

BUDGET TIPS BULLETIN FOR CITIES

2011 for 2012

Introduction

This bulletin is issued each year to assist local officials prepare their operating budgets for the coming year. It is not a how-to-manual, but rather a report on information and ideas that may be helpful during the budget process.

For a general review of various aspects of local financial operations, the *Kansas Municipal Sourcebook (AKA: City Clerks Manual)*, the *Governing Body Handbook* and the *Kansas Local Government Law Manual* are helpful resources. All three publications are available for purchase by calling the League.

Budgeting for Cities and Counties for 2012:

There was little done in the 2011 Legislature that is likely to result in any kind of immediate effect, good or bad, on 2012 local budgets.

The changes to the KPERS statute (see New Legislation) will likely mean increases in future budgets, *starting in 2013*. Additional required action in the 2012 Legislature should clarify this situation, as to the exact degree of added costs.

The real problems for cities and counties in 2012 will most likely be the result of the economic and environmental times. As the economy continues to stall out, property values continue to stagnate, and even go backwards—meaning that a mill is worth the same or less in most areas of Kansas as last year and the year before; delinquency rates are being also tending to more of an issue, as more and more taxpayers who have been out of work/underemployed are not able to pay their taxes in a timely way. Further, sales tax collections are also fairly flat. The end result being that most cities and counties are finding themselves somewhat short on the revenue side of the ledger.

At the same time, fuel prices remain very high by historical standards (though gasoline did come down just a bit over the first part of the

2011 summer, a gallon of gas still costs much more today than a year ago today). Gasoline prices seem less-and-less affected by supply and demand in these times, and more-and-more a product of investment speculation, which means price is more difficult than ever to project. And, gasoline prices tend to have a significant ripple effect in our economy, and on the cost of the products cities and counties consume in order to provide services to citizens.

The recent gloomy business reports on the increasingly expensive potential future costs of natural gas production may soon have an effect of that fuel source, and, though the current cost of natural gas is not a major concern, it may be just a matter of time before that trend turns the other way. Stay tuned to this subject, as natural gas prices are often a big factor in local budgets.

Further, while general liability and property and casualty insurance markets continue to trend ‘soft’ (lower prices), employee health insurance costs continue to increase for most employers (including cities and counties), with many local governments reporting 10% or more increases again this year.

Unfortunately, it appears that a number of cities and counties are making deep cuts in employment numbers, and in services and programs, in 2012, perhaps more than in the preceding years of The Recession (which ‘officially’ began in December 2007 and ‘officially’ ended in June 2009, according to the experts). And, although the Kansas unemployment rate (currently 6.6%) is not as bad as the national unemployment rate (9.1%), *unemployment is a major factor in the slow recovery*, and many Kansas manufacturing jobs are considered permanently lost.

Budgeters are well advised to be extremely cautious and conservative, as municipalities deal with very challenging financial times.

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PART A — 2012 BUDGET CALENDAR

State laws govern the timetable for budget preparation, publication, hearing, adoption, and certification. The calendar below is based on these statutory requirements:

August 5 Last day for publishing proposed budget and hearing notice: K.S.A. 79-2929

August 15 Last day for public hearing on budget: K.S.A. 79-2933

August 25 Last day for filing levies and budget with county clerk: K.S.A. 79-1801, 79-2930

PART B – THE BUDGET'S PURPOSE

No single responsibility of a city's governing body and its chief administrative officials is more critical than the preparation and adoption of the annual budget. The budget is the principal policy management tool of the governing body. Its purpose should be more than filling out forms to comply with state law,

and more than an exercise to determine how much property tax should be levied. The budget establishes priorities for the coming year and outlines how those priorities will be realized. It is a prime opportunity for the city to evaluate its current services, measure and compare needs for different services, and balance community needs against the tax burden necessary to finance them. Governing body members are urged to devote adequate time to studying the development of their city's budget. Remember, while budget preparation can be delegated to city staff, the final responsibility and approval for the budget rests solely with the elected governing body.

PART C – STATE BUDGET FORMS

STATE BUDGET FORMS: The budget forms for cities and counties are developed and administered by the Division of Accounts and Reports (Department of Administration), and can be found and downloaded at <http://www.da.ks.gov/ar/muniserv/default.htm>

As in most years, there are changes in this year’s forms. **The state budget forms MUST BE submitted electronically**, via several optional methods (see above site).

Appropriation Ordinance. K.S.A. 79-2934 provides that "the budget as approved and filed with the county clerk for each year shall constitute and shall hereafter be declared to be an appropriation for each fund... “At one time the state forms provided for approving, filing, and appropriating by fund the budget of the city by ordinance. *State Budget Form; Page No. 1 (Certificate)* for 2012 certifies the adopted total fund amounts "as the maximum expenditure." Some cities pass an ordinance officially adopting the budget and appropriating by fund, the maximum amounts to be expended. Such an ordinance is desirable and may include other budget-related matters such as staffing limitations and other policies.

PART D – ESTIMATING STATE AID AND SHARED TAXES

Introduction. This part provides an overview of the various forms of general and specific state aid received by cities from the State of Kansas.

D-1. State-Local Revenue Sharing Fund.

City County Revenue Sharing (CCRS). This past funding source for cities and counties has been eliminated.

1994 - \$33,375,418	1995 - \$34,610,310
1996 - \$35,094,853	1997 - \$35,709,014
1998 - \$35,709,010	1999 - \$36,931,688
2000 - \$42,733,849	2001 - \$34,876,349
2002 - \$33,442,931	2003 – Funding Eliminated

D-2. Local Ad Valorem Tax Reduction Fund (LAVTR). This past funding source for cities and counties has been eliminated, and though there continues to be some ongoing discussion about the resurrection of this revenue stream, it does not seem likely, given the current economic times, that LAVTR will come back anytime soon.

1994 - \$42,057,992	1995 - \$44,648,745
1996 - \$46,264,850	1997 - \$47,343,822
1998 - \$47,770,566	1999 - \$57,039,876

2000 - \$56,047,305 2001 - \$54,813,490
2002 - \$54,680,671 2003 – **Funding Eliminated**

D-3. State Highway Aid Payments--Direct. (K.S.A. 79-3425c (2006 Supp.)) All cities receive directly from the state treasurer certain highway aid payments distributed on a per capita basis. Cities in counties with a population of over 34,000 (except Johnson County) also receive state payments through their county (See Section D-4 below). Payments are made from the state's "**Special City and County Highway (SCCH) fund.**" The amounts cities receive are distributed on January 15th, April 15th, July 15th (effective about July 24—after the state closes the FY 2011 books), and October 15th.

Cities must credit their payments to a separate fund to be used for construction, reconstruction, alteration, repair, and maintenance. The amount may be credited to a consolidated highway fund but must be used for highway purposes (See Section G-14 and K.S.A. 79-3425, 79-3425c, and 79-34,104, as amended). The SCCH on average receives 35.6% of state motor fuel tax collections.

2012 SCCH Budget Estimates. Individual (each city and county) Special City and County Highway fund distributions are posted on www.lkm.org

D-4. State Highway Aid Payments-- Through County. Cities in counties of over 34,000 populations (except in Johnson County) also receive a share of state highway aid payments made to the county and the city's share is allocated on a population basis. (See K.S.A. 79-3425c). The city's share in Sedgwick and Shawnee counties is equal to 50% of county receipts while in Wyandotte County it is 10%. The cities share in Lyon, Cowley, Crawford, Montgomery, Butler, Saline, Leavenworth, Riley, Reno, and Douglas counties with populations between 34,000 and 150,000 is 90%. Payments to counties are made at the same time as cities (See D-3 above).

D-5. Highway Aid--Connecting Links. Cities that maintain state highway connecting links will receive \$3,000 per lane mile in 2012. Payments are made directly to eligible cities in four quarterly payments, on the first day in January, April, July, and October. Per K.S.A. 68-416 the money is to be credited to the consolidated highway fund or the street and alley fund of recipient cities and "used solely for the maintenance of city connecting links." A city may request KDOT to take over the maintenance of connecting links in lieu of receiving the per lane mile payment, but KDOT apparently has discretion as to whether it will do so. There are well over 1,000 lane miles under this agreement that cover city-maintained state connecting links.

D-6. Liquor Drink Tax. K.S.A. 79-41a01 *et seq.*, as amended, levies a 10% gross receipts tax on the sale of any drink containing alcoholic liquor, sold by a club, caterer, or drinking establishment. The revenue is allocated 30% to the state and 70% to cities and counties where the tax is collected except as noted below for cities under 6,000 population. The money is distributed on March 15th, June 15th, September 15th, and December 15th, plus an "equalization" payment on March 15th if needed.

(1) Cities over 6,000. The city share and the county share of revenue from clubs outside cities must be allocated in the following manner: 1/3 to the general fund, 1/3 to a special park and recreation fund, and 1/3 to a special alcohol and drugs program fund.

Cities under 6,000. Cities less than 6,000 receive 46 2/3% of the liquor tax collections. These monies must be allocated 1/2 to the general fund and 1/2 to the special parks and recreation fund.

(2) Use of Monies. K.S.A. 79-41a04 (d) specifically requires that monies in the special alcohol and drug

programs fund shall be expended for services or programs "whose principal purpose is alcoholism and drug abuse prevention and education, alcohol and drug detoxification, intervention in alcohol and drug abuse, or treatment of persons who are alcoholics or drug abusers or are in danger of becoming alcoholics or drug abusers." Special provisions exist for Butler County.

Estimated Revenue. The estimate amounts for each county and city are posted on www.lkm.org.

D-7. Selected Grant Payments. (a) *Health.* Local units may obtain information on federal and state health grants from the Local Health Services Division, State Department of Health and

(b) *Firefighter's Relief Tax.* This is not a state payment to cities since the city governing body has no discretion as to its use. It is a tax on fire insurance premiums. (K.S.A. 40-1703) It should not be budgeted as a revenue source or expenditure.

(c) *Libraries.* Data on state appropriated grants to local and regional library systems can be obtained by the State Library, State Capitol, Topeka, KS 66612 (785-296-3296).

D-8. Other Information on Federal or State Grant Programs. Both federal and state grants are exempt from local budgeting requirements. K.S.A. 12-16,108 through 12-16,111 states that "Any money received by a municipality from a state loan or grant may be expended without regard to budget limitations...and such expenditures shall not be charged against the budget."

NOTE: FEMA payments (reimbursements) are NOT subject to the Kansas budget law.

PART E – AGGEGRATE PROPERTY TAX REQUIREMENTS

E-1. State Forms. *State Budget Form, Page 2*, titled "*Computation to Determine Limit for 2012*," is a worksheet that has been in place since the elimination of the tax limit law in 1999—instructions are found in the budget packet, starting on page ix. Budget makers who follow these forms and the related instructions, step-by-step, will find it relatively easy to meet the mechanical requirements of the budget law when the necessary information is available. The manual *Budgeting for Cities and Counties* contains a full description of this process—the manual can be found on the Division of Accounts and Reports website, at <http://www.da.ks.gov/ar/muniserv/Complete%20manual.pdf>.

Go to <http://www.da.ks.gov/ar/muniserv/> for a complete overview of the Budget process for cities and counties, and the DAR's services related to those processes.

E-2. Delinquent Taxes. The budget forms contain procedures for tax delinquency calculations. The allowance for delinquencies, under K.S.A. 79-2930, allows for the actual prior delinquent tax rate plus five (5%) percentage points. The amount budgeted for delinquency reduces the amount of taxes that may be spent in a budget fund. Please note that municipalities pursuing the collection of delinquent taxes are able to participate in the state administered debt set-off program. (See K.S.A. 75-6204 and attachments to the *State Budget Form*.)

CAUTION: For 2012 Budgets—In many areas of Kansas, property tax **delinquency rates** continue to run higher than past normal. Budgeters are advised to be very careful about making sure local budget projections for *up-to-date* delinquency rates are checked out thoroughly with the County Clerk.

E-3. Libraries. With the expiration of the tax lid, cities may wish to consider passing a simple ordinance limiting the taxing authority of a city library created under K.S.A 12-1218 *et seq.* Without such a tax levy limitation imposed by local ordinance, a city library will have no statutory taxing limitations in place. Charter ordinances already in effect that established tax levy limitations for city libraries will continue in force. (See AG Opinion No. 99-27).

E-4. Debt Limits. Debt limit provisions are found in K.S.A. 10-308, which limits total bonded indebtedness to 30% of assessed valuation. Another part of the former tax lid law in K.S.A. 79-5039, the governing body of any taxing subdivision may elect to have the bonded indebtedness limitation of the taxing subdivision computed on the basis of a percentage of assessed valuation, which percentage is determined by dividing the amount of indebtedness authorized for such taxing district in 1988 by the assessed valuation of all tangible taxable property in the taxing subdivision in 1989.

PART F – PROPERTY TAX; RATES AND FUNDS

F-1. Certify Amount—Not Rates. K.S.A. 79-1801 provides that local units certify property tax amount requirements, not levy rates. The county clerk computes the actual, final tax levy rates.

F-2. Eliminate Special Funds. While it is *generally recommended* that special tax levy funds that duplicate purposes that may be legally covered by the general fund, be eliminated, many cities continue to budget for these funds individually, in order to track expenses and revenues in a more controlled fashion. Certainly, either method is permissible.

F-3. Check with County Clerk. Under K.S.A. 79-1965, the county clerk is required to reduce unlawful, excessive tax levies, and must give not less than seven days notice to the taxing subdivision affected before making any adjustment in a tax levy which has been certified. City clerks are advised to maintain continuous contact with their county clerk, to make sure the County Clerks are fully informed in advance of any changes made to tax levies or budgets.

PART G – RESERVE AND SPECIAL FUNDS; BUDGET LAW EXCEPTIONS

G-1. General. In general, (1) public funds may not be expended unless budgeted; (2) monies in a fund, unexpended at the end of the year, must be re-budgeted as a receipt and budgeted as expenditure before the money may be spent; and (3) monies may not be transferred from one fund to another. Presented below is a summary of the principal reserve and special funds authorized by state law. Please note that the *State Budget Form* contains a section where cities are required to list the budgeted transfers between funds in 2012, as well as to cite the source of their authority to do so.

Monies in a reserve fund, following a budgeted transfer, may be spent without annual re-budgeting. When transfers are made from an operating fund to a reserve fund, the transfer is shown as an expenditure. The receipts and disbursements of a reserve fund must be shown in the annual budget for information purposes.

G-2. Equipment Reserve Fund. K.S.A. 12-1,117 provides the following: "The governing body of any city may provide, by adopting of an ordinance, for a municipal equipment reserve fund to finance the acquisition of equipment. Monies may be budgeted and transferred to such fund from any source which may be lawfully utilized for such purposes, including equipment use charges on the various departments and agencies of the city to finance new and replacement equipment." An equipment reserve fund offers a city the opportunity of systematically saving a pre-determined amount for equipment as it is being

depreciated.

G-3. Capital Improvement Fund. K.S.A. 12-1,118 specifically authorizes cities that have formally approved a *multi-year capital improvement plan*, to establish a capital improvement fund. Monies may be credited to the fund by budgeted transfers, with any property tax levied for the fund to be authorized by a home rule (ordinary) ordinance. Monies in the capital improvement fund may be used to finance any public improvement in the adopted capital improvement plan including the repair, restoration, and rehabilitation of existing public facilities. As in the case of the equipment fund noted above, the capital improvement fund may be used both as a current year's operating fund as well as a reserve fund. There is broad authorization to invest monies in this fund. Also K.S.A. 12-1737 permits the establishment of a special building fund, which may be financed from tax levies, transfers, and other revenue sources.

G-4. Highway Improvements. K.S.A. 68-589 *et seq.* authorizes all cities and counties to establish a special highway improvement reserve fund (See Section G-3 above on alternative approaches).

G-5. Machinery; Bridges. All cities and counties may use K.S.A. 68-141f and 68-141g to create a "special road, bridge or street building machinery, equipment and bridge building fund" by providing for the transfer of funds not to exceed 25% of the amount budgeted for such purposes from the special fund (See Section G-2 and G-3 above for information on alternative approaches).

G-6. Sewer and Wastewater Funds. Cities are permitted to establish reserve funds for the maintenance, operation, and expansion of sewerage systems. Monies credited to the reserve fund may come from a variety of sources such as property taxes or sewer service charges (See Section G-3 above for information on alternative approaches).

G-7. Special Improvement Fund. Under K.S.A. 12-6a13, any city may levy a tax for a "special improvement fund" to be used in connection with "6a special assessments." Expenditures from the fund may be reimbursed by special assessment bond funds.

G-8. Noxious Weed Capital Outlay Fund. K.S.A. 2-1318 permits the transfer of funds from a noxious weed eradication fund to a noxious weed capital outlay fund of any monies remaining at the end of the year (See Section G-3 above for information on alternative approaches).

G-9. Workers' Compensation Reserve Fund. K.S.A. 44-505f authorizes cities to establish a reserve fund when acting as a self-insurer for workers' compensation. Monies in the fund may come from a special tax under K.S.A. 44-505c or from transfers.

G-10. Special Liability Expense Fund. K.S.A. 75-6110 authorizes a special liability expense fund to pay costs resulting from the Kansas Tort Claims Act. The fund may be used as an operating fund and/or as a reserve fund. As an operating fund, a special property tax may be levied, or monies transferred from other existing funds. It is used as a reserve fund primarily if the unit is self-insuring some or all of its tort liability expense (See Section L-28 for additional information).

G-11. Risk Management Reserve Fund. K.S.A. 12-2615 authorizes the establishment of a risk management reserve fund. A special tax is not authorized (See Section L-31 for additional information).

G-12. Utility Depreciation Reserve. Cities are authorized to establish depreciation reserve funds for municipal utilities set aside from surplus. While not explicitly required, the amount set aside must be from authorized budgeted expenditures. If an unanticipated utility surplus reserve occurs, the budget may be amended to authorize the expenditure as a transfer to the depreciation reserve fund.

G-13. Public Safety Equipment—Ambulances. Cities may levy a tax to create a special fund for law enforcement purposes or for the purchase of fire equipment or ambulance equipment under K.S.A. 12-110b. This is not legally a reserve fund and the amount must again be budgeted each year until spent. Such equipment may also be purchased under K.S.A. 12-110a. Under K.S.A. 12-110c, bonds may be issued for up to 15 years to purchase fire equipment, subject to a petition for a referendum.

Under K.S.A. 12-110d, a special fund for replacement of ambulances or emergency medical service equipment may be established from monies not needed for operating purposes. In contrast to K.S.A. 12-110b, the fund created under K.S.A. 12-110d is a true reserve fund (See Equipment Reserve Fund, Section G-2).

G-14. Consolidated Highway Fund. K.S.A. 12-1,119 authorizes cities to establish by ordinance, a consolidated street and highway fund to receive: (a) state highway connecting link payments, (b) special city and county highway fund aid monies, and (c) budgeted transfers from the general or other operating funds of the city to be used solely for street and highway purposes. Monies received for connecting links and placed in the consolidated fund must be used for that purpose. Please note that this is not a reserve fund.

G-15. Other Special Funds. K.S.A. 12-1674a provides for a special services fund in connection with special assessments levied for services by Johnson County cities. K.S.A. 13-10,140, applicable to Kansas City, and K.S.A. 79-1950b, applicable to Wichita, provide for a special improvement fund. K.S.A. 13-14b12 provides for a hospital capital improvement fund in cities of the first class. K.S.A. 79-2925 authorizes airport revolving funds and a special recreation facilities reserve fund, K.S.A. 13-1348d, in Wichita. K.S.A. 12-2202 and K.S.A. 13-1379 provide for special off-street parking revolving funds.

G-16. Other Budget Exemptions. As previously noted, the status of reserve funds should be shown in the budget some special funds never show up in the budget for proposed expenditures. Examples are gifts and bequests, etc. Federal aid funds may be expended without budgeting (See K.S.A. 12-1663). The actual expenditure of such special funds may be included in the budget. Meter and utility deposit funds are sometimes not budgeted if adequate budget authority otherwise exists for such refunds

G-17. Dealing With Transfers. One of the problems associated with the use of fund transfers is that it can result in "double budgeting." For example, if \$10,000 is transferred from the utility fund to the general fund, the same \$10,000 is treated as revenue to the general fund and expenditure to the utility fund. When the amount of transfers is substantial, the public may not understand what is really taking place.

NOTE. State budget forms contain a requirement for listing all the transfers on one page, entitled "Schedule of Transfers". Budgeters are required to list a statutory reference for each transfer (though local authority, via city ordinance, will also suffice for cities).

PART H – ESTIMATING PROPERTY AND IN LIEU TAX REVENUE

H-1. Tangible Property Taxes. K.S.A. 79-5a27 requires the county clerk to notify every taxing subdivision by July 1st of its assessed valuation. It is likely that many units will not have final valuation totals until later. Assessment appeals and protests, including those before the state board of tax appeals, must be considered, requiring an educated guess and cooperation with the county appraiser.

The amount of property taxes actually levied by the budget will not be increased by the county clerk just because final valuation figures are higher than estimated when preparing the budget. In lieu of tax payments can be estimated in conjunction with the county clerk and treasurer based on any tax

exemptions and/or abatements of the city that involve “in lieu of tax” payments.

H-2. Special Motor Vehicle Taxes. Since 1981, most motor vehicles became subject to a special tax paid at the time of registration instead of the traditional property tax under K.S.A. 79-5101 *et seq.* In 1994, the legislature created a separate system for taxing most recreational vehicles, but revenue is distributed in the same fashion as the vehicle tax. For purposes of this bulletin, both will be referred to as “vehicle taxes.” Following a law change in 2002, anyone who purchases a vehicle in an area other than where they live to pay the difference in the sales tax rate when the vehicle is registered and tagged (provided that the area in which they live has a higher sales tax than the area in which they purchased the vehicle). No credits are given when the person purchases a vehicle in an area with a higher sales tax than the area in which they live.

Among other things, K.S.A. 79-5109 provides for the distribution of revenue from the special vehicle tax among all taxing subdivisions (including the state). This division is made in proportion to their respective share of the prior year’s total levy rate within the “tax levy unit” in which the vehicle has its tax “situs” (origin). Secondly, the law requires the budgets of taxing subdivisions to show estimated revenues from the vehicle tax as a source of income by fund. Vehicle tax revenue is proportionately allocated to each fund on the basis of relative property taxes for the prior year (i.e., 2009).

K.S.A. 79-5111 requires the county treasurer to notify each taxing unit by May 10th of the estimated amount that it is to receive the following year from the special tax. The county treasurer is to distribute the special tax money with the regular property tax distributions, plus a December distribution (See *Distribution of Taxes*, Section H-3, below).

H-3. Distribution of Taxes. Under K.S.A. 12-1678a, the county treasurer is required to distribute the estimated amount collected and owed to each taxing subdivision on January 20th, June 5th, and October 31st, but not less than the actual amount collected 20 days prior to these dates. On March 20th, and September 20th, the treasurer is required to distribute not less than 95% of the estimated amount collected, but not less than the actual amount collected 20 days prior to these dates. These distribution dates are to be followed unless an intergovernmental agreement is entered into between the board of county commissioners and the governing body of the taxing subdivision, providing for an alternative method. This could include, for example, less frequent distributions with a provision that the county treasurer’s share with the taxing subdivision a portion of the interest earned on invested taxes. Requests for advance payments are covered by subsection (c)(3) of K.S.A. 12-1678a. Regulations from the U.S. Department of Housing and Urban Development, under the Real Estate Settlement Procedures Act (RESPA), require mortgage companies to pay ad valorem taxes in installments. This could mean a significant reduction in the amount of taxes distributed on January 20th, and a commensurate increase in the amount distributed in June of each year, after the second payment in May (See Section L-5 for further information about any investment earnings impact).

PART I – SOURCES OF NON-PROPERTY TAX REVENUE

I-1. Revenue Source Information. For information on revenue sources, see the *Kansas Municipal Sourcebook* (last edition in was in 2009) or the publication *Kansas Municipal Revenue Practices*. Both publications are available from the League. For the remainder of this section, only certain major non-property tax options are summarized.

I-2. Local Sales Taxes. LOCAL SALES TAX LAW

The Sales Tax Act [K.S.A. 2006 Supp 12-187] was amended significantly in 2006; its basic provisions are as follows: (1) The local sales tax can now only be raised only in increments of ½%, and cannot exceed 2% for general purposes; (2) Another 1% made be added for special purposes (which must

“sunset” after 10 years); (3) The new law allows for the levying of an *excise tax* on tickets to various events; (4) A *Development Excise Tax* is now permitted, following a vote.

City sales taxes are returned directly to the city in which they are collected. County sales taxes are split between the county and the cities within that county through a statutory formula. The city’s share of a countywide sales tax is paid directly to the city. All revenues derived from sales taxes are credited to the general fund unless local authority allows otherwise.

NOTE. K.S.A. 12-189a—was amended by the 2003 Legislature to eliminate the collection of local sales tax on noncommercial use of water effective January 1, 2006. This change was made as part of the numerous amendments made to the sales tax act in 2003 to bring Kansas into compliance with the Streamline Sales Tax Agreement.

I-3. Streamlined Sales Tax. In 2003, the legislature passed the necessary revisions needed to bring Kansas' sales tax laws into compliance with the uniformity needs of the streamlined sales tax (SST) project and to permit Kansas to participate in the program. (Key to the success of this legislation was the inclusion of “local compensating uses taxes” (CUT)...see below. The local component of the compensating use tax is needed for the collection of local sales tax on internet and other remote sales.) There are short and long-term benefits to this legislation. In the near term, cities will be able to collect compensating use taxes on goods purchased outside of the state by entities within their jurisdiction. In the long run obviously, taxation of remote internet and catalog sales will yield new monies as a result of the application of a sales tax to remote sales. The long run benefits will not be fully seen until voluntary collection agreements with remote vendors are established and/or federal legislation is finalized to permit collection. At this time, there are several national companies that are voluntarily collecting tax on remote and internet sales.

I-4. Local Compensating Use Tax. Legislation passed in 2003 made compensating use tax (CUT) apply to local purchases of out-of-state goods (CUT was applicable only to the state sales tax until that time). The result of this change was that local jurisdictions with a local sales tax saw CUT amounts increase dramatically. To view all cities’ Calendar Year 2010 and 2011 CUT amounts, go to: <http://www.ksrevenue.org/pdf/CY10LocUseTaxDist.pdf>
<http://www.ksrevenue.org/pdf/CY11LocUseTaxDist.pdf>

The 2003 law also introduced the concept of ‘**Destination Sourcing**’, which means that sales tax is now collected at the point of DELIVERY of goods and services (as opposed to where the sale occurs). While primarily a tool to insure taxation fairness on internet purchases, Destination Sourcing also allows for potentially-significant amounts of local sales tax revenue for even very small cities, even though the city may not have much, if any, retail sales within its own borders. But, remember, each city must pass a sales tax referendum in order to collect any sales tax revenue. Local sales tax collected on ‘delivered’ (sales outside the city, such as delivered goods from other cities or sales off the internet) are shown on city tax receipts as Compensating Use.

I-5. Gross Earnings Tax on Intangibles. The governing bodies of counties, cities, and townships may levy a tax on the gross earnings of resident individuals and businesses from intangibles--primarily interest earnings on investments (K.S.A. 12-1,101). Cities that levy the local intangibles tax may set the rate between 1/8 of 1% (0.125) and 2¼% (2.250). The Kansas Department of Revenue provides intangibles tax return forms that are filed with the state and then returned to the county. The local intangibles tax then is assessed and subject to collection and distribution by the county in the same manner as the general property tax. Local voters may petition for a referendum on the question of repealing a local intangibles tax and authorize additional property taxes, sufficient to replace the lost revenue. A city governing body

may levy this tax by ordinance (no referendum required), even if the voters in the past voted to repeal the tax.

The gross earnings tax is often considered one of the fairest revenue sources legally available to cities, especially with the substantial exemptions provided by state law for the elderly. In some cities, it produces substantial revenue that has grown over the years.

I-6. Transient Guest Taxes. Cities and counties are specifically authorized to levy a transient guest tax on hotel, motel, and bed and breakfast room rentals. The applicable statute (K.S.A. 12-1697 *et seq.*) is subject to Home Rule charter.

Under Kansas statute, the amount of the tax rate may not exceed 2% received for sleeping accommodations and the revenue must be credited to a "convention and tourism promotion" fund. However, home rule modifications may be made to these statutory rates and purposes (and have been by a number of cities). The tax is collected by the Kansas Department of Revenue, with 2% of the revenue retained by the state to defray the expense of administration and the rest returned to the levying unit. Since this tax is "non-uniform", a number of cities have chosen to "charter out", and have increased the rate up to as much as 7-9%.

I-7. Other Non-Property Taxes. The principal other local non-property tax sources include occupational taxes, telephone taxes for emergency telephone service programs (K.S.A. 12-5301), and utility franchise fees or taxes. These local tax sources are reviewed in the *Kansas Municipal Sourcebook* (revised in April, 2007).

I-8. Non-Tax Revenue Sources. Most Kansas municipalities receive substantial revenue from local non-tax sources. These include such items as (1) sewage service charges, (2) refuse collection and disposal fees, (3) special assessments, (4) recreational fees (such as swimming pool and golf course), (5) traffic fines and municipal court costs, (6) utility fund transfers, (7) investment earnings, etc. (See note about RESPA in Section H-3).

I-9. Franchise Fees. Franchise fees are added to franchised utility bills and sent directly back to municipalities' budgets. Franchise fees represent an increasingly important aspect of most cities' revenue streams. They also represent one of the mechanisms available to "spread" the costs of local government services over a wide range of taxpayers, somewhat "lightening the load" on any one group (i.e., property taxpayers). The "standard" or normal rate of franchise fee assessment is 5% of gross receipts.

Franchise Fees in Newly-Annexed Areas.

K.S.A. 12-2016 (2006 Supp.) requires some specific procedures to be followed before franchise fees can take effect on electric and natural gas in newly-annexed areas.

Loss of franchise fee dollars on natural gas: Deregulation in the late 1980s in the gas industry permits "offline purchase" of gas through gas marketers, by local aggregate users. The commodity portion of the local gas company's receipts does not account for the volume of gas purchased, by an "end user", from a third-party supplier (outside marketing company), and subsequently is not assessed the local franchise fee on that portion of the bill; thus some cities may be losing rather significant revenue. Large-volume users of natural gas, such as large discount stores, manufacturing plants and schools (the KASB promotes a plan just for this service) are buying "offline" in large numbers, and those numbers will go up as the "threshold" (for determining the minimum aggregation required) is reduced by the KCC in future years, as it already has been on several occasions. The League can advise your city on how to deal with this issue, by "recapturing" this loss revenue via local action.

Telephone Franchise Fees: Due to changes in the telephone industry over the past decade or so, many cities have adopted "per line" fees ranging from under \$1/line to over \$2/line/month, thus replacing the gross receipt concept. Most cities which have adopted per-line franchise fees have been able to increase revenue significantly. As a result of an FCC administrative ruling (spring of 2002), there can be no franchise fee collected on the modem/internet portion of a cable TV bill from the franchise fee calculation.

In recent years, 'bundling' of multiple phone line or cable services (TV, phone and internet) have caused questions to emerge concerning the applicability of franchise fees to telephone services, and disputes remain unresolved in several instances. This is a fluid situation; look for more on this topic in the near future.

PART J – PERSONNEL AND FRINGE BENEFITS

J-1. Workers' Compensation. The overall private insurance market finds itself in an extended 'soft market' state—meaning that rates for workers' comp insurance have been fairly stable over the past year or so. However, most analysts expect the soft market to give way to a 'hard market' sometime soon (This year? Next year?), which would likely drive rates up. And, the continuing escalation of injury care remains a cost concern. Budgeters are advised to be cautious (conservative) when estimating workers comp costs. Though major work comp reform legislation was passed in 2011, it will be some time before how much, if any, change to workers compensation cost for local governments results.

Reminder: The League-sponsored Kansas Municipal Insurance Trust (KMIT) continues to provide an excellent alternative to the traditional work comp marketplace. KMIT was created by LKM to offer savings and increased services in the area of workers' compensation to cities. There are now 141 KMIT members (140 cities, plus the League, as of June, 2011). For more information on KMIT, contact Pool Administrator Don Osenbaugh at (316) 259-3847 or dosenbaugh@lkm.org.

J-2. Unemployment Insurance. Liable employers, under the Kansas Employment Security Law, fall into one of three main categories: contributing, reimbursing, or rated governmental depending on the method of financing the employer uses to satisfy the unemployment compensation tax liability. Most governmental employers have selected the related government employer option. The rated governmental payment method provides a computation date of March 31 and notifies the employer's benefit cost rate in June of each year. Governments that adopt this category will likely pay the minimum of 1/10th of 1% of total payroll in 2009. However, some smaller units will pay much more. Be sure to check your city's rate. Those few units that use the contributing or reimbursing employer option should probably budget the same amount for 2010 as they did for 2009, with adjustments for known separations that must be compensated. The costs of unemployment insurance may be paid from the fund from which wages are paid, from a separate fund, or from an employee benefits fund (See Section J-10). For additional information, call the Kansas Department of Labor at (785) 296-5000 or access their home page at <http://www.dol.ks.gov/index.html>.

J-3. Social Security. The 2011 social security contribution rate for employers is 7.65% (OASDI at 6.20% and Medicare at 1.45%) while the OASDI rate for employees is now only 4.2%. The maximum wage base that benefits are computed for social security purposes is currently \$106,800. For Medicare's Hospital Insurance (HI) program, the limit for Medicare has been eliminated. Thus, all wages are subject to the

Medicare tax. Budgets for social security payments should reflect the broader coverage requirements of federal law to include any position that is part-time, e.g., governing bodies, city attorneys, etc. Be sure to double-check an employee's name against their signed W-2 form. A separate tax may be levied under K.S.A. 74-4967 for the employer's portion of social security or it can be included as part of an employee benefits fund (See Section J-10). See Social Security and Medicare rates at: <http://www.ssa.gov/OACT/COLA/cbb.html>

J-4. Retirement; KPERS General. The KPERS contribution rate for local government employers for January 1, 2012 to December 31, 2012 is 7.34%. (See below for changes affecting newly hired employees after July 1, 2009.) This rate does not include the death and disability portion of your employers' contribution rate, as this rate potentially varies from one employer to another. When this rate is included, typically 1 percent, the total employer contribution rate, for calendar year 2012, will be approximately 8.34%. Refer to your certification letter for your city's total contribution rate, or contact KPERS toll free at: 1 (888) 275-5737, or visit its web site at www.kpers.org.

Historic rates:

1998 – 2.18%	1999 – 2.33%	2010 – 6.14%
2000 – 2.62%	2001 – 2.77%	2011 – 6.74%
2002 – 3.52%	2003 – 3.07%	
2004 – 3.22%	2005 – 3.41%	
2006 – 3.81%	2007 – 4.31%	
2008 – 4.93%	2009 – 5.53%	

Remember, the base is total salary, and includes deferred compensation. The regular employee contribution is set at 6.14% of the employee's gross compensation (for calendar year 2010). Employers may (1) levy a tax for their contribution; (2) pay it from the fund which salaries are paid; (3) form an employee benefits fund (See Section J-10, below and K.S.A. 74-4920).

The legislature adopted several significant changes in the 2007 session with SB 362. That law created a KPERS Future Plan for employees hired after July 1, 2009.

One of the key changes for the purposes of budgeting in 2012 and beyond are that as of July 1, 2009 any newly hired employee will have first day membership in KPERS. This means that cities must anticipate the employer match for any new hires. The second significant change is that as of July 1, 2009 the employer and employee match for newly hired employees is 6% and that is also effective upon hire. Therefore, for many years into the future your city may have different KPERS rates for employees depending upon when they were hired.

ALERT: NEW KPERS Legislation was passed in 2011 which will significantly alter many facets of the KPERS benefits system, beginning in 2013. See the LKM Legislation overview.

J-5. Retirement; Police and Fire. A special division within KPERS exists for police and firefighters (KP&F), which provides substantial benefits paid largely by the employer. The rate of contribution is computed separately for each unit except for the first year's rate, which is 16% of gross compensation. Employer rates for 2011 have been certified to the various participating employers. Police and firefighters now under KPERS may be transferred to KP&F for future service only. Traditionally, regular KP&F members contribute 7%, but there are variations. The employee's rate is reduced to 2% upon the employee attaining 32 years of credited service. Most local units of government pay the cost from a separate fund under K.S.A. 74-4967, or from an employee benefits fund.

J-6. KPERS Options. Local officials are reminded of the two local government options under the KPERS program. One option permits local units to affiliate for first day coverage under the KPERS insured life and disability program, paid by the employer at a rate of .6% of an employee's gross compensation. A small number of cities and counties provide this first day coverage option. The option is open beginning each January 1st. The second option permits local governments to make their employees eligible for an optional group life insurance program, with the premiums paid by the employee. Many local units make this option available to their employees. In 2003, KPERS changed insurance carriers for its basic group life and optional life insurance. **NEW LEGISLATION passed in 2011 will alter KPERS significantly, starting in 2013—see LKM Legislative overview.**

J-7. Salaries and Fringe Benefits. This item is the city's largest single operating expense, often comprising a majority of the expenses of the general budget. At this writing, it appears that many, if not most, cities and counties may very well not grant COLA increases for 2011, because of the economy and its ongoing subsequent budget constraints.

J-8. Health Insurance. Though some municipalities had seen health insurance premiums stabilize just a bit in recent years, health care cost variables (treatment, drugs, etc.) continue to escalate, and the effects of any health care reform are still, mostly unknown. Municipalities are best advised to continue to build in a 10-15% margin for unexpected/unknown health insurance premium increases. Cities and counties do have the option of joining the "state" pool for employee health insurance; though the "state" plans do not typically offer cost savings over most other options available to municipalities.

Go to <http://www.khpa.ks.gov/sehp/default.htm> for details relating to the state health insurance program.

J-9. Overtime and Minimum Wage. The federal Fair Labor Standards Act (FLSA) is applicable to public employers and employees. In brief, FLSA requires covered employees to be compensated by at least the federal minimum wage for all hours worked.

Overtime must be compensated at a rate of at least 1½ times the employee's regular rate of pay for all hours worked in excess of 40 hours in any 168 consecutive hour period of time (noted as the "work week"). The law permits local governments to give their employees compensatory time off, in lieu of overtime pay in cash, at a rate not less than 1½ hours off for each hour of overtime worked (a manual entitled "*FLSA—The Fair Labor Standards Act: Its Application to Kansas Municipalities*" is available from the League for a nominal charge).

The federal minimum wage increased to \$7.25 per hour on July 24, 2009, as did the Kansas rate. The Kansas wage is now \$7.25 per hour, with overtime compensation required for work in excess of 46 hours per week, and with special rules for law enforcement and fire department employees. Some local employees not subject to the federal act are subject to the state act (See K.S.A. 44-1201 *et seq.*).

The federal minimum wage became law in October of 1938, and was initially set at \$.25 per hour. Since then, there have been numerous changes to the Federal minimum wage. Some of the more notable increases are as follows:

1950 - \$1.00 1965 - \$1.25 1978 - \$2.65 1996 - \$4.75 2009 - \$7.25

J-10. Employee Benefits Fund. K.S.A. 12-16,102 authorizes cities, counties, and other taxing subdivisions to create an employee benefits contribution fund for the purpose of paying the employer's share of certain employee benefits and to levy a separate property tax for this purpose. The benefits covered by the fund must be within the law and prescribed by ordinance. The fund may cover any employee benefits, "exclusive of any salaries, wages, or other direct payments to such employees." To

levy property taxes for this fund, it is necessary to establish the fund by ordinance prior to budget approval and certification.

An ordinance establishing an employee benefits fund and prescribing its purpose, including health care costs, is essential to levy a separate tax for the employer's share of employee benefits.

J-11. Deferred Compensation. Local governments are authorized to provide for the voluntary participation of their employees in the Kansas Public Employees Deferred Compensation Plan. The act was sponsored by the League to permit local public employers to provide an employee fringe benefit at a modest administrative cost to the employer. Under a deferred compensation plan, the amount of compensation deferred, and any investment earnings thereon, become subject to federal and state income taxation at the time the employee or beneficiary receives the income, usually at retirement. The deferred amount is part of the KPERS base (i.e., it is considered salary). There are other deferred compensation plans available, which may be provided for by home rule ordinance.

PART K – COST AND PRICE TRENDS

The Consumer Price Index, maintained by the Bureau of Labor Statistics (BLS) of the U.S. Department of Commerce, indicates the change in the cost of living or prices paid for consumer goods and services.

Year	Consumer Price Index	% Increase Over Previous Year
1995	145.3	2.8%
1996	151.6	4.3%
1997	155.8	2.8%
1998	157.8	1.3%
1999	160.1	1.5%
2000	166.6	4.1%
2001	172.2	3.4%
2002	174.0	1.0%
2003	177.0	1.7%
2004	180.7	2.1%
2005	185.3	2.5%
2006	190.1	2.6%
2007	194.5	2.3%
2008	201.2	3.4%
2009	204.06	-0.6%
2010	207.77	2.7 %
2011	212.95 (March 2011)	2.7 % (Previous Twelve Months)

The Consumer Price Index is typically released during the third week of each month. The index to the left is for "all items" based on the Kansas City, Missouri average for "all Midwest urban consumers". Under the new BLS index, the average 1982-1984 is the base year and is assigned a value of 100. The "% Annual Increase" figures show the average annual growth over the previous twelve months for years 1995-2010.

Over the last year (March 2010 to March 2011 unadjusted), the Consumer Price Index has increased 2.7% percent. Inflation is expected to continue “creeping up” during the upcoming months...primarily due the cost of gasoline, along with its “trickle down” effect (added cost of transportation of products).

Reminder: There is an online service that updates information related to consumer prices specifically for the Kansas City, Missouri metro area. The Internet address is: <http://stats.bls.gov/cpi/home.htm>

PART L – MISCELLANEOUS BUDGET TIPS

L-1. Budget Adjustments and Amendments. Under K.S.A. 79-2930, the amount in each adopted budget fund may be less, but not more than the amount published in the proposed budget for public hearing. During the year, expenditures in excess of the budget may be made with the approval of the state board of tax appeals. In addition, under K.S.A. 79-2929a, budgets may be amended during the year, following publication and public hearing, when unanticipated non-property tax revenues are available (See K.S.A. 79-2939 and the on the *State Budget Form*).

L-2. Budgeting a Non-Appropriated Balance. K.S.A. 79-2927 specifically authorizes local taxing units (other than school districts and community colleges) to annually budget a non-appropriated balance not to exceed 5% of each fund total. It does not change the requirement that balances at the end of the year must be carried forward to the credit of the fund for the next budget year. The intent of this provision is to encourage multi-year financial planning by authorizing local units to specifically budget up to 5% of a fund balance for a non-appropriated reserve balance.

L-3. Account Changes within a Fund. Amounts specified within a budgeted fund such as the general fund, may be changed during the budget year. This should be done by ordinance or resolution (See K.S.A. 79-2958 related to discontinued funds and K.S.A. 79-2934 related to the handling of reimbursed expenses).

L-4. Inter-fund Transfers. As a general rule, money may not be transferred from one fund to another, absent statutory authorization. K.S.A. 79-2934 provides that the "budget as approved...shall constitute...an appropriation for each fund...and the appropriation thus made shall not be used for any other purposes. Further, no part of any fund shall be diverted to any other fund...except as provided by law." There are a number of these exceptions. It is common for cities to transfer certain utility surplus monies to the city's general fund under K.S.A. 12-825d. It is also common to budget in anticipation of certain expenses and charge them to multiple funds. Please note that the *State Budget Form* contains a line item on which cities are required to list the budgeted transfers between funds in budget year 2012 (See Part G, Reserve and Special Funds; Budget Law Exceptions). The State Budget Form also requires legal citation.

L-5. Investment Earnings. Investment earnings have remained at record lows since the stock market ‘downturn’ in the third quarter of 2008. Expect interest rates to slowly increase over the next year, but budget *very* conservatively for interest earnings, as rates are not expected to raise much. Remember, according to K.S.A. 75-4201 et. seq., local banks must match the current Pooled Money Investment Board (PMIB) rate for 1-89 days or the municipality may place its funds elsewhere within the county. The current PMIB rate may be obtained on line at: <http://pooledmoneyinvestmentboard.com/investmentrates.html>.

NOTE: Investment powers of municipalities were expanded in the 2006 Session, to include using non-state chartered banks. K.S.A. 9-1401 (2006 Supp.) gives local governments the open of using a non-Kansas bank under certain circumstances.

Expanded Investment Powers. The governing body of cities and counties are authorized to invest and reinvest public funds pursuant to conditions prescribed in K.S.A. 12-1677b and an adopted investment policy. The same investments described in K.S.A. 12-1675 are allowed, but maximum maturities are limited to four years. The city or county investment policy must be reviewed annually by PMIB.

Remember that in times of decreased interest earnings, it can be tempting to invest public funds in U.S. savings bonds or mutual funds, but these are not authorized investments. Cities and counties are allowed to only invest in those securities that are specifically outlined in Kansas statute.

L-6. Investing for Special Funds. Some statutes provide special investment authority, notably K.S.A. 10-131 relating to the investment of proceeds of bonds and temporary notes. The investment options in K.S.A. 10-131 are considerably broader than under the general investment statute. Monies in a municipal equipment reserve fund under K.S.A. 12-1,117 and in a capital improvement fund authorized by K.S.A. 12-1,118 may be invested in accordance with the provisions of K.S.A. 10-131. Since these two funds may be used as operating and reserve funds, full use of these funds and prudent investment discretion could increase investment earnings.

L-7. Auditing and Accounting. Under K.S.A. 75-1122, every municipality (certain township exceptions) with gross receipts in excess of \$275,000, or with general obligation or revenue bonds in excess of this amount, must have an annual audit. Municipalities may charter out of this requirement. Further, K.S.A. 75-1120a requires every municipality to utilize accounting and fiscal procedures conforming to Generally Accepted Accounting Principles (GAAP).

A municipality with gross receipts less than \$275,000 and not engaged in the operation of a utility is not required to maintain fixed asset records. The governing body of a municipality may adopt a resolution waiving conformance to GAAP (including fixed asset inventories), and many cities do just that. This action **MUST** be taken each year, however. New regulations at the Division of Accounts and Reports have eliminated the requirement of submitting the waiver resolution to the state. (Visit the Division of Accounts & Reports website regarding waiving GAAP requirements at: <http://da.state.ks.us/ar/muniserv/GaapWaiverProcedures.htm>). Cities who have been complying with GAAP, but who do not wish to continue based on “GASB 34” (new and more detailed reporting—see below), may do so, by waving GAAP (as above)—however, cities cannot continue to do GAAP and not also come under GASB 34.

GASB-34 is a guideline for financial reporting which was issued by the Governmental Accounting Standards Board (GASB) in 1999, which requires cooperating governments at all levels to adopt new procedures for depreciating and reporting inventory and infrastructure. GASB-34 is not mandatory for any governmental entity, and cities may waive GASB-34, just as most have always “waived” GAAP (but cannot do GAAP and not do GASB 34—see above). As a general rule of thumb, most cities under 10,000 are choosing to not follow GASB-34, and most larger cities are choosing to establish and follow GASB-34, though notable exceptions certainly exist. For more information, see www.gasb.org

L-8. Payroll Deductions; Insurance. There is no general state law authorizing cities to make payroll deductions or to provide for city contributions toward health insurance or other employee benefits. This is an exercise of constitutional home rule and should be provided for by an ordinary ordinance.

L-9. Unclaimed Utility Deposits. K.S.A. 12-822 establishes a procedure for the disposition of unclaimed

municipal utility deposits that may revert to the utility fund. In the absence of local action, such unclaimed deposits may be claimed by the state under K.S.A. 58-3951 *et seq.*

Please note that the calendar year 2010 interest rate paid on utility deposits prescribed by K.S.A. 12-822 is .50%. The Kansas Corporation Commission determines this rate annually. The current rate is always easily available at:

<http://www.da.ks.gov/ar/muniserv/default.htm#InterestRate>.

L-10. Election Expense. K.S.A. 25-2201 provides that the expense of local elections held on the same day that a primary, general, or referendum election is held, where every voter of the county may vote, shall be a county expense and not charged back to the city, although the costs of publication of notices of city elections must be reimbursed to the county. It also is advisable to budget a contingency for special elections that the governing body may call.

L-11. Utility Costs. Both (investor-owned, private) electric and natural gas prices have been fairly stable over the past several years. New air-quality regulations are expected to cause electric rates to go up some this coming year, perhaps by as much as 10%. As mentioned earlier in this publication, natural gas prices should be monitored carefully, as speculation on future cost of production, causing a rapid increase in price could happen.

L-12. Motor Fuel Costs. Gasoline and other motor-fuel prices have risen over the past year, and are considerably up from this time last year (by roughly 30-40%), though they are actually down from earlier this spring. Stock market speculation appears to be the reason for the ongoing volatility of fuels, and that is very difficult trend to predict. Continued expensive fuel costs would likely ultimately lead to higher prices for many petroleum products used by local governments. [Call the IRS at 1-800-829-3676 for forms to file claims for refunds of federal motor fuel taxes (Form 4136--*Compensation of Credit for Federal Tax on Gasoline and Special Fuels*, and Form 843-*Claims*)].

L-13. Travel Expenses. The IRS requires that employer mileage reimbursements, where the reimbursement rates exceed the standard mileage rate established by the IRS (**the current IRS rate, as of JULY 1, 2011, is 55.5¢ per mile**), be reported on employee's W-2 Forms. Employees can file a Form 2106 to claim any excess of travel costs incurred over reimbursements. The mileage paid by the state, the so-called "state rate" (for private automobile reimbursement) is currently 50¢ per mile (www.da.ks.gov/ar/employee/travel/travbk.htm#Paragraph3100), but is not binding on local units of government (See K.S.A. 75-3203).

L-14. Publication Expenses. K.S.A. 28-137 requires a newspaper to charge the "lowest regular classified advertisement rate charged by the newspaper to its commercial customers" for legal advertisements. The maximum annual increase for classified rates is 15%. Rates are to be filed with the county clerk by July 1st of each year. Public notices required by law may be supplemented by radio and television announcements.

L-15. Annexation. Under K.S.A. 79-1807, only property annexed between January 1st and April 1st is assessed as a part of the city for tax purposes as of the previous year. Under K.S.A. 12-503a, when a city annexes property within a township or improvement district, the township or district must continue to furnish services in the area during the remainder of the year or surrender to the city the taxes collected on the property which has been annexed.

NOTE: K.S.A. 12-2016 (2006 Supp.) enacted *requirements for notifying utility companies of newly-annexed territory*. Essentially, municipalities will not start receiving franchise fees until 30 days after all the proper notifications have been completed.

L-16. Intergovernmental Cooperation. In preparing budgets, city officials should consider opportunities for cooperating with other governments, particularly the county. The general cooperation powers statute in K.S.A. 12-2901 *et seq.* allows for broad accommodation between local units of government. In addition, K.S.A. 12-3901 *et seq.*, grants broad powers of local government reorganization and generally authorizes city-county or other interlocal consolidation of funds. Further, K.S.A. 12-2908 contains provisions for interlocal, city-to-city, and city-to-county contracts, with special provisions as to city-county law enforcement contracts under K.S.A. 12-2909. Please call the League for more information.

Mutual Aid Law (2006)

The **Kansas Intrastate Emergency Mutual Aid Act** was passed into law in 2006 in K.S.A. 48-948 *et seq.* The law essentially established a state-wide mutual aid system. Cities and counties should expect to experience some added costs and new budget considerations (such as insurance requirements) as a result of this law.

L-17. Highways; Public Works Services. K.S.A. 68-169, the state-county-city-township highway cooperation statute, authorizes written agreements between cities and counties for constructing, improving, and maintaining roads, streets, or connecting links inside or outside the boundary or jurisdiction of such city or county. For example, county road and bridge fund monies may be used to improve city streets. K.S.A. 19-4501 *et seq.* grants county public works departments broad powers to provide public services to cities and other units (See K.S.A. 12-2908 related to county-city contracts for services).

L-18. County Connecting Links. K.S.A. 68-506f authorizes cities of fewer than 5,000 population and counties to enter into maintenance agreements for streets that form connecting links with county highways that are a part of (a) the secondary road system or (b) the system of minor collector roads and highways.

In the absence of such agreements, it is the duty of the county to maintain all such connecting links within cities of populations less than 5,000.

L-19. Law Enforcement Contracts. Some cities have entered into city-county law enforcement service agreements. As noted in Section L-16 above, there are several intergovernmental cooperation statutes. K.S.A. 12-2909 contains special provisions for city-county law enforcement service contracts, including the enforcement of municipal ordinances by the county sheriff's department.

L-20. Law Enforcement Training. Beginning on September 1, 2002, the requirement for training of all full-time (at least 1,000 hours) law enforcement officers and sheriffs was increased by 160 hours, to 480 hours. The training must take place within one year of appointment. No change was made in the 80 hours of training required for part-time officers. The annual requirement of in-service training for all salaried, full-time officers remains at 40 hours (beginning in their second year).

L-21. Bond Payments from General Revenue. As a result of the general rule against inter-fund transfers, it is doubtful that a city may legally transfer monies from the general fund to the bond and interest fund. However, it does appear legally permissible to make bond payments out of the general fund. Further, budget transfers from the general fund to a capital improvements fund may be made, and bond

payments then made from the improvements fund (See Section G-3).

L-22. Temporary Notes, In Lieu of Bonds. K.S.A. 10-123 provides that temporary notes may be used to finance an improvement for which bonds are authorized, with the principal and interest retired from current revenue, rather than bond proceeds. When an improvement can be financed in four years or less, this procedure can reduce the costs of borrowing normally involved in issuing bonds.

L-23. Discontinued Bond Funds. K.S.A. 10-117a authorizes local governments to transfer balances from the bond and interest fund to the general fund whenever all bond issues have been completely retired. The transfer is subject to the provisions of K.S.A. 79-2958, which requires that tax fund balances not used shall reduce property taxes otherwise levied.

L-24. Sales Tax Bonds. Revenue from city and/or countywide local sales taxes may be used to finance payments on (1) "pure" sales tax bonds authorized under existing K.S.A. 12-195, (2) sales tax-general obligation bonds authorized by K.S.A. 12-195b, (3) self-supported municipal improvement district bonds authorized by K.S.A. 12-17,103, and (4) normal general obligation bonds, by paying some or all of the principal and interest from the general fund in which local sales tax receipts are deposited, rather than from a special tax levy. K.S.A. 12-195b authorizes the issuance of bonds pledging local sales tax revenues for payments of the bonds, with general obligation bond backing. Such "double-barrel" sales tax/general obligation bonds may be used for any public facilities or improvements for which the city or county is legally authorized to issue general obligation bonds.

L-25. STAR Bonds. STAR Bonds are a type of tax increment financing (TIF) that permits sales tax and revenue (STAR) bonds to be used to fund special bond projects of "regional or statewide importance". Specific statutory definitions and procedures (K.S.A. 12-1770, et. seq.) set forth the requirements necessary to undertake a STAR bond project. The requirements include the preparation of a project plan, public hearing and the adoption of the plan. The project plan requires marketing and impact studies. The final approval for a project plan must come from the Secretary of Commerce.

Bond proceeds could be used only to finance redevelopment project costs (K.S.A. 12-1770a), which include property acquisition, site preparation, design and installation of infrastructure. Sales tax revenue, state and local, generated in project area would be pledged to principal and interest payments. Upon repayment, all sales tax revenue would then be distributed as usual and as described in Section I.

L-26. Firefighters Relief Fund. This fund is generated by a 2% tax on fire and lightning insurance premiums paid in Kansas for the previous calendar year. The monies in this fund are intended to aid the families of firefighters who are injured, disabled, or killed on the job.

L-27. Firefighters Relief Association Loans. Subsection (f) of K.S.A. 40-1707 authorizes firefighters relief associations to loan monies to the local unit in which the association is located to be used by the unit "in the improvement of its fire department and equipment thereof," such as for the purchase of a fire truck, at an interest rate not to exceed 6% annually.

L-28. Lease-Purchasing. Under K.S.A. 10-1116b, a lease-purchase agreement that includes an option to buy, or an installment purchase agreement, must specifically state that the municipality is obligated only to make payments as may be lawfully made from funds budgeted and appropriated for that purpose during the current budget year.

Reminder: For most lease-purchase agreements, there is a reporting requirement on the *State Budget Form*. Be sure to check the instructions and the *State Budget Form* for the requirements necessary to comply with this provision of the budget law.

Under K.S.A. 10-1116c such lease-purchase agreements are subject to the following limitations: (1) if the term exceeds the current fiscal year, it must be approved by a majority of all members of the governing body; (2) if the agreement is for acquisition of land or buildings, and is for a term of three or more years with payments in any year in excess of 3% of the current year's budget (excluding debt service), a notice must be published for two consecutive weeks and the agreement is subject to a 5% protest petition for a referendum; and (3) if the agreement is for land or buildings and the term exceeds the current year, it must specify the cost of the item if it was purchased by cash, the annual average effective interest-cost, and the amount for services, maintenance, insurance, or other charges.

L-29. Budgeting for Liability and Property Insurance. Though property and casualty and general liability rates for cities and counties appeared to have stabilized some over the past year or so, municipalities are advised to continue to budget, at a minimum, 5-10% more each year than was paid in the previous year (given a good loss history in each locale).

L-30. Special Liability Expense Fund. The Kansas Tort Claims Act (K.S.A. 75-6101 *et seq.*), authorizes municipalities to pay the cost of legal defense, claims, and "other direct and indirect costs resulting from the implementation of this act" from the general fund, other existing funds, or from a special liability expense fund. K.S.A. 75-6110 provides that a governing body that has created a special liability expense fund may levy a tax therefore, without limitation as to rate. In addition to a separate tax, monies received by the municipality "from any source whatsoever which may be lawfully utilized for such purpose" may be placed in the fund.

L-31. Risk Management Reserve Fund. K.S.A. 12-2615 authorizes the city governing body to establish a risk management reserve fund. Monies in this fund may be used to cover any risk that would otherwise be insurable. The act does not authorize a special tax.

However, it provides that "monies may be paid into such risk management reserve fund from any source which may be lawfully utilized for such purposes, including transfers from the general fund, from any special liability expense fund established in accordance with the provisions of K.S.A. 75-6110, or from any other fund or grant program account of the governmental unit in reasonable proportion to the estimated cost of self-insuring the risk losses covered by such reserve fund." Be sure to note the use of the word "transfers."

L-32. Ordinance Codification. K.S.A. 12-3016 provides for budgeting the cost of ordinance codification for up to three years. The League provides a contractual codification service.

L-33. Payments by Exempt Property. In addition to their home rule authority, K.S.A. 12-147 authorizes cities to enter into contracts with the owners of tax-exempt property for payment of service charges in lieu of taxes. K.S.A. 12-1742 covers payment in lieu of taxes on industrial revenue bond property.

L-34. Economic Development Exemptions. Property tax exemptions may be granted for certain economic development purposes under the Kansas constitutional amendment approved by the voters in 1986 (Art. 12, Sec. 13). Payments in lieu of taxes may be required. The League has available a publication entitled *Economic Development Tools for Kansas Municipalities*, for a nominal fee. The publication details among other things, the processes that a city must follow in order to successfully exempt and/or abate property taxes. For further information contact the League at (785) 354-9565.

L-35. Recreation Commissions. Recreation commissions, under K.S.A. 12-1927, prepare their own budgets, hold a public hearing thereon, and then certify the budget and tax levy to the "parent" taxing unit

either the city governing body or the school district board. State law also requires recreation commissions with receipts over \$150,000 to file both an annual budget and audit with the "parent" taxing unit and the county clerk.

The recreation tax may not exceed the maximum levy rate set by the city or school district by current resolution. The procedure for increasing the authorized levy rate requires a request by the recreation commission and the approval of the governing body, is subject to a petition for a referendum, and may not be increased more than one mill each year. The maximum rate is four mills, with provisions for an additional one mill for providing liability insurance and the creation of an employee benefits contribution fund.

PART M—2011 SESSION LEGISLATION AFFECTING MUNICIPAL BUDGETS AND FINANCE

KPERS: Senate Sub. for House Bill 2194, was passed by the 2011 Legislature. This new law would significantly alter the benefit plan of KPERS as well as the funding formulas and amounts—both employee and employer. *HOWEVER, most provisions of the act are not yet in effect and will not affect 2012 Budgets.* The employee rate will not change for 2012 (there are two rates, one for each current ‘tier’), and the employer contribution rate will continue to increase, as in the past few years, by .6%. The majority of the changes in the law will require a ‘trigger’ action by the 2012 Legislature. [See the complete, and somewhat complicated, law in the LKM Legislative roundup information.]

Find a summary of all new state legislation at www.lkm.org.

PART N – INTERNET SITES

Economic and Statistical Data

IRS Newsletter

<http://www.irs.gov/govts>

Quarterly publication featuring information on federal tax laws, Social Security and Medicare coverage, contact information, upcoming conferences, and articles from such agencies that work with the IRS as the Social Security Administration.

National Debt

<http://www.treasurydirect.gov/govt/govt.htm>

National Population

<http://www.census.gov/cgi-bin/popclock>

Consumer Price Indices

<http://www.bls.gov/cpi/>

This site is hosted by the Bureau of Labor Statistics (see below) but will take the user directly to all the CPI information they might need. All files can be downloaded or printed directly.

U.S. Statistical Abstract

http://www.census.gov/prod/www/abs/statab2006_2010.html
http://www.census.gov/prod/www/abs/statab2011_2015.html

The primary reference book on many social and economic statistics covering the U.S.

Bureau of Labor Statistics <http://www.bls.gov>

BLS information specifically targeted for the Kansas City Region, which includes all of Kansas.

Census Bureau <http://www.census.gov/>

The federal census bureau is the pre-eminent collector and provider of timely, relevant, and quality data about the people and economy of the United States.

Bureau of Economic Analysis <http://www.bea.gov/>

The Bureau of Economic Analysis is the nation's accountant, integrating, and interpreting a tremendous volume of data to draw a complete and consistent picture of the U.S. economy.

Federal Reserve Beige Book <http://www.federalreserve.gov/FOMC/BeigeBook/2007/>

Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from banks, interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector.

Federal and Congressional Data

The Washington Political Portal <http://www.capitolstrategy.com/>

One of the best sites to access and search for current information related to Congress and federal politics.

National Local Government Data

National League of Cities <http://www.nlc.org/>

NLC is the country's largest and most representative organization serving local governments. More than 1,400 communities of all sizes belong to this organization plus 49 state leagues.

USA CityLink <http://usacitylink.com/>

This site is considered to be the most comprehensive U.S. city and state listing on the Internet with a variety of business information about cities--primarily tourism related.

Kansas Local Government Data

Department of Labor (KDOL) <http://www.dol.ks.gov/index.html>

This site contains data resources and contacts specifically related to human resource issues (including the Workers Compensation Division).

Department of Revenue <http://www.ksrevenue.org/>

This site contains a variety of city/county data related to sales tax collections and other information.

Kansas State Treasurer <http://www.kansasstatetreasurer.com/prodweb/index.php>

Department of Transportation (KDOT) <http://www.ksdot.org/>

This site contains considerable information on statewide projects including bidding information and dates.

Division of Accounts & Reports <http://www.da.state.ks.us/ar>

This site provides all the budget forms, plus the manual “Budgeting for Kansas Cities and Counties”; along with other information from time-to-time needed by municipalities (mileage rates, utility deposit interest rates, etc.)

State of Kansas sites <http://www.kansas.gov>

This site is the official site for all state agencies and all state data.

The Policy Research Institute <http://www.ku.edu/pri/>

The Policy Research Institute (PRI) was created in 1985 by the University of Kansas to provide an active link between the university, state and local governments, the business community, and the citizens of Kansas.

Center for Rural Initiatives <http://www.ksu.edu/kcri/>

A "sister" organization to the PRI at the University of Kansas, KCRI is located on the campus of Kansas State University.

Kansas Mileage Calculator http://www.ksdot.org/burtransplan/dist_chrt.cgi

For mileage checks this handy site maintained by KDOT makes the calculation very easy.

Kansas PRIMA <http://www.kansasprima.org>

Kansas Chapter of Public Risk Management Association

KSGFOA <http://www.ksgfoa.com/>

Kansas Government Finance Officers Association

GFOA <http://www.gfoa.org/>

Government Finance Officers Association

FASB <http://www.fasb.org/>

Financial Accounting Standards Board

GASB <http://www.gasb.org/>

Governmental Accounting Standards Board

Other Interesting Sites

The National Geographic Map Machine

<http://plasma.nationalgeographic.com/mapmachine/>

A wonderful site that offers topographical maps across the globe. A wide array of demographic data is also available.

The 10,000 Year Calendar <http://www.calendarhome.com/tyc/>

Need a date from the past? The future? This site will give you that and more.

HotSheet Portal <http://www.hotsheet.com/>

A personal favorite that is constantly being updated with only the best, most reliable Internet sites.

Virtual Calculators <http://www.iframe.com/>

There are calculators for finance, business, and science. There are ones for cooking, hobbies, and health. Some solve problems, some satisfy curiosity, and some just for fun. All put the answer easily within your reach.

Employment Laws Assistance <http://www.dol.gov/elaws>

Interactive tools that provide information about Federal employment laws.

FEMA Anti-Terrorism Site <http://www.fema.gov/hazard/terrorism/index.shtm>

Integrates terrorism into hazard mitigation programs.

IEDC <http://www.iedconline.org/>

International Economic Development Council – Provides training, affiliation possibilities, etc.

National Development Council <http://www.nationaldevelopmentcouncil.org/>

“The National Development Council (NDC) is one of the nation's oldest and most respected 501(c)(3) nonprofit organizations dedicated to affordable housing and economic development finance. For nearly thirty years, NDC has provided technical assistance, training, and development services to local and state governments and nonprofit organizations...”

Association of Public Treasurers <http://www.aptusc.org/>

“Founded in 1965, APT US&C represents 2,000 public treasury and finance officials in local, county and state/ provincial governments throughout North America.”

Zip Code Lookup <http://zipinfo.com/search/zipcode.htm>

Find zip codes by city, state, or the zip code itself. Easy and accurate.

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