsimile machine the corrected sheet showing DeSoto's figures from the post audit report.

First of all, we would like to state that the primary reason for the increase in property taxes was because of annexation in the past year. The size of the City increased by approximately 25% because of the annexations. The funds are needed for increased maintenance, police and fire protection, etc.

The increase in the total budgeted expenditures includes all utilities of which the City provides electric service as well as water and sewer services. Utilities alone account for \$630,000 of the total increase.

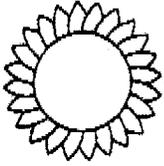
If you have any questions, please contact me.

Sincerely,

JoAnn Dinger
JoAnn Dinger,
City Clerk

TELEPHONE 313.855-1192





Johnson County, Kansas • Office of the County Clerk

Beverly L. Baker, County Clerk

November 30, 1989

Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 W. 9th, Suite 301
Topeka, KS 66612-1285

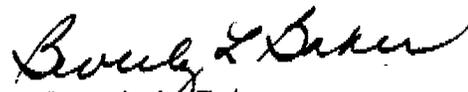
Dear Ms. Williams,

Thank you for the draft copy of your audit report.

We have no questions and concur with your findings. You and your staff should be commended for accomplishing this audit in the brief time frame available.

If we can be of further assistance, please let us know.

Sincerely,


Beverly L. Baker

/s

Fax: 913/296-2247



De Soto Unified School District 232

HAROLD VESTAL
Superintendent
GLENN COLTHARP
Assistant Superintendent

8305 PEORIA
P.O. BOX 449
DE SOTO, KANSAS 66018
(913) 585-1141
(913) 441-2727

November 30, 1989

Meridith Williams
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, KS 66612-1285

Dear Meredith Williams:

I have reviewed the report of November 29, 1989.

One comment should be made. The largest increase in property tax from 1988-89 to 1989-90, was in general fund. The primary reason is that state aid has not increased. Budget increases are therefore funded from property tax.

Sincerely,

Harold Vestal
Harold Vestal, Ed. D.
Superintendent of Schools

HV/mg