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News Release

Commissioners to consider Monday whether to sunset sales tax

Revenue Department notifies Arkansas City of statutory conflict with new tax

ARKANSAS CITY, Kan. (August 11, 2016) — The City of Arkansas City was notified Wednesday by the Kansas Department of Revenue that implementation of the one-cent, 10-year SCKMC Sales Tax, approved by Arkansas City voters by an 4-to-1 margin on May 24, would be in conflict with state statute.

K.S.A. 12-189 limits cities to a sales tax of no more than 2 percent for general purposes and of no more than 1 percent for special purposes. The existing half-cent sales tax that benefits South Central Kansas Medical Center, set to expire March 31, 2019, is a special-purpose tax, as is the newest tax.

The new tax was set to begin Oct. 1, but for that to occur, the half-cent tax will have to be allowed to expire Sept. 30 — 2 1/2 years before it was intended to end. Otherwise, the State of Kansas' calculation of the total special-purpose tax rate would be 1.5 percent, which would not be allowed under state law.

The City Commission of Arkansas City will consider Monday whether to sunset the half-cent tax.

For Arkansas City shoppers and businesses, the local sales tax would increase to only 8.75 percent as of Oct. 1, rather than the 9.25 percent that had been advertised during the SCKMC Sales Tax campaign. Some citizens expressed concern in the spring about the tax possibly exceeding 9 percent.

The early sunset of the half-cent sales tax would result in an estimated annual shortfall in revenues that could be applied toward the \$1.9 million in annual hospital bond payments.

This shortfall will be the responsibility of SCKMC, but if it is not able to meet its obligations, the City has included in the 2017 budget a \$300,000 emergency reserve fund that could be applied toward the payments. A similar \$300,000 fund in 2016's budget was used to extend a loan to SCKMC in February.

Numerous parties and their legal counsel reviewed the ordinance to place the tax question on a special mail-in ballot, the question itself and the ordinance to impose the tax based on the election

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results — all of which consistently stated it was a special-purpose tax, the proceeds of which can be used only to pay for the debt service incurred by the construction and equipping of SCKMC in 2009-11.

During the course of debating earlier this year what form of sales tax to propose to the voters, the original proposal of a half-cent, five-year tax expanded into a one-cent, 10-year tax by mutual agreement of the City Commission of Arkansas City and the SCKMC Board of Trustees.

The failure to determine that the larger tax would be in conflict with the existing tax, rather than being allowed to overlap it, was an oversight that cannot be placed squarely at the feet of any single individual.

“I cannot blame the oversight or find fault on any one individual or entity,” City Manager Nick Hernandez states in a memorandum to city commissioners. “A significant number of individuals overlooked it, and I apologize for not catching it.”

Hernandez said the shortfall will not impact the 2017 budget, which city commissioners are expected to finalize Monday night, nor will it impact the City’s ability to guarantee that the bond payments will be made. The City maintains an emergency bond reserve, equivalent to one year’s payments, just in case.

“I am confident in the ability of my staff to continue moving the City forward, regardless of this setback,” he said. “This is only possible through the careful and efficient planning by financial and administrative staff, and by the commitment of all of our City employees to our community.”

It is expected that this newest development will impact or delay SCKMC’s ability to repay more than \$1.6 million in loans extended to it by the City during the last 1 1/2 years, but health care consultant Quorum Health Resources currently is in the process of studying what operational and financial changes the medical center can make to become more fiscally solvent and efficient.

“City staff conservatively budgeted in the City’s 2017 proposed budget that no payment would be received from the hospital for either special assessments or loan repayment, given the recent repayment history of the hospital,” Hernandez states in the memo.

Quorum’s final recommendations will be implemented to the fullest extent possible, in accordance with SCKMC’s bond document requirements, which also mandated Quorum’s hiring in the first place.

The new 8.75-percent rate will remain lower than or competitive with similar-sized and nearby cities:

- Cedar Vale — 9.5 percent;
- Coffeyville — 9.5 percent;
- Independence — 9.5 percent;
- Liberal — 9.25 percent;
- Hutchinson — 9.1 percent;

- McPherson — 9 percent;
- Wellington — 9 percent;
- Augusta — 8.75 percent;
- Douglass — 8.75 percent;
- Hays — 8.75 percent;
- Manhattan — 8.75 percent;
- Salina — 8.75 percent;
- **Projected new Arkansas City rate — 8.75 percent;**
- Ponca City, Okla. — 8.667 percent;
- Mulvane (Sedgwick County side) — 8.5 percent
- **Current Arkansas City rate — 8.25 percent;**
- Winfield — 8.15 percent;
- Derby — 8 percent;
- Oxford — 8 percent.

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