2012 Report to

The City of Kansas City, Missouri

CITIZENS' COMMISSION ON MUNICIPAL REVENUE

Report to the Mayor, City Council, and City Manager with recommendations for optimal revenue structure

TABLE OF CONTENTS

6. Utility Tax

7. Business License Fee

8. Other Taxes and Fees

10. Comparison of Revenue Structure and Tax Burden

APPENDICES

1.0 Executive Summary

1.1 About the Commission

The Citizens' Commission on Municipal Revenue (CCMR) was established by Mayor Sly James on July 27, 2011. CCMR members are Kansas City Missouri residents and consist of representatives from diverse geographic, racial, and ethnic backgrounds recruited from among the business, civic, neighborhood, and non-profit communities. A list of those members and brief description of their backgrounds appears in Appendix A.

The mission of the CCMR is to analyze the City's current revenue structure[1], consider the fairness and level of each major source, explore additional opportunities for improvements, and provide the Mayor and City Council with innovative recommendations to improve the City's long-term financial position. CCMR was not tasked with review of spending issues. However, CCMR did review expenses and financial need in the context of designing an optimal revenue structure that will ensure growth, fund basic services, and enable the City to fund dynamic projects. The full text of the Commission's Charter Statement can be found in Appendix B.

1.2 Current Challenges

Independent analyses of Kansas City's revenue structure confirm it to be generally sound.[2] The City relies upon a variety of sources and no single one provides more than a quarter of total revenues. This diversity is a major factor for reliability—revenues are mostly stable, protected from extreme fluctuation, and prior to the recent recession, overall growth was generally strong. Major taxes are efficient to administer, costing about one cent per dollar collected. Property taxes are relatively low, and a majority of other revenues are partially paid by non-residents using City services, easing the overall burden on Kansas City's taxpayers.

But the current structure poses some disadvantages. Several of the taxes are regressive—falling more heavily on low income families. The business license fee and land only

[1] This study reviews General Municipal Revenues which do not include enterprise functions.
[2] "Kansas City Missouri Long-Term Financial Plan", The PFM Group, December 17, 2008 and "Comparative Tax Analysis", Kansas City Auditor's Office, October 2000.

assessments are either inefficient, inequitable, or stagnant. The earnings tax and sales tax rates could negatively influence individual and business location and shopping decisions.

These realities have been in place for some time. But in the last ten years, the following factors have converged to compel this revenue review:

1. Citizens have passed six taxes with sunset provisions and dedications, increasing volatility and uncertainty, while diminishing City Council flexibility to address changing needs. In 2012 dedicated revenues comprise over 60% of total sources.

2. During the recent recession, the City, like other governmental entities felt the impact on its revenue base. Total taxes in 2009, 2010, and again in 2011 remain below collections of 2008, primarily due to significant declines in sales and use taxes. Assuming even a nominal growth rate, this translates into about $120 million fewer resources over the last three years. Although it appears a recovery may be on the horizon, the starting point for collections is lower and the number of years to recoup prior losses uncertain.

3. Missouri voters approved Proposition A which requires earnings tax renewals every five years. Although Kansas City residents overwhelmingly approved a five-year extension through December 2016, the City's long-term financial health is vulnerable to renewal requirements of this critical source of operating funds.

4. Redirections—taxes dedicated to economic development projects—have nearly tripled in the last 10 years and in the 2012 budget they represent over $40 million, or nearly 5% of general municipal revenues.

5. The State of Missouri's "low tax/low service" badge comes at a price.[3] Many services traditionally funded at higher levels by most states, such as health care and transportation, are shifted to the City.

6. The City did not fully leverage opportunities prior to the recession to build adequate reserves, address debt levels, or maintain and improve the City's infrastructure.

[3] See www.mobudget.org/facts_glance.html for comparison of Missouri's per capita revenue and expenditures to national averages.

1.3 REVENUE POLICY

As a first step to address these challenges, CCMR worked closely with Finance Department staff to develop a Revenue Policy that complements the Investment, Debt and Reserves policies currently used by the City Council and management in conjunction with the City's budgeting and financial planning efforts. CCMR reviewed model revenue policies from eight peer cities (Denver, Fort Worth, Memphis, Minneapolis, Oklahoma City, Omaha, St. Louis, Tulsa) and model policies as recommended by three professional organizations (Government Finance Officers Association, National Advisory Council on State and Local Budgeting, International City Management Association).

The policy requires the City to consider seven fundamental characteristics when assessing its revenue structure or when evaluating any tax. CCMR had considerable discussion regarding the relative importance of the seven characteristics and considered each in its review of revenue streams. Of primary significance to CCMR are: dependability of revenue sources, followed closely by equity and diversity. Other important considerations include potential for growth, renewal periods, dedication and ease of administration.

1.4 CCMR RECOMMENDED REVENUE STRATEGIES

The following is a summary of all recommendations. Supporting details and other options considered by CCMR are provided in the body of this report.

Global.1 City Council adoption of the Revenue Policy

The full text appears in Appendix C of this report. The City shall consider, at minimum, seven fundamental characteristics when weighing any changes to its revenue structure or when evaluating the continued levy of any tax. Dependability shall be the City's primary review consideration followed closely by equity and diversity. Other characteristics including potential for growth, renewal periods, dedication and ease of administration shall be considered secondary.

(1) **Dependability.** The City shall include taxes and fees in its revenue structure that produce a consistent level of revenue from period to period.

(2) **Equity.** The City shall consider the fair distribution of tax burden on businesses and residents when considering new, renewing and continuing

revenue sources. Horizontal and vertical equity should be considered when evaluating the distribution of taxes.

3) **Diversity.** The City shall strive to maintain a diversified mix of taxes and fees to protect it from short-term fluctuations in any of its various revenue sources. The City should also support economic policies designed to attract businesses that grow and increase the diversity of its tax base.

(4) **Growth.** The City shall seek to include revenue streams in its mix of taxes and fees that grow over time at a rate that exceeds the rate of inflation.

(5) **Renewals.** In order to reduce volatility, the City shall strive to limit both the dollar amount and number of taxes and fees subject to renewal periods of five years or less. Any newly authorized revenue stream with a sunset ideally shall not be used to fund recurring service delivery costs.

(6) **Dedicated/Non Dedicated Revenue.** Whenever possible, the City shall not dedicate a revenue stream to a specific use or program. Dedication or earmarking of revenue streams does not allow the City to respond to changing economic conditions or service expectations and is dispositive to the City's general credit.

(7) **Ease of Administration.** The City revenue mix should facilitate taxpayer compliance and be applied uniformly. Efficiency in administering taxes and fees should also be considered including source and cost of collection.

Global.2 Further research regarding tax relief options

CCMR considered ways to structure tax relief to low-income individuals, including wage brackets for the earnings tax and credits against the earnings tax for City property taxes paid. Because such relief for low-income taxpayers would also benefit taxpayers across all earnings levels, CCMR was concerned that the revenue loss would be prohibitive. Since equity is the second highest consideration in the proposed revenue policy, CCMR recommends continued discussion and research for methods to mitigate the impact of existing and future taxes on low-income residents.

Global.3 Rigorous testing of sunset provisions

For all future tax and revenue initiatives, the application of sunset provisions should be rigorously tested. If a tax is specifically dedicated to a function with an end date, then such dedication may have a sunset date. In most cases, taxes with a sunset should not be used to fund recurring or operating costs, unless a financial plan adopted by City Council and annually updated by staff clearly shows the elimination of these revenues and all related expenses upon the sunset date.

Global.4 Ensure sunset dates match the life of activity or project

The selection of a sunset date for a sunset provision should be long enough to match the expected life of the activity or project, and made in consideration of all other scheduled renewals, the civic resources to fund campaigns, financial impact on the City budget, and voter fatigue. Renewal periods for taxes and fees should be no less than 10 years.

Global.5 Reinstate a multi-year revenue and expenditure forecast

A forecast should be done in the context of a multi-year strategic plan that clearly identifies priorities for expenditures, investments, and revenue requirements. Proposed changes to the revenue structure, especially plans to increase existing rates, should be incorporated as part of the strategic plan—not considered in isolation, but in relation to all stated priorities.

Global.6 Require future bond initiatives to have new revenue source

Because current debt levels are high compared to peer cities, the impact on the City's credit rating from issuing additional and significant levels of debt must be of primary concern. Credit rating agencies cite explicit voter authorization of new revenue to cover new debt as essential to protecting the City's rating, and ultimately its cost to borrow.

Global.7 Diligent evaluation of tax redirections

Redirections are justified by a "but for" test: the development and resulting tax revenue would not have materialized "but for" the use of tax incentives. But at an estimated $40 million in 2012, the City must remain diligent in evaluation of projects that could result in substitution effects, driving tax revenue away from non-TIF areas, and thereby resulting in lower aggregate revenues. The City should continue to track and publicly report project results against original benchmarks.

Global.8 Incorporate a regional strategy to fund services

The City provides and bears the cost of many entertainment and leisure opportunities for the metro area. The City should leverage opportunities to import revenues from nonresidents who use these amenities, and explore options to fund them on a regional basis to generate broader financial support for, and metro commitment to, those amenities.

Earnings.1 Retain The Earnings Tax

CCMR considered methods of eliminating or reducing the earnings tax. CCMR found those options unacceptable because it would eliminate a tax that is vital to the General Fund budget, and is paid in large part by nonresidents. A complete elimination of the earnings tax would hamper the City's ability to fund basic services; and full replacement would require large increases in sales and/or property taxes. Furthermore, since half of the earnings tax is now paid by nonresidents, the burden of funding services that benefit all metro area Missouri and Kansas residents, whether they work in the City or visit the multiple cultural and entertainment offerings in the City, would shift disproportionately onto Kansas City residents.

Earnings.2 Pursue Legal and Legislative Relief of Proposition A at State

To protect the City's largest single source of revenue, CCMR recommends aggressive pursuit of both legal and legislative relief at the State level regarding Proposition A. This renewal requirement is cited by credit rating agencies as a significant concern, placing a major funding source for general operations at jeopardy. At a minimum, the State has the power to extend the election cycle to something longer than five years. CCMR recommends renewal periods of no less than 20 years.

Earnings.3 Forego Dedication of Earnings Tax

Although there are some discussions to dedicate the earnings tax to capital improvements, CCMR recommends the tax remain undedicated for the following reasons:

- 78% of the citizens voted to continue the earnings tax in its current form. The potential loss of basic services appears more compelling than cuts to capital maintenance.
- Dedications to capital projects often lead to a "divide by six" situation—ensuring each district receives a share, but ultimately giving citizens more reason to oppose the tax, and perhaps not address the highest priority needs.
- Dedication of revenues ties policymakers' hands so they are unable to respond to changing needs without endangering taxpayer trust.

Sales.1 Support State Legislation to Implement Streamlined Sales Tax Agreement

Legislation to ensure equitable collection of sales tax is currently under consideration in Missouri and has received bipartisan support and the endorsement of the business community. Although the State cannot collect sales taxes on remote sales, a use tax is still due. There are 24 states that participate in Streamlined Sales Tax, including all of Missouri's surrounding states with the exception of Illinois. Most cities in states who have implemented this have realized some increase in use tax collections. The Streamlined Sales Tax Agreement would institute a mechanism designed to make the current sales and use tax easier to compute and close a collections gap, and also sets the stage for if and when the Federal government approves taxation of internet sales.

Sales.2 Do Not Renew Fire Protection Sales Tax; Replace with Capital Improvement Sales Tax Effective January 1, 2017

CCMR recommends against renewal of the 1/4 cent sales tax for Fire Protection. This tax has a sunset and currently funds operating expenses in violation of the proposed Revenue Policy. Additionally, infrastructure is a high priority, so the City should ask voters to approve a 1/4 cent capital improvement sales tax effective January 1, 2017, upon expiration of the Fire Protection Sales Tax. The revenues would then be used to partially address the considerable infrastructure backlog in the Mayor's $1 billion plan. Given low interest rates, local capacity for construction projects, and the pressing need to begin now, CCMR recommends the Finance Department continue to evaluate the use of alternative financing structures such as capital appreciation bonds and capitalized interest secured by a capital improvement sales tax. Such a structure could fund about $150 million or 15% of the total $1 billion plan. CCMR acknowledges this recommendation related to the Fire Protection Sales Tax requires the City to plan for a $16 million operating budget gap for Fire operations.

Sales.3 Expand the Sales Tax Base to Cover More Consumer Services

CCMR recommends that a review of existing sales tax exemptions, and opportunities to expand the base, be added to the City's legislative agenda as a high priority. Recommendations to eliminate consumer services exemptions should consider the impact on low income households and on the competitive position of the City.

Sales.4 Renew General Sales Tax for Capital Improvements

CCMR recommends renewal of the capital improvement sales tax in 2018, with a longer renewal period (15-20 years) and ordinance language broad enough to allow more flexibility to respond to changing needs.

Sales.5 Use Economic Development, Transportation, & Capital Improvement Sales Tax Authorizations for Projects Focused on Population and Employment Growth

CCMR reviewed the statutory uses of an Economic Development Sales Tax. The City has authority to levy up to 1/2 cent for purposes that include installation of infrastructure for industrial or business parks; improvement of water and wastewater treatment capacity; extension of streets; and public facilities directly related to economic development and job creation. At this time, CCMR has no recommendation regarding this tax but believe any future use of the Economic Development, and/or Transportation, and/or Capital Improvement sales tax authorities must be invested in projects that ultimately lead to population and employment growth and retention.

Property.1 Implement Plan To Leverage State Property Tax Credit

Because the State of Missouri Property Tax Credit Claim has no cost to the City, but is an important way to bring tax relief to lower income Kansas City citizens, the City should implement an annual procedure to reach low to moderate income senior citizens and disabled taxpayers to encourage them to file for the State of Missouri property tax credit.

Property.2 Repeal Motor Vehicle License Fee and Land Only Assessments, Replace with 1/2 Cent Sales Tax for Parks and Storm Water

CCMR recommends that the Mayor and City Council place before voters this August a 1/2 cent sales tax for Parks and Storm Water, 60% allocated to parks and 40% for storm water. The estimated annual amount the tax would generate is approximately $32 million. Voters would be asked in the same ballot issue to repeal the following property taxes and fees:

1. Motor Vehicle License Fee which provides approximately $3.5 million for Community Centers and park maintenance, and expires in August.
2. Boulevard Tax which is currently $1.00 per foot and generates $600,000.
3. Parkway Maintenance Tax levied on land-only and generates $6.6 million a year.
4. Trafficway Maintenance levied on land-only, and generates $3.3 million for Public Works. To replace this funding for Public Works, the General Fund transfer to the Parks Department would be reduced by the same amount.

The total of the repealed taxes would be $14 million. The net effect for the programs would be as follows: $5.2 million net annual increase for Parks to maintain existing properties and programs; $12.8 million annual increase for storm water improvements, which would be used to partially offset future wastewater rate increases.

Because the motor vehicle license fee expires this year, it is the recommendation of CCMR that this proposal be placed on the August 2012 ballot.

Property.3 Renew the Temporary Health Levy Contingent Upon Supreme Court Decision on Affordable Health Care Act

If the Patient Protection and Affordable Care Act is upheld by the Supreme Court (i.e., retains subsides targeted at low income individuals to purchase health insurance policies), CCMR recommends that voters be asked to renew the Temporary Health Levy in 2014 for no more than four more years. If the Affordable Health Care Act is overturned, CCMR recommends that the City Council determine how much, how long, or if the temporary levy should be extended in light of other priorities of the City.

Property.4 Address Capital Infrastructure Backlog with Property Tax

CCMR supports the Mayor's vision to tackle the sizeable deferred maintenance and infrastructure backlog without further delay and considers this investment a key component for attracting and retaining population. To that end, CCMR supports property tax levy increases to pay for the Mayor's $1 billion infrastructure program, mitigated with a 1/4 cent sales tax that can spread some of the burden to non-residents (see recommendation 4.5.2). CCMR considered one scenario that funds the Mayor's plan with the new 1/4 cent sales tax and average increases to the property tax levy of about 10 cents per year beginning in 2014, resulting in a cumulative property tax impact on the average taxpayer of $200 over the ten year period. CCMR acknowledges that this is just one of many scenarios that should be considered in order to optimally structure a financial investment of this magnitude.

Utility.1 Retain Emergency Rate for Commercial Customers

Retain the 4% emergency rate levied on commercial customers but do not restore the emergency tax on residential users. Research the origins of the terminology "emergency" and consider removal of this designation.

Other.1 Bring Closure to Business License Fee Reform

CCMR believes that it is important to address the Business License Fees. The business license taxes have been the subject of several studies or reports, all of which recommended that they either be eliminated or made more equitable. To that end, CCMR will continue its work on this issue for several more weeks, working with the business community and other stakeholders, focused solely on business license reform, with plans to issue an addendum report mid-summer that will attempt to bring closure to a 15+ year conversation.

Other.2 Expand Convention & Tourism Tax Base to Include Non-Profit Entities

CCMR supports the position of the Convention and Visitors' Bureau and recommends the City pursue a change in the enabling legislation for convention and tourism taxes, removing the current exemption for non-profit entities. Most cities do not offer this exemption, and the Bureau does not feel it would limit the City's ability to attract non-profit conventions.

Other.3 Evaluate Sin & Sugar Taxes to Fund Health Care

Should the Affordable Health Care Act be overturned, CCMR recommends the City evaluate sources other than the property tax to fund health care expenditures. These could include increases to existing alcohol and cigarette taxes, or a new tax on "junk" food.

2.0 Considerations and Constraints

2.1 Fact-finding and Deliberations

CCMR held an organizational meeting on August 15, 2011 and two weeks later began a regular series of public meetings, each approximately two hours in length, meeting frequently through the final meeting on May 21, 2012. Additionally, CCMR heard public testimony at two hearings in neighborhoods, north and south of the river. The public meetings were held November 15 at the Northland Chamber of Commerce and November 21 at the Southeast Community Center.

CCMR heard testimony and received presentations from the Mayor and City Council members, city staff, and business and civic leaders (see acknowledgements in Appendix D). CCMR reviewed past reports on the status of city finances and national studies from organizations such as the National League of Cities and the Government Finance Officers Association. Analysis conducted by CCMR frequently included a comparative review of peer cities (Midwestern cities of similar size) and other municipalities in the metropolitan area. This wealth of information from an extensive array of sources and the life experiences of the various Commissioners all served to inform its deliberations and this report.

CCMR attempted a holistic review—reaching out broadly and seeking ideas to address Kansas City's revenue needs. Various interest groups and members of the general public offered ideas. This report is the cumulative product of that work.

2.2 Overarching Themes and Beliefs of Commission Members

It is the position of CCMR that the City's revenue structure is generally sound, uses best practices (diversity and efficiency), incorporates recommended principles (horizontal equity), and has no glaring deficiencies in its current composition.[4] The City's General Fund relies upon a diverse mix of revenues from earnings, property, and utilities taxes that are relatively efficient to administer, as well as fees, charges, licenses, and permits. This is considered a "best practice" for a revenue structure, providing greater stability and protection from economic fluctuations than over-reliance on one or two key revenue streams. In addition, the City receives funding from sales taxes that are dedicated to

[4] "Kansas City Missouri Long-Term Financial Plan", The PFM Group, December 17, 2008, pp 1, 12, and 15.

purposes other than General Fund operations, further diversifying its overall revenue mix. This diverse revenue structure spreads the tax burden across businesses, residents, non-residents working in Kansas City, and visitors, each of whom benefit from and consume public services (horizontal equity). Generally, businesses taxes are low compared to national averages. Of concern is Kansas City's generally high ranking with regard to State and local combined individual tax burden for most income groups (vertical equity).

CCMR recognizes that any assessment of revenue structure must be considered in the context of other important issues, both internal and external to the City.

2.2.1 Internal Considerations

ACCOUNTABILITY TO CITIZENS

Citizens' assessment of effective use of revenues and satisfaction with services is critical, for citizens must believe they receive high value for tax dollars spent. CCMR supports current efforts to track trends in citizen satisfaction and trust. Although fewer than 20% of citizens surveyed in 2011 reported dissatisfaction with the overall quality of services and overall quality of life in Kansas City, almost 40% reported "dissatisfied/very dissatisfied" when asked to rate the value received for city tax dollars and fees paid. Too many citizens feel they are paying too much, a belief that may impact their willingness to support new tax and fee proposals or retain current ones.

The City must build on citizen trust by ensuring that all promises made are fulfilled. In this way, citizens are more likely to support new proposals. CCMR supports efforts to improve information regarding how tax dollars are spent and encourages staff to identify ways to further increase transparency and build on the recently improved public trust. (include citation from Mayor's office)

TAXPAYER BURDEN

Tax fairness is one goal of a high performing revenue structure. Tax burden can be a factor for business location decisions and a factor for individuals choosing a place to live. The recent popularity of single-purpose initiatives has produced a nearly 8% sales tax in most areas of the City, rising to as much as 10% in certain special districts, a high burden for those at the bottom of the income ladder. CCMR believes any review of revenue structure must consider the entire "package" of taxes placed on individuals and businesses.

CCMR reviewed three reports estimating State and local combined tax burdens in Kansas City, Missouri. The Finance Department of Washington D.C. publishes an annual tax burden study, estimating the combined major state and local taxes for a family of three at various income levels living in the largest city in each State. In a 2010 ranking from 1 to 51, 1 being the highest tax burden, Kansas City ranks between 6 to 13 for the five income groups studied, putting Kansas City residential tax burdens in the highest 25% across all income groups. The income tax rate for Kansas City residents is slightly above the national average across all income groups, the effective property tax rate is slightly below the national average, and the sales tax rate is about 10% higher than the national average. Additional detail and comparison to peer cities appears in Appendix E.

The Anderson Economic Group issued its 3rd annual study of business tax burden, ranking the results of all 2008 state and local taxes levied on businesses within each state. Missouri's business taxes as a share of profits are 12.1%, well below the national average of 16.7%, placing Missouri in the ranks of the ten states with the lowest business tax burden.

The Quantitative Economics and Statistics Practice (QUEST) of Ernst & Young LLP in conjunction with the Council On State Taxation (COST) released its 9th annual report of state and local taxes paid by businesses in fiscal year 2010. This is a slightly different measure in that it looks at total collections of business taxes as a share of total economic activity occurring in the state, not business profits. This measure of tax effort ranks Missouri in the mid-range nationally.

EXPENDITURE PRIORITIES

CCMR recognizes that basic services cannot be compromised and that citizens want quality services at a reasonable price. Kansas City has had too many years of deferred maintenance. Those decisions to under-fund basic services and infrastructure mean the City now faces an exponentially growing gap between sources and needs. CCMR recommends the City reinstate a multi-year revenue and expenditure forecast. This must be done in the context of a multi-year strategic plan that clearly identifies priorities for expenditures and investments. It proved difficult to consider future revenue requirements without long term strategic and financial plans that identify priorities to guide investment decisions and a detailed interactive modeling of needs with scenarios of investment priorities. CCMR recommends a similar and companion review of spending policies and practices.

2.2.2 External Considerations

ECONOMIC COMPETITIVENESS

CCMR believes the City's primary strategy and focus must be on expansion of the tax base. The City must have a clear plan and tactics to increase residents (i.e., repopulate the urban core; achieve targeted population levels for downtown, capitalize on new growth opportunities in the Northland), encourage new business formation or business location within the City, and reduce loss of the same in order to have net gains.

Since 2001, Kansas City experienced a net loss of about 14,000 jobs driven mostly by losses in construction, manufacturing, transportation, amusement/recreation, utilities, and information sectors. Losses in construction, manufacturing and information sectors mirrors the experience of other cities locally and nationwide. The City has employment gains in professional and technical services, education and health services, and health care and social assistance sectors, and today represents 55% of the region's total employment, compared to 26% of the region's population.[5]

Kansas City tax policy is just a piece, perhaps a small piece, of what impacts location decisions for individuals and businesses. Other issues such as a high quality labor pool, public safety, quality of life, housing stock, schools, transit, and access to shopping and other amenities are probably more influential. CCMR believes the best way to enhance revenues is to make the City a "preferred product" of families and businesses.

CCMR believes the Kansas City Missouri School District (KCMSD) is a strong driver of relocation decisions made by families with financial ability to move, from the core city. Some families may relocate within the City in one of the other 12 school districts but some families relocate outside the City. CCMR thinks an effort to quantify and track the effects of these decisions on both revenues and expenditures could be important for City Council deliberations regarding economic development.

[5] Economic and Demographic Trends, Frank Lenk Director of Research Services, MARC, November 7, 2011

CCMR acknowledges the work of the Economic Development Commission, AdvanceKC, in its effort to provide guidance for key investments and the efforts of the Small Business Committee and their recommendations to create a positive, business-friendly customer service culture and to have Kansas City "partner with the business community for our shared success." CCMR encourages aggressive implementation of those recommendations.

OVERLAPPING GOVERNMENTS

While CCMR conducted a holistic view of the municipal tax structure and burden, from the taxpayers' perspective the municipal level is just one piece of the tax structure. Efforts to eliminate the state income tax and other tax "reform" conversations and efforts are outside of CCMR's charter, but nevertheless must remain important considerations for staff and Council.

2.3 CONSTRAINTS

Revenue reform must consider challenges from the State Constitution; statutory, regional, and political obstacles; and capital market constraints.

2.3.1 The State Hancock Amendment limits local taxes in four ways: new taxes must be approved by simple majority, increases in levies of existing taxes must be approved by voters, changes that broaden the tax base require a levy reduction to yield the same estimated revenue, and increases in assessed valuation of property by a greater percentage than the increase in the general price level from the previous year requires a rollback in the property tax levy. The Hancock Amendment also specifies that any taxpayer of the taxing jurisdiction may sue to enforce its provisions, which makes challenges to new revenue initiatives easy, with the City bearing litigation costs if the taxpayer wins. In practice this means the City must seek voter approval for all new and increased taxes and some fees.

2.3.2 In the last decade, Kansas City voters have granted Kansas City new taxing powers, but for a limited period of time and specified purposes. As of the date of this report Kansas City has 7 tax levies with sunset provisions, often supporting functions that don't have a true "sunset". Elections have their own administrative and financial costs. These costs, combined with the potential nonrenewal of taxes supporting important functions whose funding could shift even more expenditures to a fiscally-strapped General Fund, are obstacles to revenue reform.

2.3.3 Because the decision to go before voters is rarely a regional conversation, special interest groups and other overlapping taxing jurisdictions submit single-purpose ballot initiatives that reduce tax capacity, and may compete with or even oppose City priorities.

2.3.4 Kansas City is located in a metropolitan region that spans two states. The City's tax structure is one determinant of its relative position to both inter-city and cross-border competition. The City must remain mindful of tax rates as they compare to surrounding jurisdictions, and ensure these do not become hurdles in efforts to attract and retain residents and employees.

2.3.5 Kansas City has benefitted from revitalization efforts that have been spurred by Tax Increment Financing (TIF) and Super TIF (STIF) agreements. Under these development agreements the City transfers (redirects) some combination of economic activity taxes and payments in lieu of taxes to reimburse qualified development expenditures. Redirections of revenue are justified by a "but for" test: the development and resulting tax revenue would not have materialized "but for" the use of TIF/STIF. But the City must remain diligent in evaluation of projects that could result in substitution effects, driving tax revenue away from non-TIF/STIF areas, and thereby resulting in lower aggregate revenues.

2.3.6 The City's credit rating directly impacts the price it pays to borrow funds. Credit rating agencies cite the City's revenue stability and diversity as important strengths. They cite the following weaknesses or concerns related to the City's financial condition: long-term risk related to earnings tax renewal, insufficient reserves, and an overall debt burden that is high relative to the City's peers. Revenue reform must protect the City's ability to access credit markets at a reasonable rate.

2.4 FINANCIAL NEED

Discussion of financial need as it relates to revenue structure addresses two key revenue characteristics: dependability and growth. Does the current structure generate adequate revenue to fund services currently demanded by citizens? And over the long term will revenues support projected expenditure needs?

Although state law and the City Charter require the City Council to adopt a balanced budget, the City has implemented significant spending reductions in each of the last five years to achieve that balance, including a 20% reduction in non-public safety positions funded through general municipal revenues. More than half of the positions eliminated were in Park Maintenance, City Planning and Development, Street Maintenance and middle management. Other significant changes include closing the Municipal Correctional Institution, closing the greenhouse, privatizing the Animal Shelter and Aquatics Operations, and reducing the number of city departments.

The fact that these reductions have been persistent, and in some cases increasing, points to a structural imbalance that without additional resources will lead to even more austerity measures and disruption of city services. With the global economic recession in 2009, the City's underlying financial problems have been magnified.

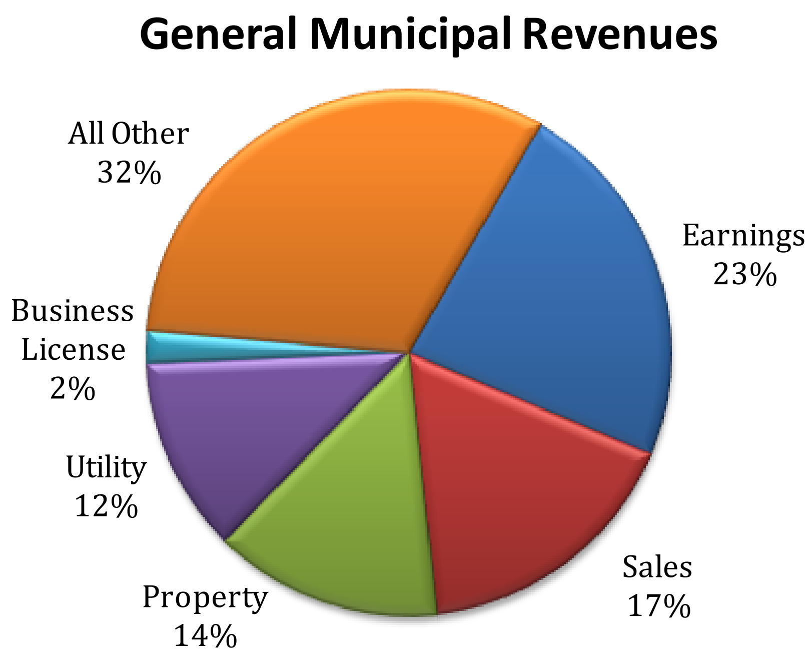
In March 2012, the Director of Finance presented a sober picture of future financial need. CCMR reviewed a 10-year forecast model of general municipal expenditures that reflected an increase in a variety of user-defined growth rates (see summary of model results in Appendix F). Without enhanced revenues, it is difficult to create a model in which the City can simultaneously maintain the service levels residents need and want, fulfill commitments to retired or vested current employees, and meet the ever growing infrastructure maintenance backlog.

The City's binding obligations for future expenses will exceed revenues unless it makes major service cuts, implements reforms, and/or increases revenues. CCMR's revenue recommendations are made within the context of the following financial pressure points:

1. Decline in revenues across the board since 2009 and uncertain timing of economic recovery
2. Uncertain future of earnings tax due to renewal mandate
3. Reliance upon and uncertain future for declining intergovernmental revenues
4. Insufficient unreserved operating fund balances equal to one month operating expenses, half of the City Council adopted policy requirement of two months
5. Significant portion of total revenues dedicated as to purpose and/or have sunset provisions, greatly impacting the City's ability to respond to changing needs
6. Infrastructure backlog estimated at $6 billion, and the unfunded federal mandate to address storm water issues
7. Unfunded pension liabilities
8. High levels of outstanding debt
9. Redirections of taxes to Tax Increment Financing projects

2.5 CURRENT REVENUE STRUCTURE AND TAXPAYER BURDEN

The City's current revenue structure is diversified and generally sound, drawing upon a variety of taxpayer types (resident/non-resident, individual/business) and tax base options (property, sales, earnings).



[6]

No single source provides more than a quarter of total revenues. Unlike many of its peer cities, Kansas City is much better positioned to survive short-term fluctuations:

	Major Revenue Source	% of Total
Tulsa	Property taxes	54%
Fort Worth	Property taxes	42%
Denver	Sales taxes	36%
Memphis	Sales taxes	31%
Minneapolis	Sales Taxes	31%

[6] Includes about $40 million in TIF redirections.

The current structure is slightly regressive, falling more heavily on low-income residents. As a percent of income/gross receipts, individual taxpayers bear higher tax burdens than businesses.

Tax Burden							
Individual				Business			
	$25,000	$75,000	$150,000		Small	Medium	Large
Earnings Tax	$248	$747	$1,500	Earnings Tax	$222	$1,104	$4,111
Property Tax	299	433	614	Property Tax	1,114	3,812	38,122
Sales Tax	280	535	786	Sales Tax	NA	NA	NA
All Other	82	253	362	All Other	1,245	5,542	56,805
Current	3.6% - $909	2.6% - $1,968	2.2% - $3,262	**Current**	1.8% - 2,581	0.7% - 10,458	0.3% - 99,038 [7]

Detailed analysis of major revenue sources includes the following discussion for each:

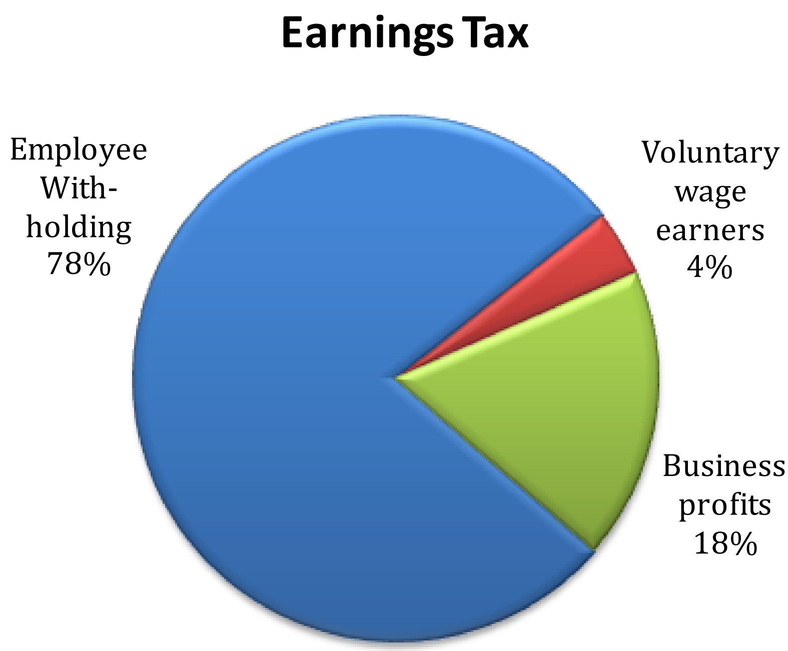
1. Overview
    - annual collections
    - percent of total
    - tax/fee rate(s) and amount generated for an incremental increase
2. Fundamental considerations
    - dedications
    - legislative issues
    - cost of collection
    - performance
    - equity
    - redirections
3. How we compare
    - to metro area cities
    - to peer cities
4. Options
    - change rate or base
    - change dedications
    - address barriers to full collection either because not everyone pays or not everyone is assessed (gap and leakage)
    - address noncompliance with proposed Revenue Policy
5. Recommendations
6. Other options considered by CCMR

[7] Business gross receipts assumptions: Small = $150,000, Medium = $1,500,000, Large = $30,000,000.

3.0 Earnings Tax

3.1 Overview

Earnings and profits taxes are the single largest revenue source and currently provide about $200 million or 23% of general municipal revenues. The tax rate is 1% and revenue is comprised of three sources: withholding on employees, individual wage earners, and business profits.



3.2 Fundamental Considerations

There are no statutory dedications of this source, although citizens remember promises attached to the last increase in 1968, including free trash pickup and trash bags.

Proposition A, passed on November 2, 2010, requires voter approval every five years, but there are legal efforts pending at the State level to overturn this requirement. Legislatively, the State could extend the renewal time period. On April 5, 2011, 78% of voters approved a five-year extension through December 2016. Credit rating agencies cite concerns related to the City's long term financial risk due to the five-year renewal requirement of this important source of operating funds.

If the earnings tax is not renewed in 2016, or in any of the renewal elections to be held every five years, the City will face an annual revenue reduction of about $20 million as the tax is phased out over a ten year period. Once local voters have rejected the renewal of the tax, the City would no longer have authority to levy the tax.

Cost of collection as a percent of total collections is 1%. Ease of collection is high for withholding, but low for profits and wage earners, as it is hard to identify and collect from non-filers and difficult to track incoming and outgoing businesses and residents. Assuming a tax collection gap similar to the experience of the IRS, the gap would be slightly over 15%.

During recession years the profits portion of the tax remains relatively constant but the remaining base does fluctuate with changes in economic activity.

The earnings tax is somewhat regressive because it is not a tax on all sources of income and earnings account for a relatively larger proportion of lower and middle-income families' income. About half of the tax is exported (paid by non-residents) which makes it consistent with the benefits principle, since people who work as well as live in the City use and benefit from City services.

Redirections of earnings tax for incentive programs has grown from $6 million in FY 2002 to over $12 million in FY 2010, and currently represent 6.3% of total collections. Redirections were $22 million in FY 2011, 11% of collections.

3.3 How We Compare

No other city in the metro area imposes an earnings tax. The tax may influence people's decisions about where to live or work. The tax could also affect business decisions about where to locate. However, tax rates are only one factor that influence business decisions and according to the chairs of AdvanceKC, the Mayor's economic development commission, schools, crime, code requirements, and infrastructure were cited by businesses as critical decision factors.

St. Louis and Allentown, PA levy earnings taxes of 1%. Other cities in Indiana, Kentucky, Maryland, Michigan, New York, Ohio, Oregon, and Pennsylvania levy earnings taxes ranging from 1.3 to 3.98%. See table in Appendix G.

3.4 Options

3.4.1 **Change rate or base.** Proposition A caps the rate at 1%. However, the City could increase the rate with an amendment to state law and a vote of the electorate to amend the City Charter.

3.4.2 **Dedicate the tax to capital improvements.** Currently this tax is undedicated, but recent discussions regarding the next renewal have included options to dedicate the tax to capital improvements, believing that would be more popular with voters.

3.4.3 **Address tax collection gap and leakage.** Efforts discussed to address tax collection gap and leakage include: (a) limiting or removing this tax from future tax incentive projects, (b) working with the State to strengthen enabling legislation for the entertainment industry to mandate withholding, (c) eliminating refunds to employees who work part of the year outside Kansas City, which over the last five years have averaged $3 million per year, (d) improvements to financial systems and processes to maximize collections.

3.4.4 **Address noncompliance with proposed Revenue Policy.** Since the passage of Proposition A, the earnings tax is in violation of the proposed Revenue Policy, section e(5) which states "any newly authorized revenue stream with a sunset ideally shall not be used to fund recurring service delivery costs".

3.5 CCMR Earnings Tax Recommendations

3.5.1 Retain The Earnings Tax

CCMR considered methods of eliminating or reducing the earnings tax. CCMR found those options unacceptable because it would eliminate a tax that is vital to the General Fund budget, and is paid in large part by nonresidents. A complete elimination of the earnings tax would hamper the City's ability to fund basic services; and full replacement would require large increases in sales and/or property taxes. Furthermore, since half of the earnings tax is now paid by nonresidents, the burden of funding services that benefit all metro area Missouri and Kansas residents, whether they work in the City or visit the multiple cultural and entertainment offerings in the City, would shift disproportionately onto Kansas City residents.

3.5.2 PURSUE LEGAL AND LEGISLATIVE RELIEF AT STATE

To protect the City's largest single source of revenue, CCMR recommends aggressive pursuit of both legal and legislative relief at the State level regarding Proposition A. This renewal requirement is cited by credit rating agencies as a significant concern, placing a major funding source for general operations at jeopardy. At a minimum, the State has the power to extend the election cycle to something longer than five years. CCMR recommends renewal periods of no less than 20 years.

3.5.3 FOREGO DEDICATION OF EARNINGS TAX

Although there are some discussions to dedicate the earnings tax to capital improvements, CCMR recommends the tax remain undedicated for the following reasons:

- 78% of the citizens voted to continue the earnings tax in its current form. The potential loss of basic services appears more compelling than cuts to capital maintenance.
- Dedications to capital projects often lead to a "divide by six" situation—ensuring each district receives a share, but ultimately giving citizens more reason to oppose the tax, and perhaps not address the highest priority needs.
- Dedication of revenues ties policymakers' hands so they are unable to respond to changing needs without endangering taxpayer trust.

3.6 OTHER OPTIONS DISCUSSED BY CCMR

CCMR reviewed one option to allow a deduction for the first $25,000 of earnings. Because any deduction must be applied uniformly to all taxpayers, residents and nonresidents, low-income and high-income alike, the estimated revenue loss of this option to provide some tax relief at lower income levels would be nearly $40 million.

CCMR discussed an option to provide a credit against property taxes equal to earnings taxes paid by low-income residents. Because the databases for these two taxes are maintained by separate taxing entities (four different counties and the City), and rely upon different taxpayer identifications, linking property and earnings tax data might not be practical. Upon further review, this option was rejected because low income earners are less likely to own homes, low income senior citizens may own homes but are less likely to have earnings, and the credit could not be given to one subset of taxpayers, but must be given to all income groups.

CCMR reviewed options to eliminate refunds to nonresidents for days worked outside the City. Denying refunds would require a change to State statute and the City Charter. Additionally, at $3 million per year, refunds represent a small percentage of total collections. And CCMR reviewed other potential collection gaps related to visitors who work for short periods in the City, and non-filers. With recent investment in a new revenue system and allocation of resources to auditing functions, citizens can expect a reduction in the collections gap. CCMR has confidence in the Revenue Division's commitment to maximize collection with attention to fairness, using automated matches and federal tax data. Given the advent of a new system, we recommend staff prepare an annual report to City Council estimating the amount of gap and summarizing successful efforts to close it.

4.0 Sales Tax

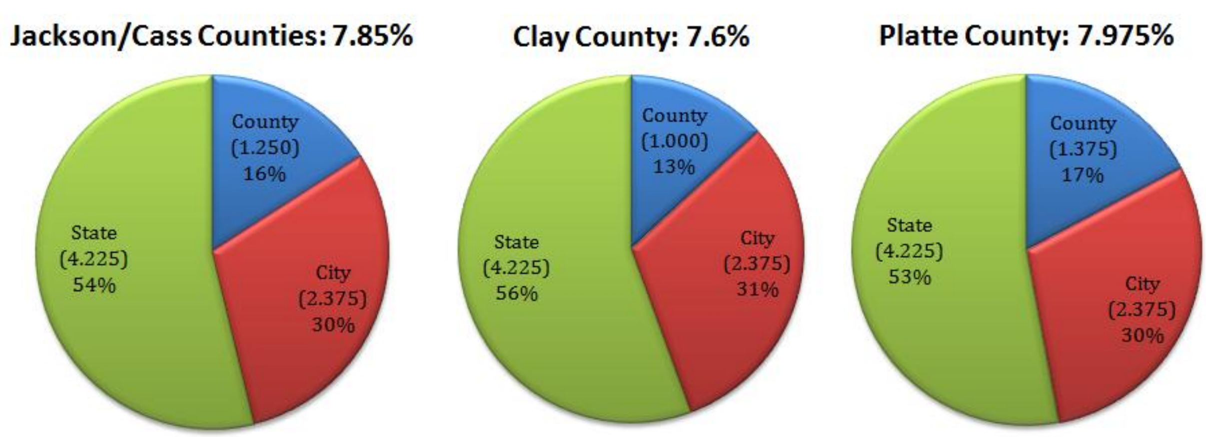
4.1 OVERVIEW

Sales taxes are the second largest single revenue source and currently provide about $150 million or 17% of general municipal revenues. Each ¼ cent levy (.25%) yields about $16 million.

The City tax rate, not including special districts, is 2.375%. There are 33 Transportation Development or Community Improvement Districts that levy an additional 1/8 to 1% sales tax, with revenues dedicated to improvement costs in those districts. Including all overlapping governments (State and counties) and special districts, the total sales tax rate within the City ranges from a low of 7.6% (Clay County) to a high of 9.850% (Ward Parkway).

4.2 FUNDAMENTAL CONSIDERATIONS

The City levy represents about a third of the total sales tax rate levied in Kansas City. The majority of the tax is levied for state purposes:



While some taxes are general in terms of state authorization, they are dedicated by voter approval to a specific purpose. The City tax rate of 2.375% is fully dedicated to the following purposes, in order of their expiration dates:

0.50%	Public Mass Transportation Trust (December 2015)
0.25%	Fire Protection (December 2016)
1.00%	General sales tax dedicated to Capital Improvements (December 2018)
0.375%	Kansas City Area Transportation Authority (March 2024)
0.25%	Capital improvement sales tax dedicated to Public Safety (June 2026)

Cost of collection as a percent of total collections is 1%. Ease of collection is high as the tax is collected and enforced by the State.

The revenue will fluctuate with changes in economic activity. Furthermore, significant changes in the rate could affect collections by increasing the price of goods and thereby affecting shopping patterns. In general, studies show that a 1% higher sales tax rate will result in per capita sales that are between 1% and 6% lower.[8] While small variations have not shown to significantly impact collections, the City must be mindful of surrounding jurisdictions' rates to avoid the potential negative repercussions on the sales tax base resulting from reduced demand.[9]

The sales tax is partially exported to nonresidents making purchases within the City. The sales tax is regressive as the rate is constant across the income spectrum and taxable purchases account for a relatively larger proportion of lower and middle-income families' income. Some states, including Missouri, have addressed the regressive nature of sales taxes by exempting food. Food purchases in Missouri are exempt from the State's 3% general sales tax.

Redirections of sales taxes for incentive programs have grown from $5 million in FY 2002 to about $20 million in FY 2010, and currently represent 14% of total collections. Redirections were $20 million in FY 2011, or 13% of collections.

[8] "How Different Sales Tax Rates Along Georgia's Border?" Georgia State University Andrew Young School of Policy Studies, Fiscal Research Center, February 1, 2005, and "More Evidence on the Burden Tax Effect: The Case of West Virginia", National Tax Journal, 1988.

[9] "Kansas City Missouri Long-Term Financial Plan", The PFM Group, December 17, 2008, p 17.

4.3 How We Compare

The total City, County, and State sales tax rate in Kansas City not including special districts falls at or below most metro area and peer cities. Compared to 30 cities in the metro area, the four counties in Kansas City are lower than all cities in Kansas, and are near or below the rates levied by Belton, Gladstone Grandview, Independence, Lee's Summit, Raymore, and Raytown. Compared to peer cities, only Milwaukee and Omaha levy a lower rate. (see graph and table in Appendix H)

The sales tax is designed to tax tangible goods but many states have incorporated various types of services into the sales tax base. The State of Missouri taxes only 26 types of services, primarily utility and admissions/amusement taxes, and only eleven states have fewer taxes on services. In particular, Missouri lags behind in the taxation of personal, business, and computer services. The following shows a comparison of sales tax exemptions for Kansas City and the peer cities:

City	Number of Exemptions Classifications	City	Number of Exemptions Classifications
Milwaukee	3	Ft Worth	103
Omaha	8	Oklahoma City	42
Kansas City	120+	St Louis	120+
Denver	11	Tulsa	42
Minneapolis	113	Memphis	31

The exemptions found in RIA Thompson's Reuters are approximates and are exemptions at the state level only. Many exemptions listed had multiple exemptions listed within one category. For instance, Nebraska had only 8 classifications but within those, they had over 50 exemptions.

4.4 Options

4.4.1 **Increase rates.** The City has the following legal authority to increase tax rates with voter approval:

Transportation Sales Tax:	.125%	to yield $8 million
Capital Improvements:	.25%	to yield $16 million
Economic Development	.50%	to yield $32 million
Local Parks and/or Storm Water	.50%	to yield $32 million

4.4.2 **Change dedications.** The following sales taxes have broader statutory authority but uses are currently limited more specifically by City ordinance:

- The 1% for Capital Improvements is a more specific dedication of a state authorized General City Sales Tax
- The .25% for Public Safety is a more specific dedication of a state authorized Capital Improvements Sales tax
- The .375% for Transportation is dedicated to KCATA by City ordinance and local election. The state enabling law contains a broader authorization defined to include "development and operation of bus and light rail systems, acquisition of land for roads, bridges, airports, and construction, repair, maintenance, planning and feasibility studies of/for streets, roads, bridges, and airports."

4.4.3 **Change the base.** Missouri could achieve closer conformity with its neighboring states by removing exemptions for some services. Relief for low income households could be enacted as well by exempting basic goods.

4.4.4 **Address tax collection gap and leakage.** Efforts discussed to address tax collection gap and leakage include: (a) limiting or removing this tax from future tax incentive projects, (b) working with the State to implement the Streamlined Sales Tax which would not currently increase sales revenues but would immediately impact use tax collections.

4.4.5 **Address noncompliance with proposed Revenue Policy.** The Fire Protection Sales Tax is a dedicated tax with a sunset provision that currently funds operating costs. Renewal of this tax in its current form would be in violation of the proposed Revenue Policy, section e(5) which states "any newly authorized revenue stream with a sunset ideally shall not be used to fund recurring service delivery costs" and section e(6) which states "Whenever possible, the City shall not dedicate a revenue stream to a specific use or program. Dedication or earmarking of revenue streams does not allow the City to respond to changing economic conditions or service expectations and is dispositive to the City's general credit."

4.5 CCMR Sales Tax Recommendations

4.5.1 Support State Legislation to Implement Streamlined Sales Tax Agreement

Legislation to ensure equitable collection of sales tax is currently under consideration in Missouri and has received bipartisan support and the endorsement of the business community. Although the State cannot collect sales taxes on remote sales, a use tax is still due. There are 24 states that participate in Streamlined Sales Tax, including all of Missouri's surrounding states with the exception of Illinois.[10] Most cities in states who have implemented this have realized some increase in use tax collections. The Streamlined Sales Tax Agreement would institute a mechanism designed to make the current sales and use tax easier to compute and close a collections gap, and also sets the stage for if and when the Federal government approves taxation of internet sales.

4.5.2 Do Not Renew Fire Protection Sales Tax; Replace with Capital Improvement Sales Tax Effective January 1, 2017

CCMR recommends against renewal of the 1/4 cent sales tax for Fire Protection. This tax has a sunset and currently funds operating expenses in violation of the proposed Revenue Policy. Additionally, infrastructure is a high priority, so the City should ask voters to approve a 1/4 cent capital improvement sales tax effective January 1, 2017, upon expiration of the Fire Protection Sales Tax. The revenues would then be used to partially address the considerable infrastructure backlog in the Mayor's $1 billion plan. Given low interest rates, local capacity for construction projects, and the pressing need to begin now, CCMR recommends the Finance Department continue to evaluate the use of alternative financing structures such as capital appreciation bonds and capitalized interest secured by a capital improvement sales tax. Such a structure could fund about $150 million or 15% of the total $1 billion plan. CCMR acknowledges this recommendation related to the Fire Protection Sales Tax requires the City to plan for a $16 million operating budget gap for Fire operations.

[10] Streamlined Sales Tax Governing Board

4.5.3 Expand the Sales Tax Base to Cover More Consumer Services

CCMR recommends that a review of existing sales tax exemptions, and opportunities to expand the base, be added to the City's legislative agenda as a high priority. Recommendations to eliminate consumer services exemptions should consider the impact on low income households and on the competitive position of the City.

4.5.4 Renew General Sales Tax for Capital Improvements

CCMR recommends renewal of the capital improvement sales tax in 2018, with a longer renewal period (15-20 years) and ordinance language broad enough to allow more flexibility to respond to changing needs.

4.5.5 Use Future Economic Development, Transportation, & Capital Improvement Sales Tax Authorizations for Projects Focused on Population and Employment Growth

CCMR reviewed the statutory uses of an Economic Development Sales Tax. The City has authority to levy up to 1/2 cent for purposes that include installation of infrastructure for industrial or business parks; improvement of water and wastewater treatment capacity; extension of streets; and public facilities directly related to economic development and job creation. At this time, CCMR has no recommendation regarding this tax but believe any future use of the Economic Development, and/or Transportation, and/or Capital Improvement sales tax authorities must be invested in projects that ultimately lead to population and employment growth and retention.

4.6 Other Options Discussed by CCMR

CCMR considered ways to make the sales tax less regressive by exempting food and/or prescription drugs. CCMR does not recommend pursuing these exemptions because: (1) food is already exempted from the 3% State general sales tax levy, which partially mitigates the regressive impact, (2) the loss of revenue to the City would be significant, and (3) it requires a change in State statute.

CCMR discussed several recommendations regarding the Public Improvement Advisory Committee (PIAC), a nationally recognized model, and allocations of the 1 cent capital improvement sales tax.

CCMR's recommendation regarding the Parks & Stormwater Sales Tax can be found in the Property Tax section, 5.5.2.

5.0 Property Tax

5.1 Overview

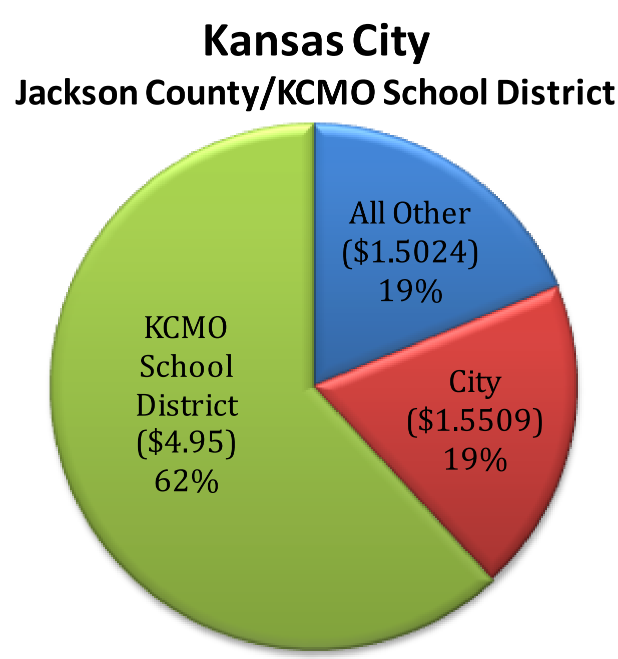
Property taxes are the third largest single revenue source and currently provide about $130 million or 14% of general municipal revenues.

The tax on real and personal property comprises the majority of revenue in this category. The 2011 property tax rate levied on real and personal property was $1.5509 per $100 assessed value, and totaled about $112 million. Each one cent yields about $720,000.

The City also receives a State-levied business replacement tax ($6 million) and assessments levied on land only for parkway, trafficway, and boulevard improvements ($10 million).

5.2 Fundamental Considerations

The City levy represents about 20% of the total property tax levy in Kansas City. There are 13 school districts overlapping the City and in every case the majority of the property tax is levied for school district purposes. The example below highlights components of the total tax levy for residents in one of the larger school districts:



About 60% of the revenue is restricted as to use. The parkway, trafficway and boulevard assessments on land only are restricted to maintenance of the City's parks and street systems. The City tax rate of $1.5509 is dedicated to the following purposes (only the temporary Health Levy has an expiration):

$0.6786	General municipal purposes
$0.4935	Health
$0.2200	Temporary health (April 2014)
$0.0188	Museum
$0.1400	Debt

The Hancock Amendment requires an annual levy certification which protects against both revenue windfalls and shortfalls. The maximum levy rates are allowed to increase by the lesser of the Consumer's Price Index or assessed value growth, not including new construction or a new voter approved levy increase. As a result, property tax revenue is mostly stable: when market value increases, levy rates are adjusted down; when market value decreases, levy rates are adjusted upward.

Cost of collection as a percent of total collections is 1.7%. Ease of collection is high for properties located in Cass, Jackson, and Platte counties as the tax is collected and enforced by the county governments. The City bills and collects on properties located in Clay County but anticipates that an agreement with Clay County will result in the County collecting taxes for tax year 2012.

Property tax has a disproportionate effect on fixed income households. The Missouri Property Tax Credit Claim gives an income tax credit to senior citizens and disabled individuals for a portion of the real estate taxes or rent they paid for the year. The credit is for a maximum of $750 for renters and $1,100 for owners. The actual credit is based on the amount of real estate taxes or rent paid and total household income. In 2009 only about 1/3 of eligible taxpayers applied for this refundable credit, administered and funded by the State of Missouri. [11]

In 2010, tax incentive projects made Payments in Lieu of Taxes (PILOT's) to the City of approximately $9.5 million.

[11] Missouri Department of Revenue, http://dor.mo.gov/personal/ptc.

5.3 HOW WE COMPARE

The total property tax rate (City, County, school district and State) generally falls at or below the average for other cities in the metro area. Kansas City's direct levy falls below its peer cities.[12] (see graphs in Appendix I)

5.4 OPTIONS

5.4.1 **Increase levies.** The City has the following legal authority to increase levies with voter approval:

General Municipal:	$0.3214	to yield $23 million
Health:	$0.2865	to yield $21 million
Museum:	$0.0812	to yield $6 million

The City could also make the determination to utilize the full or partial debt levy capacity. By City Council action at the annual levy certification in August, the City could utilize the debt levy for payment of General Obligation debt service, freeing up as much as $15 million of general municipal revenue per year.

5.4.2 **Authorize renewal of temporary health levy.** The temporary health levy will expire in 2013. Renewal requires City Council action and voter approval. CCMR heard expert testimony regarding the original intention of this temporary levy, failed efforts to find a regional solution to eliminate the need for this levy, two potential impacts on funding needs should the Health Care Act be either validated or struck down, and the dismal performance of the State of Missouri to fund indigent care (ranks 50th in the nation).

5.4.3 **Address noncompliance with proposed Revenue Policy.** Eliminate land only assessments that at current levels are not sufficient to address funding needs, have little to no historical growth, and are confusing to taxpayers, in violation of the proposed Revenue Policy, section e(1) "dependability" and section e(4) "growth.

[12] Rates were adjusted to reflect different assessment ratios between states.

5.5 CCMR Property Tax Recommendations

5.5.1 Implement Plan To Leverage State Property Tax Credit

Because the State of Missouri Property Tax Credit Claim has no cost to the City, but is an important way to bring tax relief to lower income Kansas City citizens, the City should implement an annual procedure to reach low to moderate income senior citizens and disabled taxpayers to encourage them to file for the State of Missouri property tax credit.

5.5.2 Repeal Motor Vehicle License Fee and Land Only Assessments, Replace with 1/2 Cent Sales Tax for Parks and Storm Water

CCMR recommends that the Mayor and City Council place before voters this August a 1/2 cent sales tax for Parks and Storm Water, 60% allocated to parks and 40% for storm water. The estimated annual amount the tax would generate is approximately $32 million. Voters would be asked in the same ballot issue to repeal the following property taxes and fees:

1. Motor Vehicle License Fee which provides approximately $3.5 million for Community Centers and park maintenance, and expires in August.
2. Boulevard Tax which is currently $1.00 per foot and generates $600,000.
3. Parkway Maintenance Tax levied on land-only and generates $6.6 million a year.
4. Trafficway Maintenance levied on land-only, and generates $3.3 million for Public Works. To replace this funding for Public Works, the General Fund transfer to the Parks Department would be reduced by the same amount.

The total of the repealed taxes would be $14 million. The net effect for the programs would be as follows: $5.2 million net annual increase for Parks to maintain existing properties and programs; $12.8 million annual increase for storm water improvements, which would be used to partially offset future wastewater rate increases.

Because the motor vehicle license fee expires this year, it is the recommendation of CCMR that this proposal be placed on the August 2012 ballot.

5.5.3 Renew Temporary Health Levy Contingent Upon Supreme Court Decision on Affordable Health Care Act

If the Patient Protection and Affordable Care Act is upheld by the Supreme Court (i.e., retains subsides targeted at low income individuals to purchase health insurance policies), CCMR recommends that voters be asked to renew the Temporary Health Levy in 2014 for no more than four more years. If the Affordable Health Care Act is overturned, CCMR recommends that the City Council determine how much, how long, or if the temporary levy should be extended in light of other priorities of the City.

5.5.4 Address Capital Infrastructure Backlog with Property Tax

CCMR supports the Mayor's vision to tackle the sizeable deferred maintenance and infrastructure backlog without further delay and considers this investment a key component for attracting and retaining population. To that end, CCMR supports property tax levy increases to pay for the Mayor's $1 billion infrastructure program, mitigated with a 1/4 cent sales tax that can spread some of the burden to non-residents (see recommendation 4.5.2). CCMR considered one scenario that funds the Mayor's plan with the new 1/4 cent sales tax and average increases to the property tax levy of about 10 cents per year beginning in 2014, resulting in a cumulative property tax impact on the average taxpayer of $200 over the ten year period. CCMR acknowledges that this is just one of many scenarios that should be considered in order to optimally structure a financial investment of this magnitude.

5.6 Other Options Discussed by CCMR

CCMR reviewed options to tax undeveloped land at a higher rate, as a way to provide incentives for development. Determining the fair market value of land without market transaction data could be challenging, and regular reassessments costly. Furthermore, a land tax would increase costs but not address other barriers to development such as access to capital and zoning regulations. Finally, a land tax is generally better suited for more densely populated urban areas.

6.0 Utility Taxes

6.1 Overview

Utility taxes are the fourth largest revenue source and currently provide about $104 million or 12% of general municipal revenues. The tax is levied on electric light and power (54% of total utility revenue), telephone (24%), natural gas (17%), and other utilities (5%).

Residential sales are subject to the base rate. Commercial and industrial sales are subject to the base rate plus emergency rate. The only remaining authority is a 4% residential emergency rate—every 1% levied on residential usage yields about $6 million.

6.2 Fundamental Considerations

There are no restrictions on the use of utility tax revenues and no expirations.

Cost of collection as a percent of total collections is very low at 0.21%. Ease of collection is high as the City receives funds directly from utility companies on a monthly and quarterly basis.

Growth in this revenue stream is dependent on utility rates as requested of, and granted by, the Public Service Commission for electric and natural gas, consumption patterns (energy conservation and “green” initiatives), weather conditions, population, and statutory exemptions.

As a flat tax levied on primary household expenses, the tax has a disproportionate effect on fixed and low income households.

Utility tax redirections have grown from $730,000 in 2002 to $2.2 million in 2010, or 2% of total collections. Redirections were $3.2 million in 2011, 3% of collections.

6.3 How We Compare

Residential electric tax rates are the median in the metro area and are comparable to rates levied by peer cities. (see graph and table in Appendix J)

6.4 Options

6.4.1 **Increase tax rate.** The City could ask for voter approval to reinstate some/all of the 4% emergency tax on residential electric, gas, telephone and steam. In total this would yield about $23 million to the General Fund.

6.5 CCMR Utility Taxes Recommendations

6.5.1 Retain Emergency Rate for Commercial Customers

Retain the 4% emergency rate levied on commercial customers but do not restore the emergency tax on residential users. Research the origins of the terminology “emergency” and consider removal of this designation.

6.6 Other Options Discussed by CCMR

CCMR considered a proposal to reinstate the residential emergency tax to provide a source of funding for no cost or low cost home improvement loans. It was unclear whether this would be a use of public money for private purpose and therefore unconstitutional. Given other initiatives now in place to address home improvements in the urban core, CCMR did not pursue this option.

Customers who purchase natural gas on the open market from facilities outside the City are not subject to a City franchise fee, utility tax or sales tax. CCMR believes this trend will likely continue, perhaps increase, and negatively impact future City franchise fee, utility tax and sales tax collections. The City should determine what options exist within State statute to close this collection gap.

CCMR considered a proposal to reinstate the 4% emergency rate on residential customers, providing additional operating revenue to the General Fund. The City Manager has identified an option to use these funds to address the significant blight issues in the urban core. CCMR recommends further evaluation and a comprehensive proposal that not only clears buildings, but specifies a long-term plan to restore property values.

7.0 Business License Fees

7.1 Overview

Business license revenue is $21 million or 2% of general municipal revenues. The rate varies dependent on the nature of the business.

Public testimony before The Mayor's Special Committee on Small Business identified the business license tax as inequitable to various business classifications and suggested the City implement alternatives that would be fair to all businesses. This issue was also considered by the Business License Task Force in 2007and the Mayor's Task Force for Occupational License Review in 1996. The Special Committee on Small Business referred this issue to the CCMR, specifically to review options for restructuring or eliminating the business license tax while maintaining General Fund revenue.

There have been three efforts over the last 15 years with recommendations to change both the rate and the base by addressing caps and exemptions. In the end, none of these proposals were implemented because they failed to adequately address revenue replacement, or faced resistance from business interest groups. The City tried to eliminate the multiplicity of rates and apply a single rate against gross receipts and that discussion stopped because the "no cap" feature necessary to ensure growth was not acceptable to business representatives. In recent years the City has only made minor cosmetic changes to clean up its code of ordinances.

7.2 Fundamental Considerations

There are no restrictions on the use of business license revenue and no expirations.

Cost of collection as a percent of total collections is high at 3.2%. Business license fees are difficult to administer and enforce. Growth of this revenue source is stagnant and the fee structure is not uniform.

There are a myriad of rate calculations in the current business license structure. Retail/wholesale, service manufacturers and contractors are billed according to gross receipts. Other businesses pay a flat rate according to occupations, and still others pay a fee per unit (per truck, per seat, per cab).

Utility taxes and the rental car license fee (also known as the arena fee) are authorized within the same section of the City's code of ordinances. Any consideration to eliminate business licensing might compromise the City's ability to collect other fees authorized under the code.

7.3 How We Compare

Kansas City levies a combination of flat fees and fees on gross receipts. Cities in the metro area rely mostly on some combination of square footage, gross receipts, and/or flat fee. Most cities in the metro area apply more than one type of rate.

In contrast, peer cities outside the metro area rely much less on gross receipts (only Memphis uses gross receipts) and much more on flat fees (Milwaukee, Minneapolis, Oklahoma City, Tulsa) and fees per employees (Omaha, Denver, and St. Louis). And none of the peer cities use a combination of rates, but rather apply one method to all taxpayers. (See tables in Appendix K)

7.4 Options

7.4.1 **Change fee structure.** The City could reduce current fees, simplify rates to a flat fee or institute a graduated uniform fee structure.

7.4.2 **Address tax collection gap and leakage.** City officials could work to change state law and the City ordinance to remove exemptions and improve equity.

7.5 CCMR Business License Recommendations

7.5.1 Bring Closure to Business License Reform

CCMR believes that it is important to address the Business License Fees. The business license taxes have been the subject of several studies or reports, all of which recommended that they either be eliminated or made more equitable. To that end, CCMR will continue its work on this issue for several more weeks, working with the business community and other stakeholders, focused solely on business license reform, with plans to issue an addendum report mid-summer that will attempt to bring closure to a 15+ year conversation.

8.0 Other Taxes and Fees

All other taxes and fees are $280 million or 32% of general municipal revenues.

8.0 CCMR All Other Taxes and Fees Recommendations

8.0.1 Expansion of Convention & Tourism Tax Base to Include Non-Profit Entities

CCMR supports the position of the Convention and Visitors' Bureau and recommends the City pursue a change in the enabling legislation for convention and tourism taxes, removing the current exemption for non-profit entities. Most cities do not offer this exemption, and the Bureau does not feel it would limit the City's ability to attract non-profit conventions.

8.0.2 Evaluate Sin & Sugar Taxes to Fund Health Care

Should the Affordable Health Care Act be overturned, CCMR recommends the City evaluate sources other than the property tax to fund health care expenditures. These could include increases to existing alcohol and cigarette taxes, or a new tax on "junk" food.

9.0 Uses and Expenditures

CCMR was not tasked with a review of spending issues. However, CCMR does recommend the following guiding principles related to expenditures.

1. The City has adopted debt, investment and reserves policies. Now, as a result of this Commission, there is a draft revenue policy. A critical next step is a similar citizens' commission on municipal expenditures. Successful implementation of a strategic plan, a primary recommendation of this report, requires a clarity of purpose that should come from a citizen-based definition and evaluation of basic services, and selection of criteria for prioritization.

2. The City's current General Fund reserve of one month is below the City's stated policy of two months, and below levels found in AAA cities. Given an ambitious plan to issue significant additional debt over the next few years, the City will need to show credit rating agencies a plan to maintain or improve its reserves. The City's stated goal of two months should be considered a minimum threshold. The City should strive to increase its General Fund balance by at least 1% per year until it reaches three months or 22%, thereby bolstering its case for AAA rating consideration.

3. The Mayor's $1 billion plan will address some of the existing infrastructure backlog. The City needs a disciplined approach to funding infrastructure maintenance, or risk facing this same costly backlog again.

4. CCMR discussed the pros and cons of asset sales, a strategy other cities have used to raise revenue, often in the face of pressing financial considerations. CCMR concluded that in most cases it would not benefit the City to sell major long term assets (such as the airport or water and sewer systems) to fund current operating and capital needs. However, the City should be open to consideration of the broad spectrum of public-private-partnership (P3) options, private management contracts, efficiency improvements and elimination of service duplications, which may be central to funding deliberations. Evaluations should be subject to rigorous analysis and transparency, and always have at their core the long term benefit to Kansas City taxpayers.

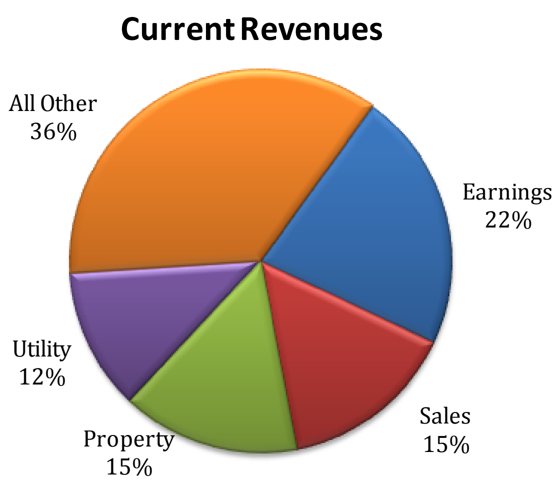
5. While acknowledging the City's geographic area exceeds many of the peer cities, and the City provides services not found in these other cities, several ratios per capita raise red

flags. CCMR reviewed a number of factors that impact the City's bottom line such as population, staffing levels, service levels, and outstanding debt, with comparisons to peer cities (see Appendix L). CCMR recommends expanded analysis of these and other measures of service level efficiency.

10.0 Comparison of Revenue Structure and Tax Burden

10.1 DIVERSITY

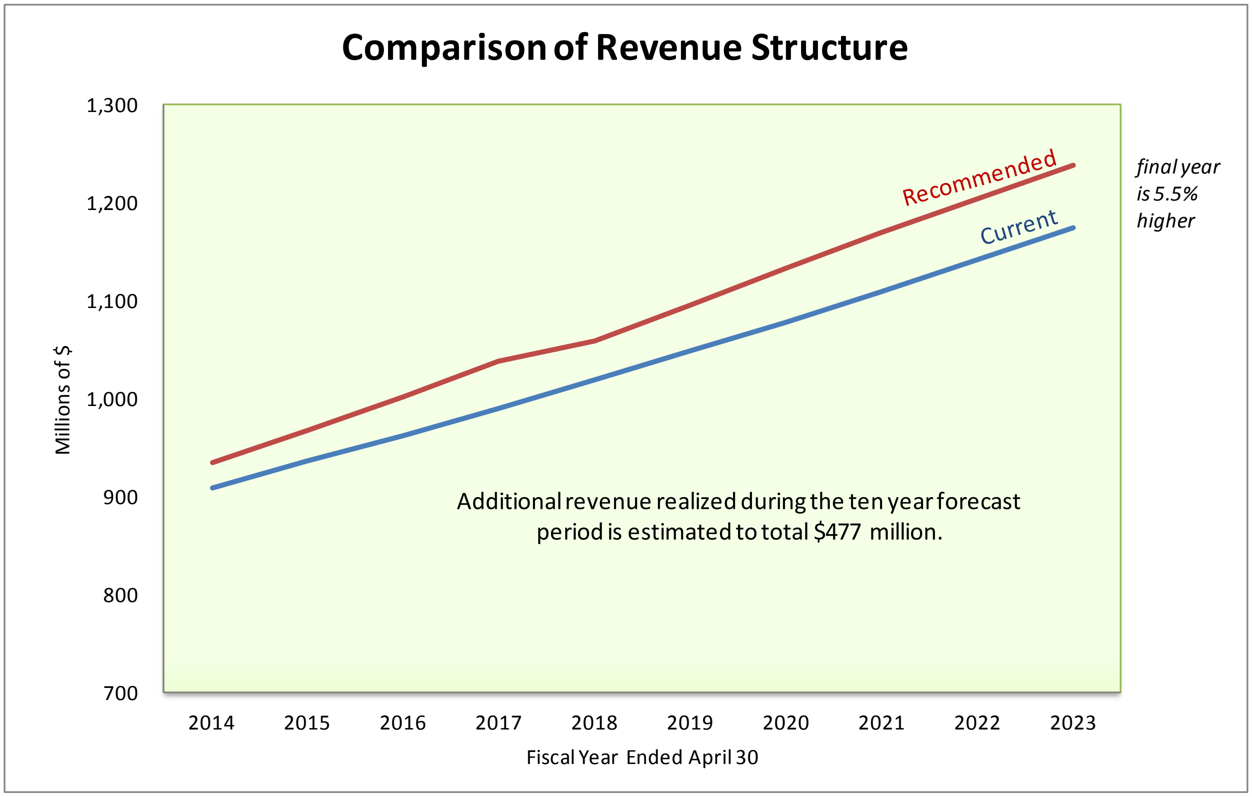
The following charts[13] graphs and tables illustrate all revenue recommendations of this report: elimination of land only property taxes, elimination of vehicle license fees, new 1/2 cent sales tax for parks and storm water, repurposing the 1/4 cent fire sales tax to capital improvements upon renewal in 2017, and estimated debt levy increases to fund a $1 billion infrastructure bond program. Assuming all recommendations of this report are implemented, the distribution of taxes changes slightly—a marginal shift to property and sales taxes.



[13] These charts are net of TIF redirections.

10.2 GROWTH

Overall revenues during the ten-year forecast period are estimated to be between 3% and 5.5% higher every year compared to the current structure. A different mix of revenues brings a slight improvement to annual revenue growth, from an average of 2.9% to about 3.2%.



10.3 EQUITY

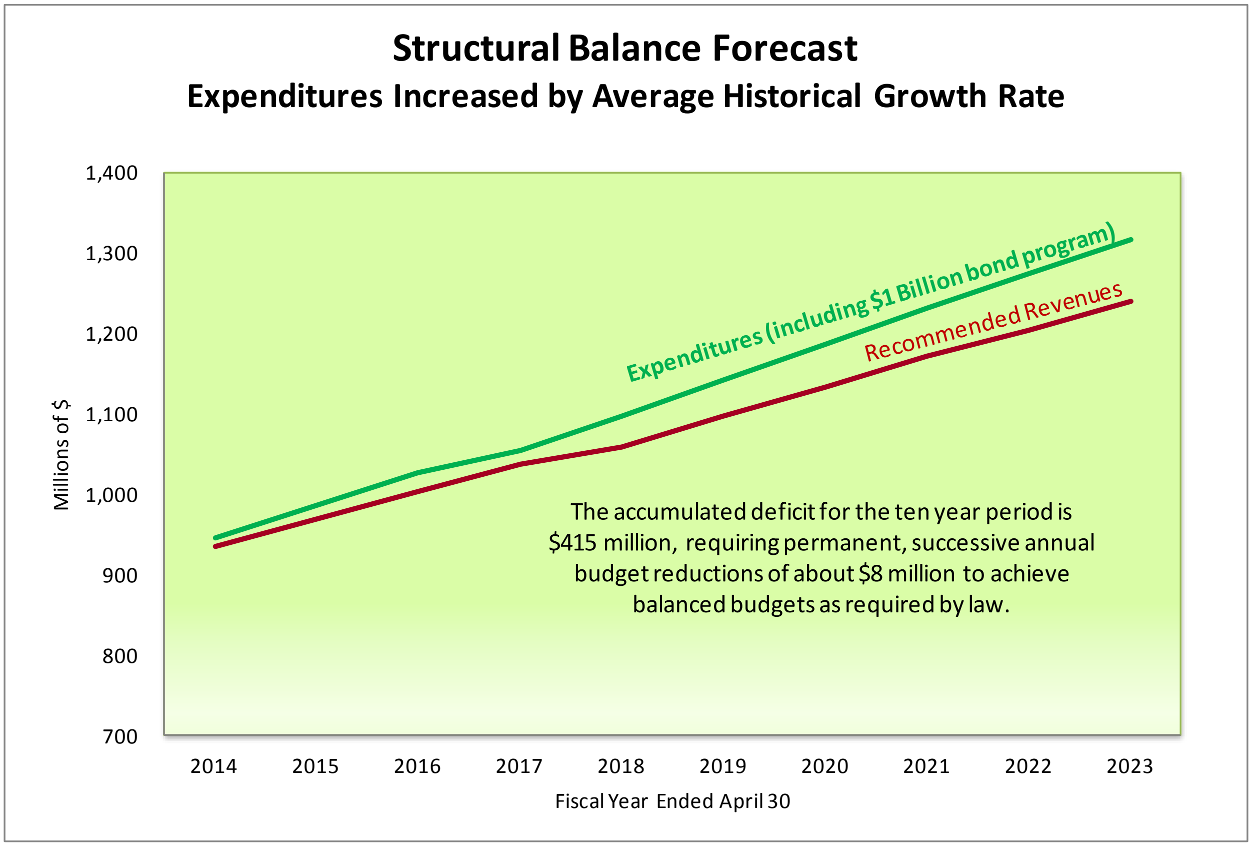
The recommended revenue package neither improves nor exacerbates the regressive nature of the City's tax structure. Relative tax burdens remain largely unchanged.

Tax Burden							
Individual				Business			
	$25,000	$75,000	$150,000		Small	Medium	Large
Current	3.6% - $909	2.6% - $1,968	2.2% - $3,262	**Current**	1.8% - 2,581	0.7% - 10,458	0.3% - 99,038
Year 1	3.9% - $971	2.8% - $2,090	2.3% - $3,454	**Year 1**	1.8% - $2,648	0.7% - $10,581	0.3% - $100,266
Year 10	4.1% - $1,033	2.9% - $2,204	2.4% - $3,618	**Year 10**	2.0% - $2,987	0.8% - $11,713	0.4% - $111,591 [14]

[14] Business gross receipts assumptions: Small = $150,000, Medium = $1,500,000, Large = $30,000,000.

10.4 Funding Gap Analysis

CCMR reviewed a 10-year model of general municipal expenditures that incorporated a variety of user-defined growth rates. Comparison of the recommended revenue scenario to one of these expenditure scenarios underscores a sobering conclusion: little will be solved without careful examination of future obligations. The graph below compares the recommended revenue structure to a forecast of expenditures grown by the average historical expenditure growth rate, plus debt service for the $1 billion bond program. The resulting deficit would require permanent, annual reductions of $8 million to achieve the balanced budget as required by law.



10.5 Conclusion

The prior analysis summarizes scenarios based upon CCMR's recommendations and should be interpreted within the context of a series of assumptions outside the City's control, not the least of which includes voter approval of tax increases. Nevertheless, CCMR believes the recommendations of this report meet or exceed the requirements of the proposed Revenue Policy. Several revenue inefficiencies are eliminated (land only assessments and operating taxes with sunsets), higher priority needs are addressed (storm water improvements and infrastructure backlog), revenues remain diversified, annual revenue growth is slightly improved. Any single recommendation does not stand alone, but must be considered a critical component of an entire package that balances complex and sometimes competing goals. CCMR believes the overall impact of these recommendations may be compromised without comprehensive implementation.

We caution users of this report to accept an important limitation of our task. We quantified financial capacity but we have not answered the question: Do revenues as identified in this report meet the need? Answering that question was not part of our task but more importantly, it cannot be answered at this time. “Need” has not been defined within the context of adopted goals and disciplined planning, and the connective tissue to match capacity with need—a strategic plan—does not exist. Also outside of CCMR’s charter, but an essential next step, is careful examination of municipal expenditures to ensure they are aligned with strategic priorities and reflect prudent spending and cost management practices.

The City must assess the long-term financial implications of current policies and programs, and future options and opportunities, in a way that leads to appropriate strategies to achieve its stated goals. This report is but the first step in strategic planning: to develop an in-depth understanding of available funding. But the City’s work is not done and needs to continue with:

- Evaluation of financial risk. Low reserves combined with high debt levels are warning trends.
- Assessment of current service levels to measure performance, quality, and sustainability. In the last several years, departments have endured successive budget cuts, and the resulting impact on residents must be quantified.
- Assessment of the level at which capital investment can be made. The proposed $1 billion capital plan is only a first step in addressing the documented backlog.
- Identification of future commitments and resource demands. The primary pressure currently from a federal mandate to address the multi-billion dollar overflow control issue.
- Identification of key variables that cause change in the level of revenue. Kansas City tax policy is just a piece, perhaps a small piece, of what impacts location decisions

for individuals and businesses. Other issues such as a high quality labor pool, public safety, quality of life, housing stock, schools, transit, and access to shopping and other amenities are probably more influential. The best way to enhance revenues is to make the City a "preferred product" of families and businesses.

CCMR believes all of the above must be done within the context of two overriding principles. First, spending and investment priorities must focus on increasing population, employees, and tax base value. Second, after many failed attempts to remediate the high tax burden on the City's most vulnerable population, CCMR believes policymakers must focus investments on improving the quality of life for those at the lowest income levels.

CCMR submits this report to the Mayor and City Council for their consideration, and now entrusts to them the question fundamental to our work: What kind of City are we going to be, will we be mediocre or will we be great, and how do we balance the books to get there?

May 2012 Report to

The City of Kansas City Missouri

APPENDICES

CITIZENS' COMMISSION ON MUNICIPAL REVENUE

Report to the Mayor, City Council, and City Manager with recommendations for optimal revenue structure

Appendix A
Commission Members

Chairwoman Susan Stanton has held senior executive positions in both the public and private sector including President and Chief Operating Officer of Payless Cashways, a Fortune 500 company. Ms. Stanton served as Interim President and CEO for the United Way of Greater Kansas City and KCPT-Channel 19, as well as Vice President of H&R Block and the Ewing Marion Kauffman Foundation. She began her career serving as Director of Administration and Chief Operating Officer for Jackson County, Missouri. A life-long Kansas City resident, Ms. Stanton has served on numerous boards and commissions and holds a master's degree from the University of Texas. She has completed executive programs at both Harvard's Kennedy School of Government and the Wharton School at the University of Pennsylvania.

Commission Member Rev. Thomas Curran is the President of Rockhurst University. Father Curran is an ordained Roman Catholic priest and previously served as Vice President of Regis University in Denver where he was responsible for the University's annual fund and capital campaign. He has served on the Board of Directors for the Civic Council, the Midwest Research Institute, and the Association of Catholic Colleges and Universities.

Commission Member Steve Glorioso is a professional political and media consultant with local, national and international experience. Mr. Glorioso served as Chief of Staff to Mayor Barnes and has served on many City Boards and Commissions including the Commission for Kansas City Tax Reform. Mr. Glorioso received degrees from Villanova University (BA) and University of Missouri at Kansas City (MA).

Commission Member Kathleen Hauser is with the law firm of Lathrop & Gage LLP. She practices primarily in real estate and local government matters. Previously Ms. Hauser served in the City Attorney's office for over 20 years and served as City Attorney for the City of Kansas City during Mayor Cleaver's term. During her tenure with the City she provided legal services to a number of City Boards and Commissions. She attended Avila University and the University of Missouri-Kansas City School of Law.

Commission Member Tim Kristl is President of Mitchell, Kristl & Lieber, P. C., a local law firm and currently serves as an Executive Board Member of the Clay County Economic Development Council. He is a former Chair of the Kansas City Tax Increment Financing Commission and a former member of the Board of Parks and Recreation Commissioners, appointed in 1999 by Mayor Kay Barnes. He served on the Board for eight years, two as Board President. Tim earned his Juris Doctor and his bachelors of Business Administration from Notre Dame, and his L.L.M. in Taxation from the University of Missouri-Kansas.

Commission Member Gregory Lever is the Business Development Manager of Taliaferro & Browne, Inc., with an extensive history in working for municipal interests, including on the staff of Mayor Cleaver. Mr. Lever is the former Executive Director of the Regional Transit Alliance. He has received a Lifetime Board Member Award from the Avila University Alumni Association Board of Directors, where he received his B.A. in Political Science.

Commission Member Merley McMurry is the Governmental and Community Affairs Business Manager for Kansas City Power & Light. Prior to joining KCP&L, she served as Vice President of Member Services and Strategic Initiatives for the Greater Kansas City Chamber of Commerce for over 15 years. A life-long resident Kansas City, Mrs. McMurry is active in the Santa Fe Neighborhood Association and has held leadership positions at the Grandview Chamber, the South Kansas City Chamber of Commerce, the Urban League, the Guadalupe Center and Kansas City's Wet Weather Panel. She holds a bachelor's from the University of Missouri and a master's from Central Michigan University.

Commission Member Dr. Brent Never is an Assistant Professor in the Department of Public Affairs in the Henry W. Block School of Management at the University of Missouri- Kansas City, and is actively involved in nonprofit service and collaboration in the nonprofit sector. Dr. Never received his Doctorate from Indiana University at Bloomington in Public Policy, and as a two-time Fullbright Scholar most recently attended the University of Ulster in Northern Ireland.

Commission Member Donna Wilson Peters is an attorney at the Husch Blackwell law firm. She was formerly Vice President and General Counsel for Kauffman Scholars, Inc. and previously served in the real estate and public law department of Polsinelli Shalton Welte Suelthaus PC in Kansas City. Mrs. Peters is chairperson of the Kansas City Downtown Minority Development Corporation, and served as Secretary/Board Attorney for the Kansas City Board of Police Commissioners and on the Kansas City Landmarks Commission. She began her career in the office of Congressman Alan Wheat after receiving her bachelor's, and then received her Juris Doctorate from Howard University.

Commission Member Wayne Powell is the Vice President and Chief of Staff of Blue Cross Blue Shield of Kansas City. Mr. Powell previously served as Assistant Vice President of the Federal Reserve Bank of Kansas City and as the Assistant Secretary to its Board of Directors. He serves as the Board of Directors Vice President for the Hope Leadership Academy Charter School and on the board of NonProfit Connect. Mr. Powell received his B.A. in Political Science from Gettysburg College, his master's from the University of Michigan, and received his Executive Education from the Booth School of Business at the University of Chicago.

Commission Member Jeanette Prenger is President of ECCO Select, a Kansas City human enterprise solutions provider. She is the Chair of Junior Achievement of Mid America, recently appointed to the Latino Coalition, and serves on the United Missouri Bank Board of Directors. Among her service on boards on some of Kansas City's most prominent civic organizations, Mrs. Prenger serves as a Trustee for the United Way of Kansas City and Park University.

Commission Member Jim Rice is Senior Associate for Planning and Development at Northland Neighborhoods, Inc. Mr. Rice has forty-seven years of government and health care management experience. He served as Executive Assistant to Mayor Berkley after serving at Truman Medical Center and the City Manager's office in Kansas City. In 1970, Mr. Rice became the first Assistant to the City Council in the history of Kansas City. He served for 23 years as Vice President, Community Affairs for Health Midwest before joining Northland Neighborhoods. Mr. Rice holds a Master's Degree in Public Administration from the University of Missouri-Kansas City.

Commission Member James Stacy directs special real estate projects and community relations for DST Systems, Inc. Prior to joining DST, Mr. Stacy was the Founding President and CEO of Lioness Realty Group and MC Lioness Realty Group. He is a member of the KC Metro and National Association of Realtors. Mr. Stacy has served as Alumni Board President and as a Regent of Rockhurst University, Board President of the Broadway Westport Council, board member of Operation Breakthrough, Brush Creek Community Partners and Christmas in October among other civic boards and associations.

Commission Member Reginald Thomas is the President and Business Manager of the Kansas City Local Laborers Union #264, has had a long history of working for Local and National Labor organizations as well as worker advocacy. He has served as Chairman of the Laborers Health and Welfare Fund, President of the Construction Benefits Audit Corporation and Executive Board Member and Delegate to the AFL-CIO District Council.

Commission Member Peter Yelorda served as the Executive Vice President and Chief Community Affairs Officer for Blue Cross and Blue Shield of Kansas City. Mr. Yelorda previously served as Assistant City Manager for the City of Kansas City under Mayor Cleaver. In his 26 years of public service he has served on the UMKC Board of Trustees, Chair of the Jazz District Redevelopment Corporation, chairperson for the Full Employment Council and Chair of the TIF Commission. Mr. Yelorda earned an undergraduate degree from Eastern Michigan University and a master's degree from the University of Michigan.

Appendix B
Charter Statement

The Citizens' Commission on Municipal Revenue will analyze the City's current revenue structure and provide the Mayor and City Council with innovative recommendations to improve the City's long-term financial position. The Commission's recommendations will focus on designing an optimal revenue structure that will ensure growth, fund basic services, and enable the City to fund dynamic projects.

Issues for consideration

When examining the City's various revenue sources, initial questions for the Commission's consideration should be similar to those of the original Commission, outlined below. However, these are not exclusive, and the Commission should use them as guideposts to address additional revenue issues it identifies as most significantly affecting the economic health of the City.

- What did this source of revenue represent in terms of dollars during the last fiscal year?
- What percentage of the total revenues of the city did this amount to?
- Has this source of revenue increased proportionately with the growth of the City or has it lagged behind or gone ahead of the growth?
- Is this source of revenue difficult to collect?
- Is this source of revenue expensive to collect?
- What are the costs of collection of this source of revenue, dollars and percentages?
- Is there a sound legal basis for this source of revenue?
- Is this source of revenue accepted by the public or resented, or is there general attempt made at avoidance?
- In the event of future growth of the City, will the source of revenue increase proportionately?
- In the event of future serious inflation, with source of revenue increase with inflation?
- In the event of deflation, will this source of revenue decrease faster or slower than the general deflationary movement?
- Does this source of revenue tend to keep people or businesses from moving into Kansas City, and does it tend to cause people and businesses to move out of Kansas City?
- Would an increase in the rate of this revenue have any substantial effect on people or businesses moving into or out of Kansas City?
- Would a decrease in the rate of this source of revenue have any effect on people or businesses moving into or out of Kansas City?
- From your examination of the source of revenue, is it fairly enforced and levied, or are there discriminatory factors in its levy and its collection that should be remedied?
- If this source of revenue is a direct charge for services, is it an adequate charge and does it bear any relation to the costs of the services?
- Is this source of revenue in use in other cities of our size?
- If so, does it bear a similar relationship to the tax structure of other cities:
    - Is it a smaller factor in the tax picture?
    - Is it a larger factor in the tax picture?
- Who finally pays this source of revenue?
- What is the general economic impact of this revenue?

City of Kansas City, Missouri
Revenue Policy

(a) ***Policy.***
It is the policy of the city to maintain a revenue system that meets the city's immediate and long-term service delivery needs, protects the city's creditworthiness, and follows best practices for administration and collection. The city's revenue policy is the official guideline to be used by the City Council and city management in conjunction with the city's budgeting and financial planning efforts.

(b) ***Authority.***
Authority to execute and manage the collection and administration of the city's taxes, fees and assessments is derived from the Missouri Constitution, Revised Statutes of Missouri, Charter of Kansas City Missouri, and Kansas City, Missouri Code of Ordinances. Management responsibility for the city's revenue policy is hereby delegated to the Director of Finance.

(c) ***Scope.***
The revenue policy shall be inclusive of all revenue sources of the city. The policy incorporates recommended best practices of the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB).

(d) ***Objectives.***
(1) To establish policies for reviewing existing and potential revenue streams.
(2) To maintain a revenue structure that meets the operational and capital requirements of the city.
(3) To set basic guidelines for revenue sources other than taxes and fees.
(4) To establish review processes that provide early warning signals regarding revenue fluctuations.
(5) To create a structure that is fair, equitable and sufficiently attractive for business and residents.

(e) ***Revenue Structure.***
The city shall consider, at minimum, the following seven characteristics when weighing any changes to its revenue structure or when evaluating the continued levy of any tax. Dependability shall be the city's primary review consideration followed closely by equity

and diversity. Other characteristics including potential for growth, renewal periods, dedication and ease of administration shall be considered secondary.

(1) ***Dependability.*** The city shall include taxes and fees in its revenue structure that produce a consistent level of revenue from period to period.

(2) ***Equity.*** The city shall consider the fair distribution of tax burden on businesses and residents when considering new, renewing and continuing revenue sources. Horizontal and vertical equity should be considered when evaluating the distribution of taxes.

3) ***Diversity.*** The city shall strive to maintain a diversified mix of taxes and fees to protect it from short-term fluctuations in any of its various revenue sources. The city should also support economic policies designed to attract businesses that grow and increase the diversity of its tax base.

(4) ***Growth***. The city shall seek to include revenue streams in its mix of taxes and fees that grow over time at a rate that exceeds the rate of inflation.

(5) ***Renewals.*** In order to reduce volatility, the city shall strive to limit both the dollar amount and number of taxes and fees subject to renewal periods of 10 years or less. Any newly authorized revenue stream with a sunset ideally shall not be used to fund recurring service delivery costs.

(6) ***Dedicated/Non Dedicated Revenue.*** Whenever possible, the city shall not dedicate a revenue stream to a specific use or program. Dedication or earmarking of revenue streams does not allow the city to respond to changing economic conditions or service expectations and is dispositive to the city's general credit.

(7) ***Ease of Administration.*** The city revenue mix should facilitate taxpayer compliance and be applied uniformly. Efficiency in administering taxes and fees should also be considered including source and cost of collection.

(f) ***Revenue Estimates.***

(1) Revenues estimates shall be prepared annually using an objective and analytical approach based on local, regional and national economic trends and their impact on revenue. This process should assist the city in achieving consensus on revenue estimates for the budget.

(2) To assist in determining if current programs and service levels can be sustained in the future and to identify potential problems that need to be addressed, the city should also prepare multi-year revenue projections. The forecast period should be three to five years.

(3) The city should maintain an in-depth understanding of its major revenue sources to both decrease potential gaps between revenue estimates and actual collections and evaluate potential changes to revenue source rates and bases.

(4) The city should periodically estimate the impact of potential foregone revenue due to policies that exempt certain taxpayers or service users from fee or tax payments, provide discounts or credits or otherwise favor particular categories of taxpayers or

service users and any proposed federal, state and local legislative requests impacting taxes and fees.

(5) The city shall prepare and maintain a revenue manual that documents revenue sources and factors relevant to present and projected revenue collections.

(6) The city should evaluate revenue and expenditure options together, including redirection of tax revenue, and consider the implications for other financial indicators prior to making specific choices with regard to the proposed budget.

(g) ***One-Time and Unpredictable Revenue.***

One-time, limited term resources or unpredictable revenue such as proceeds from asset sales, debt refinancing, one-time grants, legal settlements, revenue spikes, budget savings and similar nonrecurring resources shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time and unpredictable include building and maintaining the unallocated reserves in the general fund or other city funds, the early retirement of debt, capital improvements, or capital maintenance expenditures and other non recurring expenditures.

(h) ***User Fees and Service Charges.***

(1) For services that benefit specific users rather than the community as a whole, the city shall establish and collect fees to recover the costs of those services so long as the cost of collection from specific users is not burdensome to the city.

(2) User fees and charges should reflect the service costs. Components of the user charge shall include operating and capital costs, as well as the direct and indirect costs of providing the service. Full cost charges shall be imposed unless it is determined that policy, legal, hardship on specific users, or market factors would suggest lower fees.

(3) In circumstances where full charges are not imposed, non residents shall pay the full cost charge to minimize the tax burden on city residents so long as the cost of collection from non residents at a different rate is not burdensome to the city.

(4) User fees shall not exceed the full cost of providing the service.

(5) Fee increases must be approved prior to or at the time of the adoption of the budget.

(i) ***Intergovernmental Revenue.***

(1) The city will seek available state and federal grants unless conditions attached to the assistance are contrary to the city's interests.

(2) The city will avoid using grants to meet ongoing service delivery needs. The city shall review all grant requirements to ensure any grant awarded funds assist the city in fulfilling its primary goals and objectives.

(3) Grants awarded to the city shall be considered unfunded mandates if the award ceases. Unfunded mandates will undergo review in the context of the city's budget process to determine how well they continue to fulfill the city's primary goals and objectives and if general municipal funds are warranted for continued support.

(4) The city will budget expenditures for grant funded programs after receipt of the grant award.

(j) ***Parking Fees.***

Hourly, daily, and monthly contract rates for city-owned parking facilities, meters, etc. shall be reviewed and, if necessary, adjusted annually to reflect market prices of privately-owned parking facilities and location of those facilities. Fee adjustments shall also consider downtown objectives, such as development incentives, space availability, business promotion, traffic control, and mass transit patronage.

(k) ***Fines and Forfeitures.***

Fines shall be set according to legal guidelines, deterrent effect, administrative costs and revenue potential.

(l) ***Enterprise Operations.***

(1) User charges for enterprise services such as airports, water, sewer, and stormwater shall be set at rates sufficient to finance all direct and indirect operating, capital, reserve/working capital and debt service costs. Rates will be set such that these enterprise funds are not in a cash deficit during the year and so that debt covenants and reserve policy requirements are met.

(2) The general fund will assess an administrative service charge for overhead expenses and general government services provided to the enterprise activities.

(m) ***Pooled Investment Portfolio Interest Earnings Allocation.***

(1) It shall be the policy of the city to allocate pooled investment portfolio interest earnings (interest earnings) in a manner that best serves the interests of the city consistent with applicable laws, ordinances, bond covenants and contractual commitments.

(2) For funds with legal or contractual requirements, interest earnings will be distributed monthly in arrears proportionate to each funds ending cash balance for the previous month compared with the total cash balances of all funds in the pooled investment portfolio. Absent a clear mandate to the contrary, interest earnings will be credited to the general fund. The director of finance or his/her designee shall be responsible for budget preparation and execution of the annual interest earnings allocation.

(3) To support the costs of managing the city's pooled investment portfolio, the director of finance may charge a management fee to funds participating in the investment pool. The management fee would be stated as a percentage of the interest earnings and deducted from the interest earnings prior to any allocation. Such percentage would be calculated annually so as to fully recover all costs relating to pooled investment operations including staff time, safekeeping, analysis tools, subscriptions and other costs.

Appendix D
Acknowledgements

We thank Mayor Sylvester James Jr. for the invitation to serve on this important commission and for his input to, and support of, our work. We thank City Manager Troy Shulte, and in particular want to acknowledge his staff whose dedication, in-depth knowledge, organizational expertise, and presentation skills were critical to the Commission's understanding of these complex issues:

Director of Finance Randall Landes
Assistant City Attorney Stephen Walsh
Deputy Director of Finance Wanda Gunter
City Treasurer Tammy Queen
Commissioner of Revenue Mari Ruck
Manager of Administration & Analysis Cemal Umut Gungor
Development Finance Manager Dan Bagunu

We thank the City Council members, other city staff, and business and civic leaders who took time to participate in panel discussions, providing the Commission with critical information to guide our decisions (listed in order of meeting date):

Councilwoman Jan Marcason, 4th District
Mayor Pro Tem Cindy Circo, 5th District At-Large
Councilman Jim Glover, 4th District At-Large
Councilman Russ Johnson, 2nd district
Frank Lenk, Mid-America Regional Council
Councilman John Sharp, 6th District
Ken Hager, Greater Kansas City Chamber of Commerce
Dan Cofran, former City Councilmember
Mike Burke, former City Councilmember
Mark McHenry, Director of Parks and Recreation, Kansas City MO
Tom McDonnell, DST Systems, Inc., representing Advance KC
Madeline Romious, AT&T, Inc., representing Advance KC
John Bluford III, President/CEO, Truman Medical Center
Landon Rowland, Chair of the Kansas City Health Commission
Dr. Rex Archer, Director of Health, Kansas City MO

The Commission thanks the Kauffman Foundation for use of its facilities for regular meetings, as well as the City of Kansas City Parks Department and the Northland Regional Chamber of Commerce for hosting two public hearings.

Appendix E
Tax Burden Comparison

The District of Columbia prepares an annual study comparing its tax burden with that of the largest city in each state.[1] The study measures state and local tax burden for a family of three (two wage earning adults and a school-aged child) across five income levels. The four major taxes used in the comparison are income, property, sales and use tax, and automobile taxes. The tables below show results for Kansas City and rankings of peer cities included in the study. A rank of 1 indicates the highest tax burden, 51 the lowest.

ESTIMATED BURDEN OF MAJOR TAXES FOR A FAMILY OF THREE, 2010

	Taxes				Burden	
Income Level	Income	Property	Sales	Auto	Amount	Percent
$ 25,000	447	1,555	911	338	3,246	13.0%
$ 50,000	1,523	1,702	1,301	541	5,067	10.1%
$ 75,000	2,838	2,253	1,740	1,105	7,906	10.5%
$ 100,000	4,290	2,514	2,103	1,130	10,037	10.0%
$ 150,000	7,352	3,200	2,555	1,634	14,741	9.8%

Tax Burdens – Kansas City and Peer Cities

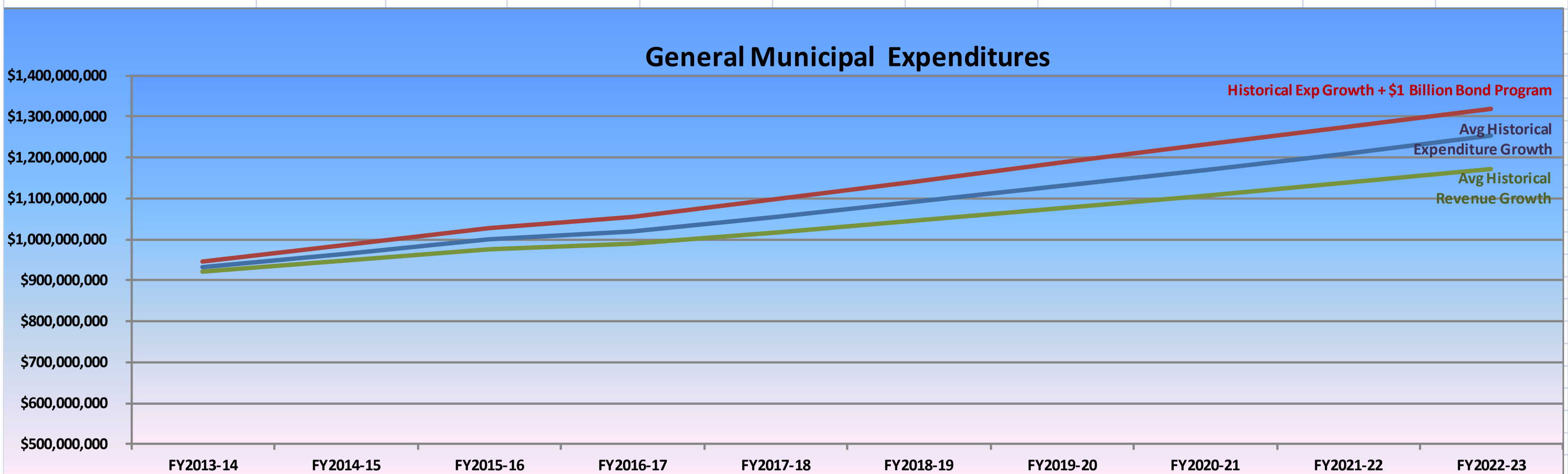
Year		**25,000**	**50,000**	**75,000**	**100,000**	**150,000**	**Combined Income Levels**
2009	**Kansas City**	**8**	**14**	**12**	**12**	**15**	**12**
	Denver	19	39	38	37	38	38
	Memphis	24	45	45	45	45	45
	Milwaukee	38	8	7	9	11	10
	Minneapolis	22	16	13	13	14	13
	Oklahoma City	25	29	33	31	32	34
	Omaha	39	23	20	14	16	17
2010	**Kansas City**	**7**	**12**	**6**	**11**	**13**	**9**
	Denver	23	38	37	38	39	38
	Memphis	24	44	44	46	46	46
	Milwaukee	36	9	10	8	14	11
	Minneapolis	21	17	16	16	17	16
	Oklahoma City	34	33	35	35	34	35
	Omaha	41	26	26	18	16	18

[1] "Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison, 2010". (2011).

Appendix F
Summary of Financial Model Results

General Municipal Expenditures (GME) by Program

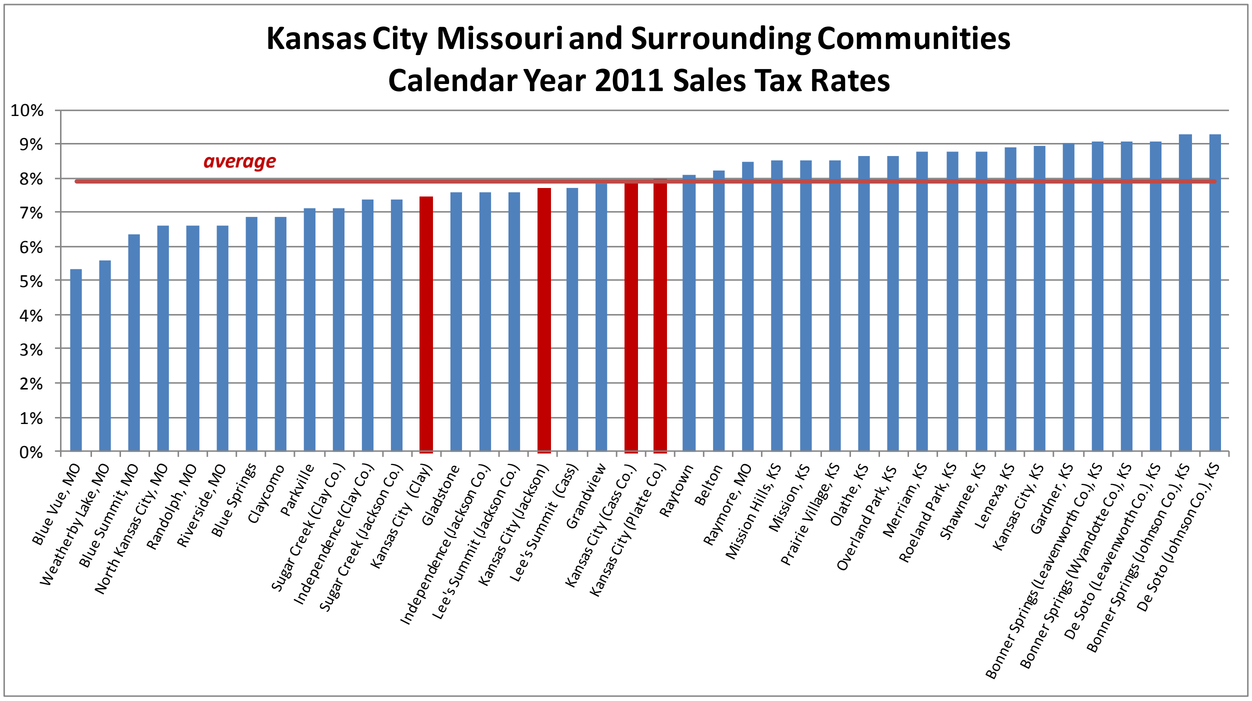
General Municipal Programs	FY2013-14	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23
General Fund Supported Programs	$ 546,810,588	$ 566,017,561	$ 585,899,189	$ 606,479,168	$ 627,782,028	$ 649,833,160	$ 672,658,849	$ 696,286,301	$ 720,743,678	$ 746,060,132
Personal Services	346,353,376	358,519,197	371,112,349	384,147,841	397,641,211	411,608,542	426,066,481	441,032,263	456,523,724	472,559,330
Contractual Services	108,352,286	112,158,210	116,097,819	120,175,808	124,397,039	128,766,542	133,289,526	137,971,382	142,817,690	147,834,227
Commodities	15,653,724	16,203,568	16,772,726	17,361,876	17,971,720	18,602,985	19,256,423	19,932,814	20,632,963	21,357,706
Capital Outlay/Equipment	637,533	659,927	683,107	707,102	731,939	757,649	784,261	811,809	840,324	869,841
Pass Through Payments	-	-	-	-	-	-	-	-	-	-
Debt Service	52,918,260	54,777,038	56,701,107	58,692,760	60,754,370	62,888,395	65,097,379	67,383,954	69,750,847	72,200,877
Capital Improvements	17,859,430	18,486,751	19,136,106	19,808,271	20,504,046	21,224,260	21,969,772	22,741,470	23,540,275	24,367,138
Contingent Appropriation	5,035,978	5,212,869	5,395,974	5,585,510	5,781,703	5,984,788	6,195,007	6,412,609	6,637,855	6,871,013
Dedicated Revenue Fund Programs	382,784,116	396,229,585	410,147,331	408,553,945	422,904,591	437,759,309	453,135,806	469,052,410	485,528,092	502,582,490
Personal Services	81,840,197	84,714,871	87,690,520	74,770,690	77,397,045	80,115,652	82,929,751	85,842,697	88,857,961	91,979,138
Contractual Services	53,775,742	55,664,639	57,619,885	59,643,810	61,738,827	63,907,431	66,152,209	68,475,836	70,881,081	73,370,812
Commodities	5,175,986	5,357,795	5,545,990	5,740,795	5,942,443	6,151,174	6,367,237	6,590,889	6,822,397	7,062,037
Capital Outlay/Equipment	5,864,104	6,070,083	6,283,298	6,504,002	6,732,458	6,968,938	7,213,726	7,467,111	7,729,397	8,000,895
Pass Through Payments	88,856,325	91,977,444	95,208,194	98,552,426	102,014,125	105,597,418	109,306,576	113,146,020	117,120,326	121,234,231
Debt Service	73,641,310	76,227,995	78,905,539	81,677,132	84,546,079	87,515,799	90,589,832	93,771,841	97,065,620	100,475,095
Capital Improvements	73,630,453	76,216,757	78,893,905	81,665,090	84,533,614	87,502,896	90,576,475	93,758,016	97,051,309	100,460,281
Assessment Programs	2,509,782	2,597,939	2,689,193	2,783,652	2,881,429	2,982,640	3,087,407	3,195,853	3,308,109	3,424,308
General Municipal Expenditures * AVG Expenditure Growth	**$ 932,104,485**	**$ 964,845,085**	**$ 998,735,713**	**$ 1,017,816,764**	**$ 1,053,568,047**	**$ 1,090,575,110**	**$ 1,128,882,062**	**$ 1,168,534,565**	**$ 1,209,579,879**	**$ 1,252,066,930**
+ Bonds to cover Mayor's plan	$ 13,655,000	$ 20,688,025	$ 27,859,300	$ 35,174,050	$ 42,633,750	$ 50,233,700	$ 57,983,675	$ 62,957,200	$ 63,588,325	$ 64,225,850
General Municipal Expenditures * AVG Expenditure Growth + $1 Billion Debt Program	**$ 945,759,485**	**$ 985,533,110**	**$ 1,026,595,013**	**$ 1,052,990,814**	**$ 1,096,201,797**	**$ 1,140,808,810**	**$ 1,186,865,737**	**$ 1,231,491,765**	**$ 1,273,168,204**	**$ 1,316,292,780**
General Municipal Expenditures * AVG Revenue Growth	**$ 920,842,706**	**$ 947,411,976**	**$ 974,747,856**	**$ 986,872,463**	**$ 1,015,346,904**	**$ 1,044,642,924**	**$ 1,074,784,229**	**$ 1,105,795,207**	**$ 1,137,700,951**	**$ 1,170,527,279**



Appendix G
Earnings Tax Rate Comparisons

City	Earnings Tax Rate	City	Earnings Tax Rate
Kansas City, MO	1.00%	Cincinnati, OH	2.10%
St. Louis, MO *	1.00%	Louisville, KY	2.20/1.45%
Allentown, PA	1.00%	Lexington, KY	2.25%
Grand Rapids, MI	1.30%	Dayton, OH	2.25%
Indianapolis, IN *	1.65/0.405%	Toledo, OH	2.51%
Columbus, OH	2.00%	Detroit, MI	2.5/1.25%
Cleveland, OH	2.00%	Pittsburg, PA	3.00/1.00%
Portland, OR	2.08%	Philadelphia, PA	3.98/3.70%

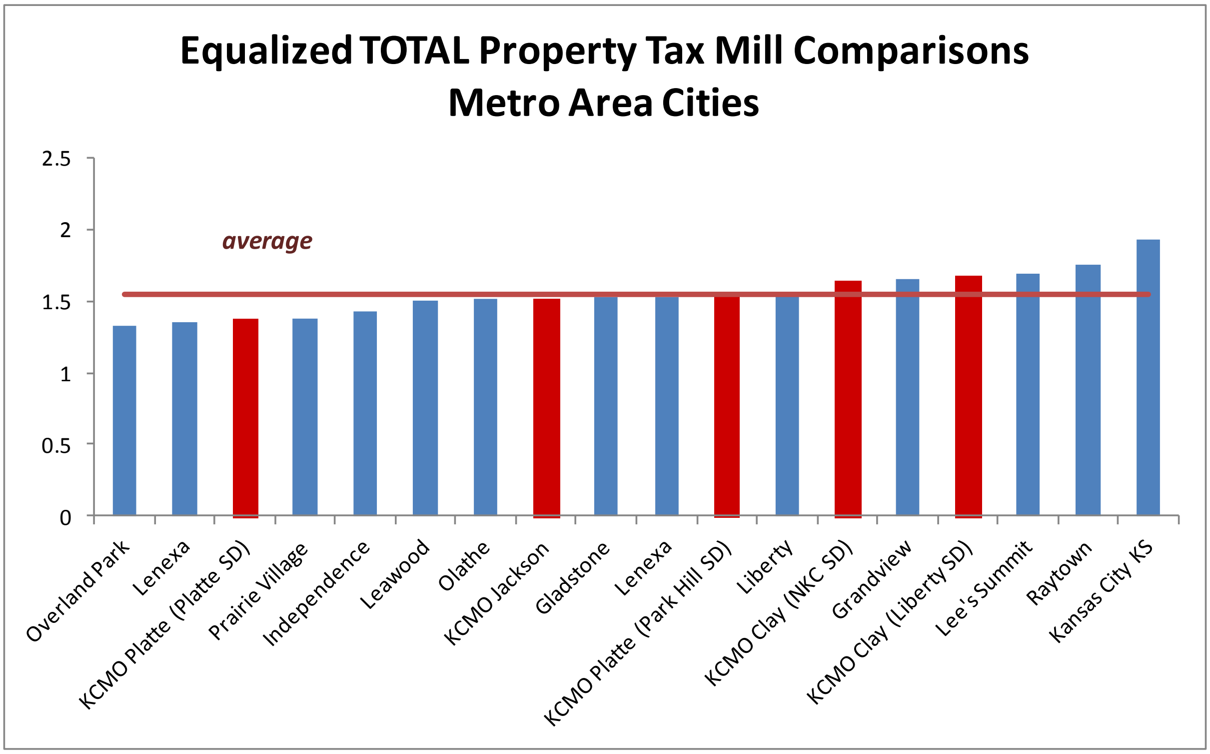
Appendix H
Sales Tax Rate Comparisons

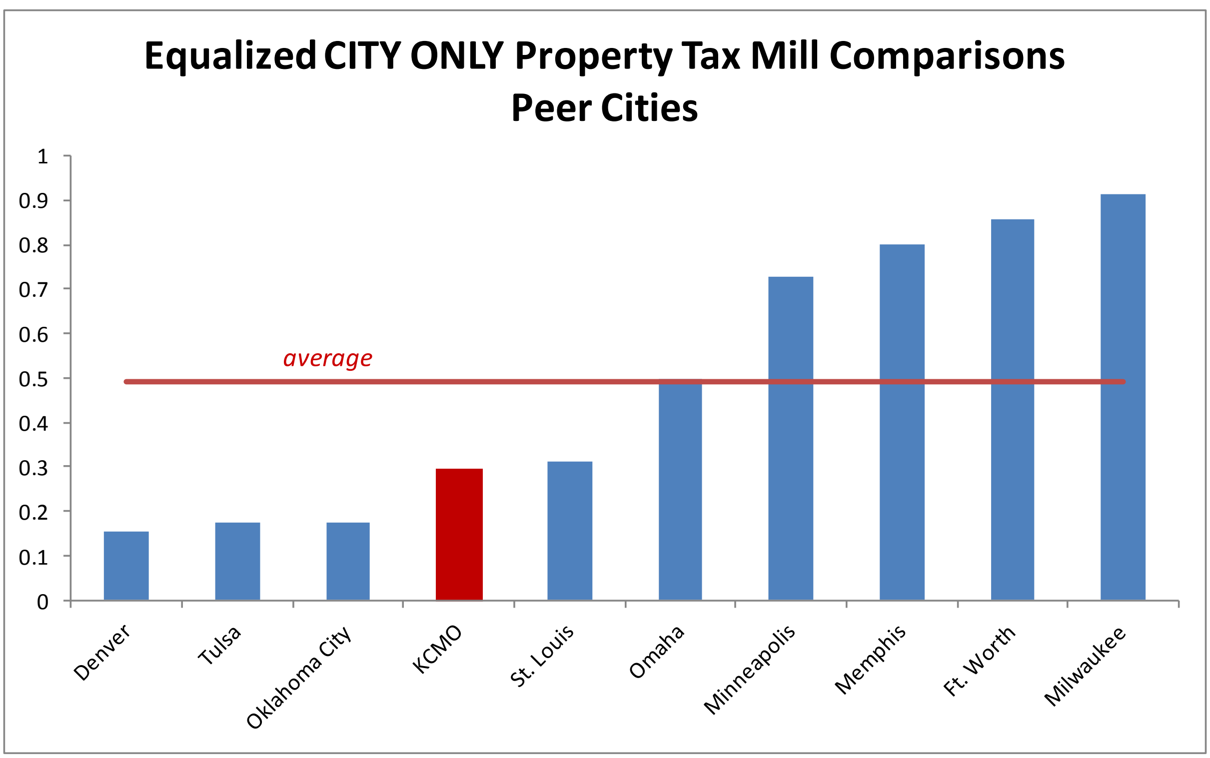


Sales Tax Rates - Peer Cities *(includes county and state taxes)*

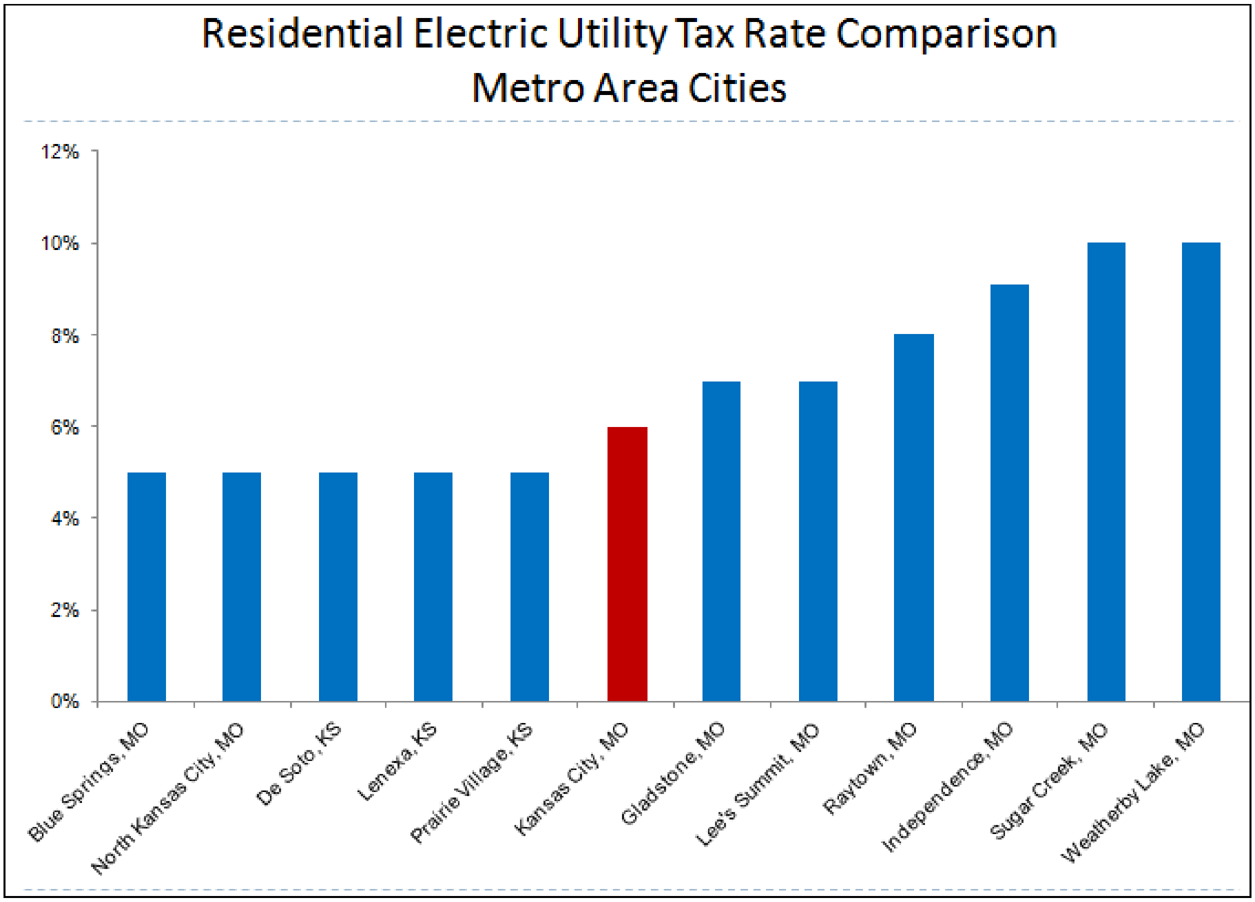
Peer City	Sales Tax Rate	% of Total General Municipal Revenues	Peer City	Sales Tax Rate	% of Total General Municipal Revenues
Milwaukee, WI	5.60%	Data not available	Ft. Worth, TX	8.25%	14%
Omaha, NE	7.00%	22%	Oklahoma City, OK	8.37%	23%
Kansas City, MO	7.85%	17%	St. Louis, MO	8.49%	11%
Denver, CO	7.72%	Data not available	Tulsa, OK	8.51%	54%
Minneapolis, MN	7.77%	5%	Memphis, TN	9.25%	15%

Appendix I
Property Tax Rate Comparisons





Appendix J
Utility Tax Rate Comparisons



Peer City	Electric Tax	Natural Gas	Steam Tax	Cable Tax	Telephone Tax
Milwaukee, WI	*NA*	*NA*	*NA*	*NA*	*NA*
Omaha, NE	5%	2%	*NA*	5%	6.25%
Kansas City, MO	**4%-6%**	**4%-6%**	**1.6%-2.4%**	**5%**	**4%-6%**
Denver, CO	3%	*NA*	*NA*	5%	*NA*
Minneapolis, MN	3-5%	3-4.25-5%	*NA*	5%	*NA*
Ft. Worth, TX	*NA*	5%	*NA*	5%	*NA*
Oklahoma City, OK	3%	3%	4.50%	5%	2-5%
St. Louis, MO	4%-10%	4%-10%	10%	5%	7.50%
Tulsa, OK	2%	3%	*NA*	*NA*	5%
Memphis, TN	5%	5%	*NA*	*NA*	5%

Appendix K
Business License Fee Comparisons

Business License Tax – Metro Area Rate Comparison

Metro Area City	Business License Tax Rate	Metro Area City	Business License Tax Rate
Gladstone, MO	Gross receipts	Kansas City, KS	Based on business type and Sq. footage
Grandview, MO	Gross receipts	Merriam, KS	Flat fee, gross receipts and sq. footage
Kansas City, MO	Flat fee and gross receipts	Mission Hills, KS	Flat fee
Independence, MO	Gross receipts	Mission, KS	Flat fee and Sq. footage
North Kansas City, MO	Flat fee and gross receipts	Shawnee, KS	Flat fee and Sq. footage
Parkville, MO	Flat fee based on industry	Topeka, KS	Flat fee and per unit

Business License Tax – Peer Cities Rates

Peer City	Business License Tax Rate	% of Total General Municipal Revenues	Peer City	Business License Tax Rate	% of Total General Municipal Revenues
Milwaukee, WI	Flat fee based on industry	Data not available	Oklahoma City, OK	Flat fee based on industry	0.1%
Omaha, NE	Flat fee per employee	1.4%	St. Louis, MO	Flat fee per employee	0.9%
Kansas City, MO	Flat fee and gross receipts	2.4%	Tulsa, OK	Flat fee based on industry	0.3%
Denver, CO	Flat fee per employee	3.3%	Memphis, TN	Gross receipts	0.9%
Minneapolis, MN	Flat fee based on industry	Data not available			

Appendix L
Employee, Debt, Service Level Comparisons

Employee Comparisons

Peer City	City Population	Municipal Employees	Fire	Police	Employees per 1,000 Pop	Employees per square mile
Kansas City, MO	**459,787**	**3,422**	**1,369**	**2,174**	**15**	**22**
Denver, CO	600,158	6,878	956	2,722	18	69
Ft. Worth, TX	741,206	3,750	950	1,725	9	19
Memphis, TN	646,889	2,997	1,876	2,755	12	24
Minneapolis, MN	382,578	3,620	438	999	13	94
Oklahoma City, OK	579,999	2,133	977	1,316	8	7
Omaha, NE	408,958	1,128	636	981	7	22
St. Louis, MO	319,294	3,561	1,604	1,937	22	115
Tulsa, OK	391,906	2,566	708	888	11	21

Service Level Comparisons

Peer City	Utilities	Airport	Health Dept	Library	Zoo	Public Transit
Kansas City, MO						
Denver, CO						
Ft. Worth, TX						
Memphis, TN						
Minneapolis, MN						
Oklahoma City, OK						
Omaha, NE						
St. Louis, MO						
Tulsa, OK						

Debt Level Comparisons

Peer City	Direct Debt Per Capita	Overlapping Debt Per Capita	Direct Debt as as % of Property Value	Overlapping Debt as a % of Property Value	Debt Service as a % of Exp's	Debt per capita/Per Capita Income
National Median	**$1,948**	**$3,311**	**2.3**	**5.0**	**15.3**	**8.1**
Kansas City, MO	**$3,310**	**$5,028**	**5.1**	**7.8**	**23.5**	**13.4**
Denver, CO	$2,807	$5,415	2.0	3.9	10.6	9.3
Ft. Worth, TX	$1,109	$3,997	2.0	7.2	11.4	4.9
Memphis, TN	$1,948	$3,555	3.3	6.0	11.4	8.5
Minneapolis, MN	$1,862	$3,019	2.3	4.9	19.4	6.3
Oklahoma City, OK	$1,176	$1,793	1.8	2.8	15.3	4.8
Omaha, NE	$2,029	$3,311	3.1	5.0	21.3	8.1
St. Louis, MO	$3,015	$4,192	5.3	7.4	10.4	14.3
Tulsa, OK	$1,024	$1,302	1.4	1.8	14.2	4.2

2012 Report to

The City of Kansas City, Missouri

Report Addendum

Business License Fee Reform

CITIZENS' COMMISSION ON MUNICIPAL REVENUE

Report to the Mayor, City Council, and City Manager with recommendations for optimal revenue structure

1.0 Executive Summary

The Citizens' Commission on Municipal Revenue (CCMR) was established by Mayor Sly James on July 27, 2011. The mission of the CCMR was to analyze the City's current revenue structure, consider the fairness and level of each major source, explore additional opportunities for improvements, and provide the Mayor and City Council with innovative recommendations to improve the City's long-term financial position.

In May 2012, CCMR submitted its report to the City Council and Mayor that included a recommendation to continue work on business license fee reform. This effort would engage the business community and other stakeholders and CCMR would issue an addendum report specific to the business license fee by Fall 2012. Recommendation 7.5.1 of the report addresses the Business License Fee:

> *CCMR believes that it is important to address the Business License Fees. The business license taxes have been the subject of several studies or reports, all of which recommended that they either be eliminated or made more equitable. To that end, CCMR will continue its work on this issue for several more weeks, working with the business community and other stakeholders, focused solely on business license reform, with plans to issue an addendum report by Fall 2012 that will attempt to bring closure to a 15+ year conversation.*

Taxpayer dissatisfaction with the business license fee is high. The primary concerns regarding the business license fee are twofold: onerous from a filing process (administratively complex and costly) and unfair in application (inequitable). The schedule of fees found in the Code of Ordinances is a myriad of gross receipts and flat fee schedules, applied to 100 different business categories. Almost 90% of businesses pay according to gross receipts. But for the more than 1,500 businesses designated to pay a flat fee, although the application might have been logical long ago, those reasons have long disappeared. Now what remains is a fee schedule that opens the door for businesses to lobby for special treatment and exemption from the gross receipts schedule, recognizing that flat fee payments average $700 per business; gross receipts more than two times that at $1,500.

Further fueling inequity, the State of Missouri exempts 19 professions from a city business license fee. These include ministers, teachers, lawyers, certified public accountants, dentists, physicians, surgeons, veterinarians, and psychologists. The stated purpose of those exemptions is that those professions are "regulated" by the State and thus pay a fee to the State for their licensure. In most instances, the State fee is nominal in comparison to the potential City business license fee. The Missouri Supreme Court has ruled that the occupational exemptions apply not just to individuals but also to professional groups, including corporations. Consequently, a law firm or physicians group is exempt from the business license fee to the same extent as an individual attorney or doctor.

There have been three efforts over the last 15 years with recommendations to change both the rate and the base by addressing caps and exemptions. In the end, none of these proposals were implemented because they failed to adequately address revenue replacement, or faced resistance from business interest groups. The City tried to eliminate the multiplicity of rates and apply a single rate against gross receipts and that discussion stopped because the "no cap" feature necessary to ensure growth was not acceptable to business representatives. In recent years, the City has only made minor cosmetic changes to clean up its code of ordinances.

The CCMR subcommittee began meeting prior to submitting the report but was unable to complete its deliberations before it was necessary to finalize the report. The subcommittee's task was to further analyze and refine the following three broad structures to repeal the Business License Fee and replace it with a simplified fee structure while remaining revenue neutral:

Fee Structure 1. Head tax per employee. Additional features discussed by CCMR include exemptions for smaller companies, companies with lower salaried employees, and seasonal employees.

Fee Structure 2. Flat fee with tiers. Uniformly applied flat fee calculation applied to defined gross receipts categories for small, medium, and large businesses. CCMR also considered increasing the number of tiers to mitigate the burden on smaller companies.

Fee Structure 3. Gross receipts. Uniformly applied fee per $1,000 gross receipts.

CCMR determined a combination of the above structures, pulling the best features from each, is the optimal way to foster fairness, simplicity, and revenue neutrality. This structure would include a minimum fee to recoup fixed costs of collection, a standardized fee per thousand dollars of gross receipts with no cap, elimination of nearly all flat fee categories, a fee on gross payroll to capture businesses with no gross receipts, and a lobby effort to remove exemptions at the State level in the long term.

2.0 CCMR Subcommittee Recommendation

IMPLEMENT UNIFORM RATE ON GROSS RECEIPTS OR GROSS PAYROLL

The subcommittee is recommending the following two-tiered structure for approval by CCMR and consideration by the Mayor and City Council:

> **For businesses that report gross receipts:** $50 for the first $20,000 of gross receipts, plus $0.60 to $0.80 per $1,000 gross receipts over $20,000
>
> **For businesses with no gross receipts but a work force presence in the City:** $50 for the first $20,000 of gross payroll, plus $0.60 to $0.80 per $1,000 gross payroll over $20,000.

CCMR believes this simplified structure yields greater overall equity. 90% of the nearly 9,000 businesses sampled by City staff pay less under this fee structure, or face nominal increases of less than $50. Only a small percentage of businesses pay significantly more, and those currently benefit from special treatment under the flat fee business schedule. Other features of the recommendation include:

Eliminate all flat fee categories. The above structure would eliminate all flat fee categories except those few for whom no other method can be applied.

One year reset of rate to guarantee revenue neutrality. Applying gross receipts to all flat fee businesses and assessing a fee on businesses that have not paid the license in the past could generate a revenue windfall. CCMR recommends the ordinance allow for a one year reset of the rate to guarantee revenue neutrality. Staff estimates the rate will fall within the above stated range, and voters will be asked to approve a maximum rate within that range.

Reduce two filings per year to one. Most businesses file two returns: an estimate at the beginning of the year and a “true up” return based on actual activity at the end of the year. CCMR recommends simplifying this process to one filing per year, based on actual business results. City staff estimates a one-time $4 million deficit due to cash flow timing will occur the first year.

Address State-level exemptions. Finally, to address inequities caused by State-level exemptions, CCMR recommends that a review of existing business license tax exemptions, and opportunities to expand the base, be added to the City's legislative agenda as a high priority.

BUSINESS COMMUNITY INPUT

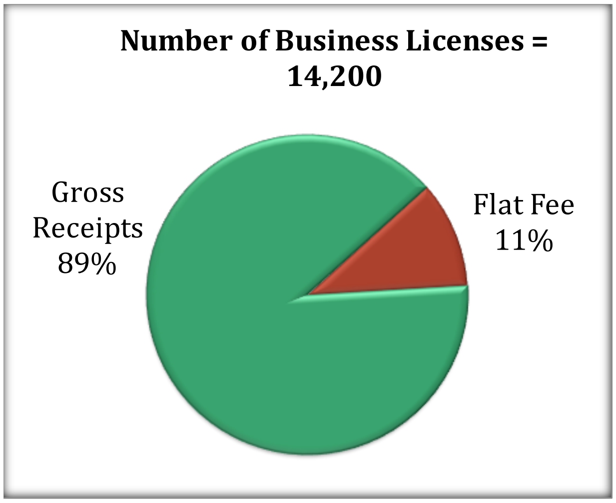
Due to the long-standing involvement of the Greater Kansas City Chamber of Commerce (GKCC) on this issue, a meeting with subcommittee representatives was held at the Chamber offices to facilitate input and assistance. Several Chamber members and Chamber staff were involved in these discussions. Chamber representatives stated that reform must address inequities both in the City code and at the State level. In their opinion addressing only the City code is not likely to gain broad business support.

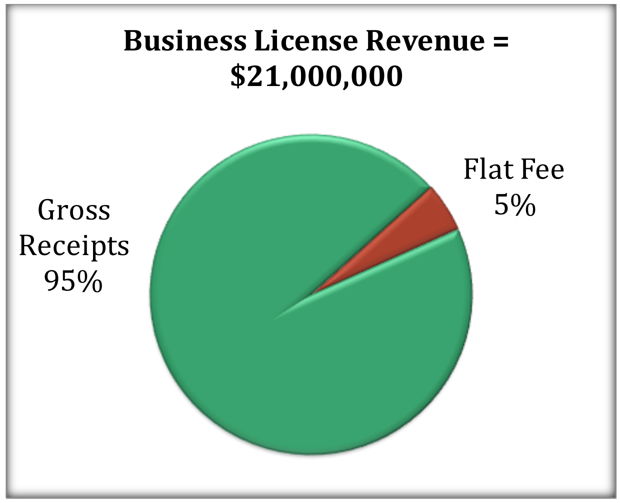
The Chamber members were clear about the magnitude of the challenge to change those State exemptions, and the likelihood this would attract many industry lobbyists determined to preserve the exemptions. In consideration of other issues requiring its political will, this may not be the highest priority for GKCC's advocacy and lobbying efforts in Jefferson City. Those business members participating in the discussions also encouraged investigation of consolidating the filing with the profits tax, similar to the recommendation of a 1996 Task Force (see summary and outcome in Section 5.0).

CCMR members were also advised by Chamber members that broad business support is only likely if the business license fee is entirely eliminated. According to those consulted, as much as the business license fee is disliked, there appears to be a grudging acceptance of it and reform may not be a high priority for Chamber membership.

3.0 Current Fee Structure

The City collects about $21 million per year from its business license tax. Business license fees are calculated based either on gross receipts or flat fees, depending upon business category.





Highlights of taxpayer composition include:

- Non-resident businesses comprise approximately 30% of total business license accounts.
- 1,500 businesses pay a flat fee, yielding about $1,000,000 per year in revenue. The average fee per flat fee business is $700, less than half the average fee of non-flat fee businesses.
- 12,700 businesses pay based on gross receipts yielding about $20,000,000. The average fee per gross receipts business is $1,500.
- The top three license collections by SIC code are Miscellaneous Retail Stores, Business Services/NEC, and Construction. These three categories pay 30% of the total fees.

The schedule of license fees found in the Code of Ordinances is a myriad of gross receipts and flat fee schedules, applied to 100 different business categories. There are 16 business categories subject to a specific gross receipts schedule. There are 8 business categories assessed fees based in some way on the number of employees. There are 75 business categories assessed a wide variety of flat fees. All businesses "not otherwise specified" are subject to a complicated gross receipts schedule with 17 separate ranges and fees.

General Gross Receipts. All businesses "not otherwise specified" in the code are subject to a rate per $1,000 gross receipts that declines at increasing levels of gross receipts. The minimum fee is $25 for up to $28,000 in gross receipts. Specified ranges of gross receipts over that are assessed starting at $0.90 per $1,000, declining to $0.75 per $1,000 at the highest levels of receipts. Manufacturing businesses are assessed a minimum fee of $25 for up to $31,000 gross receipts with slightly different ranges and a declining scale ranging from $0.80 per $1,000 declining to $0.65 at the highest levels.

Specific or Graduated Gross Receipts. There are 16 business categories subject to a specific gross receipts schedule. Minimum fees range from $25 to $200 and rates per $1,000 decline for higher levels of gross receipts. Businesses in this category include construction, cigarette wholesaler, commodity brokers, investment companies, landscaping contractors, motor vehicle businesses.

Flat Fees Based on Employees. The Code has eight business categories that are assessed fees based in some way on the number of employees. Minimums and rate schedules differ for every category. Maximum annual fees range between $150 and $312.50. These businesses include architects, engineers, and patrol services.

Flat Fees—General. The Code has 75 business categories that are assessed a wide variety of flat fees. Minimum annual fees range between $3 and $1,250. The average fee for these categories is $62.50. These businesses include carnivals, cemeteries, insurance companies, messenger services, pawnbroker, concert agents, tow services, moving companies, and theaters.

Exemptions. The State of Missouri exempts 19 professions from a city business license fee. These include ministers, teachers, lawyers, certified public accountants, dentists, physicians, surgeons, veterinarians, and psychologists. The Missouri Supreme Court has ruled that the occupational exemptions apply not just to individuals but also to professional groups, including corporations. Consequently, a law firm or physicians group is exempt from the business license fee to the same extent as an individual attorney or doctor.

4.0 Prior Task Forces

Since 1996, three task forces and now CCMR have met to address the challenge of business license fee reform. The following chart compares each recommendation against four relevant revenue policy recommendations proposed by CCMR: dependability, equity, growth, and ease of administration. A complete description of those policies can be found in CCMR's 2012 report. Revenue neutrality and the levels of approvals required are compared for each recommendation as well.

	Dependable	Equitable	Grows	Easy to Administer	Revenue Neutral	Required Approvals
Current structure	No	No	No	No	N/A	N/A
1996 Task Force: Eliminate license, increase profits tax	Yes	No	Yes	Yes	No	State Legislature, City Council, Citizens
2007 Task Force: Tiered system tied to gross receipts and employees	Yes	No	No	No	No	City Council, Citizens
2009 Committee: Gross receipts	Yes	No	Yes	Yes	Yes	City Council, Citizens
2012 CCMR: Gross receipts, or gross payroll if no gross receipts	Yes	Yes	Yes	Yes	Yes	City Council, Citizens

5.0 Previous Scenarios

ELIMINATE THE BUSINESS LICENSE FEE

CCMR opposes elimination of the business license fee unless it is replaced by another fee or tax on businesses. A complete elimination would shift a greater burden of revenue generation from businesses onto individual taxpayers. According to a nationwide study of tax burdens, Kansas City residential tax burdens already rank in the highest 25% across all income groups, while business tax burdens are lower. Studies of comparative business tax burdens place Missouri in the ranks of ten states with the lowest business tax burden. Additional detail and comparison to peer cities appears in CCMR's 2012 Report.

INCREASE THE PROFITS TAX

The 1996 Task Force recommended elimination of business licensing to be replaced by an increase to the profits tax. This would require a change in the State enabling legislation as well as the maximum tax rate which was approved by a vote of the citizens. Additionally, 40% of businesses do not pay a profits tax now, so issues of inequitable treatment of businesses is exacerbated. More than a 50% rate increase is required to achieve revenue neutrality.

IMPLEMENT TIERS

The 2007 Task Force recommended a tiered flat fee tied to gross receipts and number of employees. Businesses had two test criteria and would be charged in the larger tier based on satisfaction of either attribute. Although the recommended five tiers was a vast improvement to the complexity of the current structure, the requirement to satisfy two separate criteria and the resulting impact on reporting and audit procedures mitigates some of that simplification. The tiers were fixed and capped at $7,200, impeding growth opportunities and shifting burdens to smaller businesses. Furthermore, the structure was estimated to yield only 75% of the annual license fee amount.

UNIFORM RATE ON GROSS RECEIPTS

The 2009 Committee recommended a fee of $0.79 per $1,000 gross receipts on all businesses and elimination of all flat fee categories. Not addressed by this committee was treatment of businesses with no Kansas City gross receipts.

6.0 CCMR Subcommittee Recommendation

ZERO GROSS RECEIPTS BUSINESSES

CCMR evaluated options to capture taxes from an administrative headquarters, and other similar business, who report zero gross receipts. These businesses have employees in the City, and often a significant workforce presence utilizing City services, but because gross receipts occur at locations outside of the City, pay no license fee.

The first option considered was a "head" tax, or flat fee per employee, similar to the structure proposed by the 2007 Task Force. Additional features discussed by CCMR include exemptions for smaller companies, companies with lower salaried employees, and seasonal employees. In the end, CCMR determined a head tax placed an unfair burden on businesses with a large number of low wage employees, and attempts to mitigate that created an overly complicated structure.

The second option considered by CCMR was a fee on gross payroll, similar to a fee paid by all businesses in St. Louis. Several cities in California including Oakland, Sacramento, and Santa Monica, treat gross payroll (or other cost of operation) as gross receipts for administrative headquarters. CCMR determined this structure mitigated the equity concerns of a head tax.

IMPLEMENT UNIFORM RATE ON GROSS RECEIPTS OR GROSS PAYROLL

The subcommittee is recommending the following two-tiered structure for approval by CCMR and consideration by the Mayor and City Council:

> **For businesses that report gross receipts:** $50 for the first $20,000 of gross receipts, plus $0.60 to $0.80 per $1,000 gross receipts over $20,000
>
> **For businesses with no gross receipts but a work force presence in the City:** $50 for the first $20,000 of gross payroll, plus $0.60 to $0.80 per $1,000 gross payroll over $20,000.

Other features of the recommendation include:

Eliminate all flat fee categories. The above structure would eliminate all flat fee categories except those few for whom no other method can be applied.

One year reset of rate to guarantee revenue neutrality. Applying gross receipts to all flat fee businesses and assessing a fee on businesses that have not paid the license in the past could generate a revenue windfall. CCMR recommends the ordinance allow for a one year reset of the rate to guarantee revenue neutrality. Staff estimates the rate will fall within the above stated range, and voters will be asked to approve a maximum rate within that range.

Reduce two filings per year to one. Most businesses file two returns: an estimate at the beginning of the year and a "true up" return based on actual activity at the end of the year. CCMR recommends simplifying this process to one filing per year, based on actual business results. City staff estimates a one-time $4 million deficit due to cash flow timing will occur the first year.

Address State-level exemptions. Finally, to address inequities caused by State-level exemptions, CCMR recommends that a review of existing business license tax exemptions, and opportunities to expand the base, be added to the City's legislative agenda as a high priority.

LICENSE AND FEE RATES UNCHANGED

The subcommittee is recommending that utility tax rates for electric light or power, gas, heating, telephone, and water remain unchanged. In addition, the $4.00 daily rental car license fee and the $1.50 per day hotel, motel or tourist court fee used to service the debt on Sprint Arena and market events in Kansas City remain unchanged as well.

7.0 Impact of New Fee Schedule on Select Business Categories

City staff sampled 63% of all accounts—8,740 gross receipts accounts and 254 graduated flat fee accounts—and applied the above recommended fee structure to estimate taxpayer impact. As expected, there are winners and losers. But CCMR believes this simplified structure yields greater overall equity. 90% of businesses in the sample will pay less, or face nominal increases of less than $50. Only a small percentage of businesses will pay significantly more, and those currently benefit from special treatment under the flat fee business schedule.

TAXPAYER IMPACT: GROSS RECEIPTS BUSINESSES (SAMPLE SIZE = 8,740)

Accounts		Gross Receipts		Average Payment		Annual
Number	% of category	Range Low	Range High	Current	Proposed	Increase (Decrease)
3,071	35%	$0	$40,000	25	60	$35
4,714	54%	$40,001	$2,560,000	444	481	$37
954	11%	$2,560,001	$655,360,000	11,398	11,091	($306)

Nearly 90% of gross receipts accounts, 7,785 businesses with gross receipts less than $2,500,000, will pay a small increase averaging $36, largely a result of a higher minimum fee.

The remaining 10% of gross receipts accounts will pay a lower bill, anywhere from $40 to $13,000 less per year. This decrease is estimated to be $300 per account on average, largely a result of a fee burden shift onto prior flat fee categories that will now pay a greater and more equitable share of the total.

TAXPAYER IMPACT: GRADUATED FLAT FEE BUSINESSES (SAMPLE SIZE = 254)

Accounts		Gross Receipts		Average Payment		Annual
Number	% of category	Range Low	Range High	Current	Proposed	Increase (Decrease)
84	33%	$0	$40,000	$65	$57	($9)
100	39%	$40,001	$2,560,000	$428	$507	$79
70	28%	$2,560,001	$655,360,000	$6,753	$37,509	$30,756

About a third of small flat fee category businesses, gross receipts less than $40,000, on average will pay slightly less.

The next 40% of flat fee category businesses with gross receipts ranging from $40,000 to $2,500,000 will pay increases between $16 and $170 per year. The average annual increase for those businesses is $79.

The upper 28% bracket of flat fee category businesses will bear the greatest fee increases. Gross receipts for those businesses range from $2.5 million up to $655 million. Average flat fees paid by those businesses in 2012 were less than $7,000 and none paid more than $25,000. Based on a gross receipts calculation, those businesses will face increases between $1,000 and $400,000 per year. The average annual increase for those businesses is $31,000.

There are many flat fee businesses that are not required and therefore do not report gross receipts. A taxpayer impact analysis could not be conducted for this group of businesses.