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

Understanding the Revenue Neutral Rate and the Budget Process

What is the Revenue Neutral Rate?

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

When did these requirements go into effect?

Immediately. This applied to the 2022 budget planning process.

Who is impacted?

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

Is my budget allowed to grow each year?

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

Definitions

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

How is the revenue neutral rate calculated?

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

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

<u>2026 Budget</u>

NEKLS ad valorem tax revenue = $2,679,026
Total assessed valuation = $2,213,841,065
Value of one mill = 2,213,841
Required Mill Rate = 1.210 mills

<u>2027 Budget – Revenue Neutral</u>

What NEKLS levied for 2026 Budget = $2,679,026
Total estimated assessed valuation grows to = $2,299,699,282 *(3.9% increase)*
Value of one mill = $2,299,699
Revenue Neutral Rate = 1.165

<u>2027 Budget - Proposed</u>

Proposed NEKLS ad valorem tax revenue = $3,277,855
Total estimated assessed valuation = $2,299,699,282
Value of one mill = 2,299,699
Required Mill Rate = 1.426 mills
Increase in mill levy rate from prior year = 0.216

The goal of K.S.A. 79-2988 is to help taxpayers to better understand their tax bill – truth in taxation. Property owners receive a statement from the County Clerk listing each of the taxing entities that apply to the property. The statement includes proposed figures for the 2025 budget, including: the Revenue Neutral Rate; the proposed mill levy rate; whether or not the proposed rate exceeds the RNR, and, if YES, the date, time and location of the RNR hearing.

Potential Impact of 2027 Budget on a property owner

Suppose the property is appraised at **$300,000** in 2026.

Determine the assessed value *(residential properties are assessed at 11.5%)*

Appraised value X Assessment rate = Assessed value
300,000 X 0.115 = 34,500

Note: *Agricultural land, commercial property and other property classes are assessed at a different percentage. This example is specific to real property for residential purposes.*

Tax Bill for this property

(Assessed value X Proposed Mill levy rate) / 1000 = Property tax for NEKLS
(34,500 X 1.426) / 1000 = $49.20

Revenue Neutral Tax Bill for this property

(Assessed value X RNR Mill levy rate) / 1000 = Property tax for NEKLS
(34,500 X 1.165) / 1000 = $40.19

Difference between Revenue Neutral and Proposed Budget for the year = **$9.01**