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City of Kansas City, Mo.

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Earnings Tax is Vital (A Position Paper)

Kansas City's earnings tax, a funding method that supports more than 40 percent of city services, is facing its most significant challenge since voters first approved the tax 46 years ago.

I am not advocating repeal of the earnings tax. A city of more than 475,000 people supporting both urban and regional services cannot afford to shrink municipal services further. But, each week, I hear questions and complaints about the earnings tax when I meet with city residents in their neighborhoods. I am listening, and I am open to new solutions.

Hopefully, this effort to repeal the earnings tax will fail. But even if the measure never makes it to the ballot, I believe we need to accept this challenge as an opportunity for change and equity.

The time has come to evaluate the city's current tax structure, review relevant data, look at other cities, educate ourselves, and come up with a responsible answer. As an elected official of Kansas City, it's my responsibility to keep this a City That Works so that we can retain and attract businesses and residents, and grow jobs in the city.

During the past few months, my staff and I have consulted with economists, financial specialists, and urban development experts locally and nationally. We have reviewed data and literature on this and other related subjects. We have looked at revenue sources developed by comparable communities that have successfully re-engineered their tax structure.

We may well need to change the city's tax structure, but the proposal being circulated offers empty promises and no solutions. We need to plan for change, and develop a solution in the best interests of the entire city.

The earnings-tax is a critical element of the city's tax structure

An average Kansas City household making \$50,000 annually pays \$500 in city earnings taxes each year, or about \$1.37 a day. That's roughly equivalent to: a 20-ounce bottle of pop

purchased at the grocery store; about 3.2 inches of a Subway foot-long tuna sandwich; or about a quarter more than it costs to drive an average car from City Hall to Kauffman Stadium or the Kansas City Zoo.

What does that family receive in return for that bottle-of-pop-size daily investment? A great deal.

The just over \$200 million raised by the city earnings tax raises enough revenue to pay for the entire Kansas City Police Department and the 1,482 officers who patrol city streets. It raises more than enough revenue to pay for city water, sewer and wastewater treatment. And it raises enough to pay for the entire Kansas City Fire Department, Kansas City Parks and the city's public transportation system. We're making that family's investment stretch a long way.

It's obvious that the earnings tax plays a vital role in our municipal government. It helps fund basic services, and it also helps pay for regional amenities, like the zoo, museums, and city's world class sports and entertainment venues.

The earnings tax contributes to the diverse sources of the city's revenues, providing a balanced tax structure. It is a resilient and dependable income source. It doesn't cost the city a lot to collect, and it's relatively simple for individuals and businesses to pay. It is consistent with the benefit principle because people who live or work in the city use and benefit from city services.

As such, it helps to spread the cost of providing regional services to those who live outside Kansas City. About 40 percent of the city's earnings tax comes from those who work in the city, but live outside the city limits.

There is no debate. Eventually, we will need to reform our tax structure. But now – under the threat of a repeal of the earnings tax – is not the time.

What if the earnings tax is repealed?

The earnings tax is one of many factors that residents and businesses consider when they make a decision on where to live, on where to grow their businesses, or on where to build new ones. It may well often be a disincentive at times, but I oppose its repeal.

Unfortunately, the issue may be out of our hands. If the measure makes it on the ballot, and voters decide to eliminate the earnings tax, we would have to accelerate the reform of our tax structure.

There are no easy answers.

Initially, we would have to stop or reduce what we pay for facilities and services that affect our fiscal sustainability, so that we can plug part of the gap created by the loss of the tax. We must continue providing basic city services. But Kansas City provides services that neighboring communities either do not provide, or provide in much smaller amounts per capita, such as

public transit, convention facilities and tourist attractions. Kansas City also funds regional amenities I discussed before.

We also would have to look into selling or leasing undervalued or underutilized assets. Some of those assets might have a higher value if privately owned, and potentially could be managed more cost-effectively by public-private partnership. For example, cities across the nation have accomplished, or are considering, long-term concessions and leases of their public parking facilities. The force of the earnings tax repeal would, in turn, push us to capitalize some of our assets to fill part of the revenue gap.

There is an opportunity in every challenge. This challenge should provide a spark to study and reform our tax structure, re-evaluate what we are funding, and take full advantage of our underutilized assets.

Mayor Mark Funkhouser
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