

## K.S.A. 79-2988 and Library Budgets:

### Understanding the Revenue Neutral Rate and the New Budget Process

#### ***What is the Revenue Neutral Rate?***

In the 2021 legislative session, the legislature passed SB 13 (and the related HB 2104). This legislation removed the tax lid and established a new approach for truth in taxation – the Revenue Neutral Rate (RNR). This legislation established new notice and public hearing requirements if the proposed budget will exceed the property tax levy's revenue neutral rate.

#### ***When did these requirements go into effect?***

Immediately. This applied to the 2022 budget planning process.

#### ***Who is impacted?***

Every public library collecting ad valorem taxes must abide by the provisions of K.S.A. 79-2988. City and township libraries must be prepared to work with their local governing body (e.g. City Council or Township Board) and advocate strongly for their budget.

#### ***Is my budget allowed to grow each year?***

YES. K.S.A. 79-2988 only applies to property tax revenue. If you choose to go above the revenue neutral rate, you have to follow new notice and public hearing requirements. All other revenue sources can grow regardless, including grants from NEKLS and other gifts and grants.

#### **Definitions**

- ✓ **“Tax rate”** is the mill levy to the third decimal place. For example, 4.575 mills.
- ✓ **“Property tax”** is ad valorem taxes.
- ✓ **“Property tax revenue”** is the amount of ad valorem tax dollars received in a given year; these are generated by the mill levy rate.
- ✓ **“Revenue neutral rate”** is the tax rate in mills that would generate the same property tax revenue in dollars as was levied in the previous year using the current tax year's total assessed valuation.
- ✓ **“Previous Year”** is the amount of tax dollars levied in the current budget cycle.
- ✓ **“Mill Levy Cap”** is a maximum limit to the ad valorem tax rate. Cities use their Home Rule authority to pass a charter ordinance that sets the mill levy terms. Only a charter ordinance can set this cap – a simple ordinance is not sufficient.

**How is the revenue neutral rate calculated?**

Per K.S.A. 79-2988 . . . . "Revenue neutral rate" means the tax rate for the current tax year that would generate the same property tax revenue as levied the previous tax year using the current tax year's total assessed valuation. To calculate the revenue neutral rate, **the county clerk shall divide the property tax revenue for such taxing subdivision levied for the previous tax year by the total of all taxable assessed valuation in such taxing subdivision for the current tax year, and then multiply the quotient by 1,000 to express the rate in mills.** The revenue neutral rate shall be expressed to the third decimal place.

$$\begin{array}{l} \text{Revenue} \\ \text{Neutral} \\ \text{Rate} \end{array} = \frac{\text{Last year's total property tax raised in dollars}}{\text{This year's total assessed valuation as of June 15}} \times 1,000$$

2023 Budget

Library's ad valorem tax revenue = \$688,566  
Total assessed valuation = \$150,515,100  
Value of one mill = \$150,515  
Mill rate = 4.575 mills

2024 Budget

What the Library levied in 2023 = \$688,566  
Total assessed valuation grows to = \$159,000,000  
Value of one mill = \$159,000  
**Revenue Neutral Rate = 4.331 mills**

Note that because of increased assessed valuations, the mill levy required to generate the same amount of property tax dollars dropped from 4.575 to 4.331 mills.

Holding the mill levy at 4.575 mills, based upon an estimated assessed valuation of \$159,000,000, would generate about \$727,425 in ad valorem tax for the 2024 budget, or an increase in revenue = \$38,859.

The goal of the legislation is to help taxpayers to better understand their tax bill – truth in taxation. The key for the library is to know the proposed budget very well and be prepared to explain why the proposed ad valorem tax is necessary, whether it is revenue neutral or it grows.

### **What is the timeline?**

- ✓ Library director and library board work on the 2024 budget, considering each expense line and all sources of revenue, and determine the amount of ad valorem tax that will be required to fund the budget.
- ✓ On or before **June 15** of each year, the County Clerk shall calculate the revenue neutral rate and inform each taxing subdivision. (If you are a City or Township Library, the City may notify you of the Revenue Neutral Rate. It is fine, however, for the library to contact the County Clerk directly for this information.)
- ✓ Determine if the amount needed will require a tax levy exceeding the RNR.

*NOTE: For City and Township libraries. It is our expectation that the governing body will honor the budget you bring forward, revenue neutral or not. Please let us know if the governing body pressures you to remain revenue neutral or blocks you from levying beyond the revenue neutral rate. Libraries with a mill levy cap are still subject to K.S.A. 79-2988 – your revenue could increase and the mill could drop, depending on the strength of assessed valuations.*

- ✓ On or before **July 20**, the governing body shall notify the county clerk of its proposed intent to exceed the Revenue Neutral Rate and provide the date, time and location of the public hearing and its proposed tax rate.
- ✓ Beginning in 2021 (for the 2022 budget year), publish a notice on the governing body's website and the official newspaper of general circulation in the county. This notice must be published **at least 10 days prior to the hearing**. This notice shall provide details for both a tax rate hearing AND a budget hearing. The tax rate hearing must come first, but the meetings could be on the same day. For City and Township libraries, this timing will depend on the governing body.
- ✓ The public tax rate hearing to consider exceeding the revenue neutral rate and the budget hearing shall be held not sooner than **August 20** and not later than **September 20** (per amendments in HB2104 to SB13). Adopt a resolution to exceed the Revenue Neutral Rate.
- ✓ If the governing body of a taxing subdivision must conduct a public hearing to approve exceeding the Revenue Neutral Rate under this section, the governing body of the taxing subdivision shall certify, on or before **October 1**, to the proper county clerk the amount of ad valorem tax to be levied.

## **Kansas Municipal Services**

<https://admin.ks.gov/offices/oar/municipal-services>

Kansas Municipal Services is a good resource for budget-related questions and information.

### FY2024 Budget Workbooks, Tools and Tax Estimates

<https://admin.ks.gov/offices/accounts-reports/local-government/municipal-services>

### Municipal Budgets (2016-2023)

This page contains municipal budget workbooks organized by county. Under each county you will find links to city, county, recreation commission, township, and other budgets for taxing entities within the county and for taxing entities for which the county selected is the 'home county'.

These budgets show how the library fits into the municipal budget and includes:

- (1) The adopted budget for the Library.
- (2) Worksheet for State Grant-In-Aid to Public Libraries.
  - ✓ This is the sheet that the State Library uses to verify that the library passes at least one of two tests to qualify for the State Library Grant.

Access the Municipal Budgets here:

<https://admin.ks.gov/offices/accounts-reports/local-government/municipal-services/municipal-budgets>