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# Aid to Locals Report: 2017 Update

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*Divestment Holds Back Kansas  
Communities*



September 2017

*The damage from the Great Recession, which began nearly a decade ago, was compounded by Governor Sam Brownback's 2012 tax plan. While the rest of the country and surrounding states have recovered, cities and counties across Kansas struggle to rebuild post-recession and continue to bear the impact of disinvestment in the programs and services that are key to the state's high quality of life. While the Kansas Center for Economic Growth (KCEG) has done research on this issue in the past<sup>1</sup>, the updated data in this report show a much different – and in many ways, worse – reality. Though the 2017 Kansas Legislature took a crucial first step in repairing the Kansas tax code by passing Senate Bill 30, the harms of the failed tax experiment will be felt for years to come.*

#### Some of the key findings in the report show:

- Aid to local governments has not rebounded from the cuts made during the recession and funding has remained low since the 2012 tax plan took full effect. After adjusting for cost increases, **total aid to local governments is down over 14% compared to 2009.**
- Before the recession and failed tax policy, the Kansas Legislature voted to cut off funding streams to local governments. Despite aid to local government's role in helping to keep local property taxes low and fund some services, Kansas cities and counties have lost out on **\$1.93 billion** in local aid over the past 14 years.
- Local units of government have raised property taxes to fund services, but **cuts in aid to local communities were over 4.5 times more than the corresponding increases in property taxes.** Counties have not come close to backfilling the losses in revenue from cuts to local aid.
- State policymakers have cut the tax revenue that supports total health spending. Relying more on fees, grants, and other sources of non-tax revenue to pay for services can be less reliable and can often come from sources that are not in tune with local needs. **Over 43% of counties have seen a drop in county tax revenue as a share of overall health spending.**
- Community mental health has suffered substantially from tax policy changes made since 2012. In addition to undergoing cuts to balance the Fiscal Year 2016 budget, community mental health centers (CMHCs)

have had to maintain public health standards despite flat funding since the recession. **After adjusting for inflation, CMHC funding from the local level is down over \$3 million, and nearly 66% of counties have reduced their investments.**

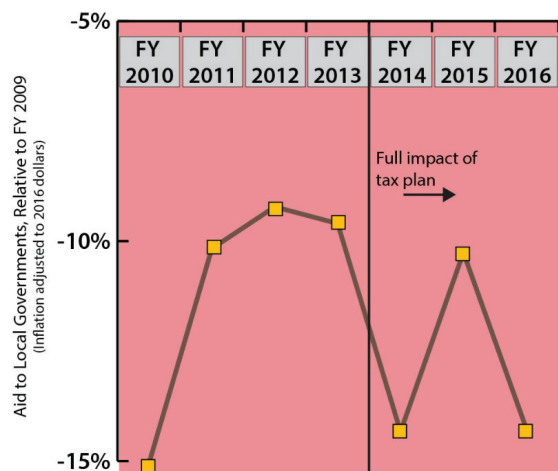
- The state's continued disinvestment in the places where we live, work, and play has had a destructive impact on key services, including K-12 public education, libraries, public safety, and local health departments. **Investment in these areas has not kept up with increased costs over time and is below pre-2012 tax plan levels.**

#### Aid to Local Governments is Down

The data are clear: support to communities has fallen after the recession and 2012 tax policy. Decreased state support forces cuts to the services required to build thriving communities: good public schools, responsive health services, quality roads, and reliable public safety. These aren't abstract things – they are the foundation for creating a high-quality of life in Kansas.

Under the 2012 tax policy changes and the series of budgets passed in crisis conditions, lawmakers have chosen not to restore funding to local governments since the recession. In fact, relative to Fiscal Year 2009 – the high-water mark for local support – support for local communities is still down 14%, reflecting a long, slow, unfinished recovery from the worst recession in decades.<sup>2</sup>

## Tax Plan Did Not Allow for Recovery from Recession-Era Cuts to Local Governments



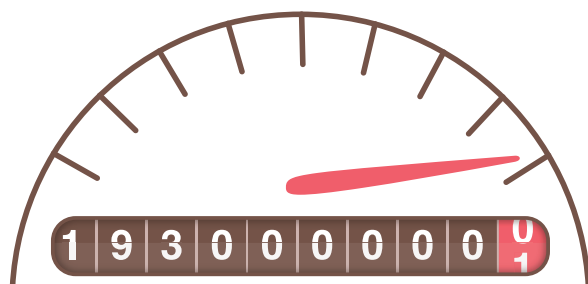
Source: Governor's Budget Reports, Vol. 1 (Actual Spending, Inflation Adjusted to 2016 dollars), compared to FY 2009.

The compounded impact of the recession and tax plan of 2012 was worsened by the suspension of several programs designed to keep property taxes low and services well-funded in the early 2000s, including the Local Ad Valorem Tax Reduction Fund (LAVTRF) and the County and City Revenue Sharing Fund (CCRSF). These programs helped keep property tax rates down statewide and helped counties fund investments in public safety, health, and other vital services provided at the local level.

These revenue sharing funds used a portion of sales and use tax revenues. Per the Kansas Legislative Research Department, the LAVTRF and CCRSF had 3.6% and 2.8% of sales and use tax receipts dedicated to them, respectively.<sup>3</sup>

Using this formula and looking back at sales and use tax receipts since these funds were fully funded in Fiscal Year 2002, KCEG calculated that Kansas communities have forgone a staggering **\$1.93 billion** between Fiscal Year 2003 and Fiscal Year 2016. These dollars could have been used to keep Kansas property taxes lower at the local level. Currently, Kansas ranks 15th for highest property tax rates in the nation.<sup>4</sup>

## Kansas Communities Have Lost \$1.93 Billion (And Counting)



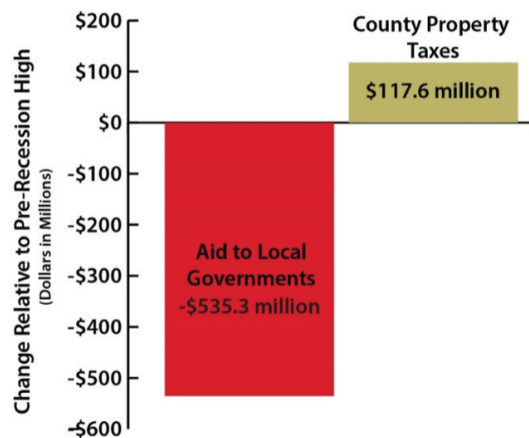
Note: Kansas Legislative Research Department, Kansas Legislator Briefing Book, 2017: I-4 Local Demand Transfers.

## Cuts in Funding Support to Kansas Communities Outweigh Property Tax Hikes

As state support for local communities has decreased, local taxes have increased to make up the difference. However, these increases have come nowhere close to backfilling the losses in investments from the state. This gap combined with the cumulative losses from the defunding of the LAVTRF and CCRSF caused property taxes to increase in rural and urban counties alike.

After adjusting for cost increases, county property tax receipts have increased about \$117 million since their pre-recession high in 2008. However, this pales in comparison to the same cost-adjusted decrease in aid to local governments of over **\$535 million**. In other words, the gap created by cuts combined with flat reinvestment levels is nearly **4.5 times** the size of tax increases by local communities.

## Cuts in Aid to Local Governments has Far Outpaced Increased Property Taxes



Note: Data are inflation adjusted to 2016 dollars. Aid to Locals data are by fiscal year, starting FY 2009. Property Taxation Data are by calendar year, starting in 2008.

Many counties in Kansas struggle to keep up with the demand for services needed to remain or become attractive places to start a family or build a business. This is especially pronounced in rural counties, where services are more expensive to deliver because of distance and density.

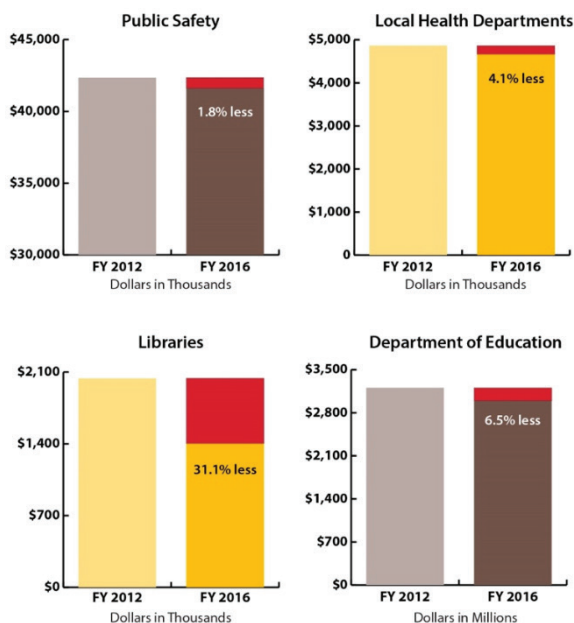
It's no surprise, then, that rural counties have been hardest hit by reductions in state aid to communities. From 2012 to 2016, 77 counties saw their overall tax levies increase by some degree. Of those, over **80% were densely-settled rural, rural, or frontier counties**<sup>5,6</sup> – areas with lower population densities and greater distances to access services, like health care and education, or to access employment.

## Cuts to Local Communities Jeopardize Services Kansans Use Every Day

Many basic services have not seen funding keep up with costs or have been cut outright. Local libraries, public safety workers, the local health department, the public schools our children and grandchildren attend – these have received flat or reduced funding when adjusted for cost increases.

### Aid to Key Parts of Communities not Keeping Up with Costs

After adjusting for increased costs, many of the services people in Kansas rely on have not kept up since the start of the tax plan in 2013. This leaves local governments with few options to keep up with increased demand.



Source: Governor's Budget Report, Vol. 1: Funding data is inflation adjusted to 2016 dollars.

For public schools, the situation has been especially difficult. Previous reports<sup>7</sup> by KCEG have documented<sup>8</sup> the impacts of decreased funding – and those trends have continued since the shift to block grants in 2015. Base levels of funding have not kept up with cost increases. USD 469 in Lansing has already determined cutting the school year short would save dollars.<sup>9</sup> Shawnee Heights USD 450 had to spend about \$350,000 in reserves in the 2016-17 school year to stay within their budget.<sup>10</sup>

In March 2017, the Kansas Supreme Court ruled that the state's school funding formula was "inadequate and unconstitutional." In response, the Kansas Legislature passed a school finance bill, Senate Bill 19, during the 2017 Legislative Session. The bill includes a new school funding formula and two years of funding increases to public education. Kansas is awaiting a ruling from the Supreme Court determining whether funding is adequate.

## Aid to Local Health Departments is Unstable and Down for Mental Health

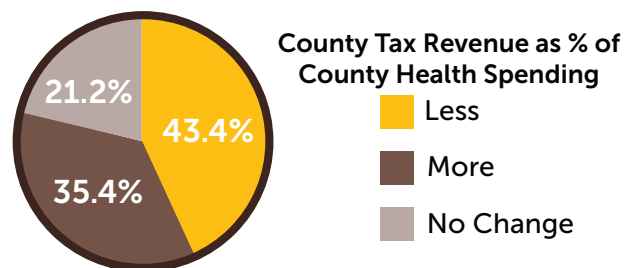
Kansas needs to increase investment in public and mental health services to maintain its high quality of life. Unfortunately, the opposite is happening. Recently, KCEG research found that many areas in Kansas have a shortage of mental health care providers,<sup>11</sup> and this gap is especially hard-felt in rural areas.

One area where Kansas is seeing changes in local health is where dollars are coming from to fund county health departments and some hospitals. While overall funding from counties to local health is up between FY 2012 and FY 2016, so are costs, which have outpaced growth in local revenues by about 3%. Many counties are seeking other sources of revenue to fund their operations: charging fees for services, applying for grants, and identifying other sources of revenues.

However, these supplemental sources of revenue can be problematic. Sometimes residents can't afford to pay the fees for services, and grants from foundations or the federal government are not reliable revenue sources. Additionally, local communities know how best to spend their local dollars, and non-tax revenues from outside sources may not be best suited to address local needs.

It's not just a handful of counties shifting in this direction, either. In fact, nearly half of all counties – 43.4% – have seen a drop in county tax revenue as a share of overall health spending. The lack of stable funding streams may make it difficult for counties and local health departments to offer the level of services residents need.

### More Counties are Relying on Sources of Revenue Outside of Taxes since Tax Plan



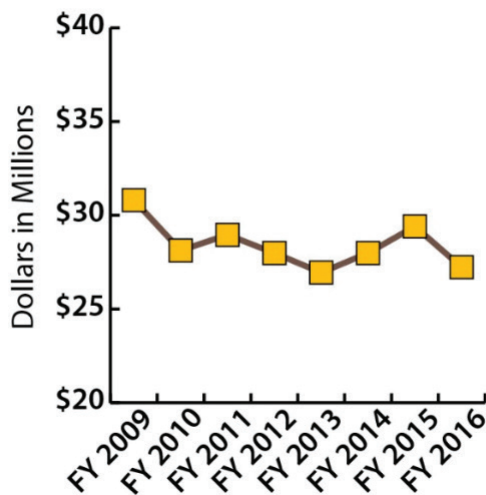
Source: Kansas Center for Economic Growth Analysis of County Budget Data, FY 2012 to FY 2016.

Another crucial part of the state's well-being and quality of life is mental health. Kansas community mental health centers (CMHCs) have seen their local funding go down since the recession with another downturn in Fiscal Year 2016. CMHCs were a target of cuts to balance last year's budget shortfall. Cuts sustained to local mental health totaled approximately \$30 million in 2016, which resulted in the elimination of two programs – one of which was designed to improve mental health treatment coordination of care for Kansans.<sup>12</sup>



Furthermore, the budget cuts resulted in people losing their jobs as about 200 positions were eliminated.<sup>13</sup>

## Local Funding for Community Mental Health Centers is Down since the Recession



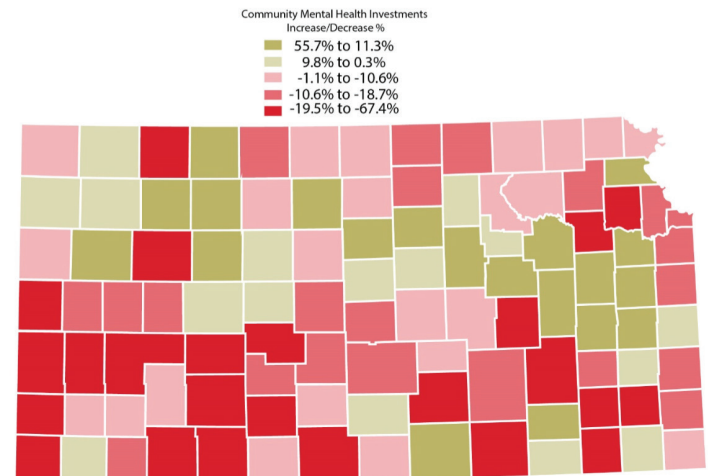
Source: County Budget documents, Department of Administration Note: Data are adjusted for inflation to 2016 dollars

It is concerning to see where local funding for CMHCs has declined the most since the recession. Many of the deepest reductions in funding are in rural areas and in areas where there is a need for more and better substance abuse treatment. Recruitment of qualified mental health professionals in rural areas was already difficult, and budget cuts will have long-lasting impacts on staffing at rural CMHCs. With cuts from the state, strained local funding, and increasing demand, Kansas will be forced to play catch up on mental health services for decades to come. Proactive mental health services in Kansas – the state once home to the world-famous Menninger Clinic and known for advanced mental health treatment – is another victim of the 2012 tax plan.

“With cuts from the state, strained local funding, and increasing demand, Kansas will be forced to play catch up on mental health services for decades to come.”

## Community Mental Health has been Hit Hard Since Recession and Failed Tax Policy

Over the past decade, the Kansas Legislature has shifted more financial burden to cities and counties. In suspending funds that help keep property taxes low and support local services as well as cutting aid to local governments, mental health services have suffered. Many of the counties most affected by these cuts are rural and already suffer from a lack of services. Reinvestment in these services is of critical importance as the state recovers from the failed tax policy of 2012.



Source: Analysis of mental health funding data from County Budgets as found on the Kansas Department of Administration website. Note: Percent change in dollars inflation adjusted to 2016 between 2009 and 2016; Ad valorem used as proxy for funding in Johnson County due to county budget reporting.

### Policy Recommendations:

1. **Continue to strengthen Kansas' tax code:** Kansas took a major step toward restoring its fiscal health and reinvesting in thriving communities with the passage of Senate Bill 30 in June 2017. SB 30 is a comprehensive income tax reform bill that ended the most disastrous parts of the Brownback tax experiment and is a crucial first step on Kansas' road to financial recovery. Kansas policymakers can continue to rebalance the "three legged stool" by reforming the state's sales tax and property tax.
2. **Restore local demand transfers and revenue sharing:** Sound budget and tax policy will allow Kansas to begin to restore the sales and use tax dollars that flow to localities via the LAVTRF and CCRSF programs discussed earlier. These could help counties keep property taxes down and better manage funding for crucial services that were cut during the recession and damaged under 2012 budget and tax policy.
3. **Expand KanCare to allow more Kansans to access quality health care:** Expanding KanCare would mean newly covered Kansans could have better access to health care and mental

health treatment. Since January 2014, the state has foregone more than \$2 billion in new health spending by not expanding Medicaid. The additional resources for local health care and treatment provided by KanCare expansion would also result in increased employment and economic development opportunities in many local communities that are currently underinvested in. The expansion of KanCare would help to reverse the trends in local funding for many of the services critical to keeping Kansas communities thriving and healthy, including city and state owned hospitals.

The 2012 tax policy experiment hurt every community across the state. With the passage of Senate Bill 30 in June of 2017, lawmakers took a courageous step towards restoring Kansas' fiscal health by ending the 2012 tax plan. As this report shows, however, the damage is deep. Recovering from failed tax policy will take time and a commitment from lawmakers to reinvest in local communities. Only then will Kansas be able to provide the high-quality of life that residents expect and deserve.

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<sup>1</sup> See Kansas Center for Economic Growth, Tax Cuts Taking Toll on Kansas Communities. April 2015. Available online: [http://realprosperityks.com/wp-content/uploads/2013/02/tax\\_cuts3.pdf](http://realprosperityks.com/wp-content/uploads/2013/02/tax_cuts3.pdf)

<sup>2</sup> See Kansas Division of the Budget, Governor's Budget Reports. Available online: <http://budget.ks.gov/gbr.html>

<sup>3</sup> See Kansas Legislative Research Department, Kansas Legislator Briefing Book, 2017: I-4 Local Demand Transfers. Available online: [http://www.kslegresearch.org/KLRD-web/Publications/BriefingBook/2017\\_briefing\\_book.pdf](http://www.kslegresearch.org/KLRD-web/Publications/BriefingBook/2017_briefing_book.pdf)

<sup>4</sup> See Chris Stiffler, "Property Taxes in Colorado Nearly the Lowest in the Nation," Colorado Fiscal Institute. March 9, 2017. Available online: <http://www.coloradofiscal.org/property-taxes-in-colorado-nearly-the-lowest-in-the-nation/>

<sup>5</sup> Kansas Center for Economic Growth analysis of county property tax data as found in Kansas Association of Counties' annual reports.

<sup>6</sup> Peer county groups are developed by the Kansas Department of Health & Environment. Frontier counties are defined as counties having less than 6.0 residents per square mile (rpsm). Rural counties are defined as counties having between 6.0 and 19.9 rpsm. Densely-settled rural counties are defined as counties having between 20.0 and 39.9 rpsm.

<sup>7</sup> See Kansas Center for Economic Growth, Quality at Risk: Impact of Education Cuts. September 2014. Available online: <http://realprosperityks.com/wp-content/uploads/2014/09/KCEG-school-funding-report3.pdf>

<sup>8</sup> See Kansas Center for Economic Growth, Kansas Public Education: The Foundation for Economic Growth. April 2016. Available online: <http://realprosperityks.com/wp-content/uploads/2016/04/K12-Report.pdf>

<sup>9</sup> See John Richmeier, "Lansing Cuts School Year Short." Leavenworth Times, April 12, 2017. Available online: <http://www.leavenworthtimes.com/news/20170412/lansing-cuts-school-year-short>

<sup>10</sup> See Celia Llopis-Jepsen, "Kansas Superintendents Support Parts of School Finance Plan, but Worry about 5-Year Implementation." Topeka Capital-Journal. April 11, 2017. Available online: <http://cjonline.com/news/state-government/education/2017-04-11/kansas-superintendents-support-parts-school-finance-plan>

<sup>11</sup> See Kansas Center for Economic Growth, *Health and Prosperity Index (HAPI)*. November 2016. Available online: [13. http://realprosperityks.com/wp-content/uploads/2016/11/HAPIreport\\_FINAL.pdf](http://realprosperityks.com/wp-content/uploads/2016/11/HAPIreport_FINAL.pdf)

<sup>12</sup> See Jim McLean, "Budget Cuts 'Devastating' Kansas Mental Health System, Providers Say," Kansas Health Institute News Service. July 7, 2016. Available online: <http://www.khi.org/news/article/budget-cuts-devastating-mental-health-system-providers-say>

<sup>13</sup> See Associated Press, "Kansas Budget Cuts Force 200 Layoffs at State Mental Health Centers." Modern Healthcare. August 2, 2016. Available online: <http://www.modernhealthcare.com/article/20160806/NEWS/308069940>