

To: House Taxation Committee
From: Erik Sartorius, Executive Director
Date: March 17, 2022
RE: Testimony in opposition to House Bill 2738

Good afternoon, Mr. Chairman and Committee Members. Thank you for allowing the League of Kansas Municipalities to testify in opposition to House Bill 2738.

Maintaining the current countywide sales tax distribution formula is imperative to cities across Kansas. This is an issue from Johnson County cities to Johnson City. This is an issue from the City of Wichita (population 389,255) to the City of Fredrick (population 9). The revenue sharing process in KSA 12-192 has been in law since 1978 and the formula has worked. In 2020, 492 Kansas cities received a total of \$271,112,274 and 82 Kansas counties received \$214,258,925 through the formula.

The 1978 formula was the result of compromise and working together to find a funding source for both counties and cities. In Kansas, 90% of the sales taxes generated in the state are generated within city limits. 84% of the residents of Kansas live in cities. In most cases, most of the sales tax is generated inside city limits.

There has been a historical recognition that a portion of those sales tax dollars should stay where they are generated, in part due to the services provided primarily by cities for retail businesses. Fire, police, roads, utilities (or maintenance of the right of way) and economic development support for both retaining and attracting retailers are “value adds” provided by cities to retailers.

Many cities across the state use the proceeds from this tax in lieu of property taxes and to pay debt service. If this law went into effect, cities in the future may have to raise property taxes or cut vital city services relied upon and expected by their citizens. There is no guarantee that an interlocal agreement could be agreed to between cities and the county – nor does HB 2738 require counties to even offer such an agreement.

The current property tax for counties does not benefit city residents. City property taxpayers pay the same tax for county roads and bridges, noxious weeds, sheriff patrol as county residents that live outside of city limits. In many cases, those tax dollars are used extensively outside city limits and this legislation gives no guarantees to city residents that the status quo of spending by county commissions primarily outside city limits would change. Changing this sales tax structure would put further weight on city residents to pay the cost of county services with no direct benefit.

We would urge this Committee to look at alternatives to this bill, and not report this bill out of Committee.