

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Chairman Paul "Bud" Burke at
Chairperson

1:30 ~~xxx~~ p.m. on MARCH 14, 1983 in room 526-S of the Capitol.

All members were present ~~except~~:

Committee staff present: Wayne Morris, Research Department
Tom Severn, Research Department
Don Hayward, Revisor's Office

Conferees appearing before the committee: Tim Underwood, Kansas Association of Realtors
Leroy Jones, Brotherhood of Locomotive Engineers
Ferd Meyer, Electric Companies Ass'n of Kansas
Ron Gaches, Kansas Ass'n of Commerce and Industry

The hearing continued on SCR 1607 and SCR 1619, classification of property. The chairman called on Tim Underwood who said he thinks that reappraisal will start sooner or later and will start a significant shift in taxation to homeowners and farmers. He said he supports this amendment because he believes that is the best way to protect the homeowners and farmers from property tax increases.

Leroy Jones, BLE, spoke in support of the passage of a classification amendment but said the two proposals being considered today are not acceptable to their group. They would like to make just two classes: 1) would include rural and urban residential property, including mobile homes used for residential purposes, to be assessed in the area of 8-10%; 2) the other class would include all other property for which they would support assessment at 30%. He said they do not support any depreciation of inventory, livestock or any other property, but would support the reimposing of the taxing of farm machinery. (Attachment #1)

Speaking in opposition to the proposals to classify property for tax purposes, Ferd Meyer, KP&L, representing the Electric Companies Association of Kansas, said that utilities are now being taxed at the rate the law says it should be taxed. He said they simply collect them from their customers through the rates they pay for their service and pass these taxes on to the various governmental units. He said their customers expect them to protect their interest in this matter and are understandably anxious about the level of their utility bills. He said that states which have adopted a classification system do not solve their problems, but create new ones such as battles over who should be classified at what rates. He urged the committee to consider a phase-in "Arkansas Plan" approach along with appropriate relief to those who truly need it through homestead and/or circuit breaker programs.

Ron Gaches, KACI, speaking in opposition to the two resolutions to classify property, said the legislature had put off reappraisal too long and the problem now is how to correct and maintain a system of taxing property based on a "uniform and equal" rate of assessment. The business community badly needs relief in personal property taxation, and merchants' and manufacturers' tax relief is a high priority. He said they are asking for a reasonable depreciation schedule, that Kansas merchants and manufacturers' inventories are the highest of any state. He said his testimony gives a good description of how to do this. (Attachment #2). He said businesses are taxed at a higher rate than are homes and farms and that every time an exemption from property taxes is made, such as last year's elimination of property taxes on farm machinery and business aircraft, business has had to absorb a larger property tax bill. He said that the merchants and manufacturers' inventories are not being reported, particularly merchants, and they are not paying the tax. The business community is not happy with the de facto classification which Senator Steineger is proposing. He said he believes the business community understands the deadlock that has developed between the second floor and the Legislature and there are some tough decisions to make. He said that classification of property is not going to improve the business climate of the state and will not help create needed new jobs.

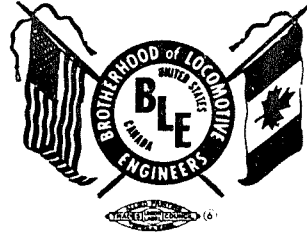
The chairman said we will meet on adjournment of the session each day, on classification only, in Room 531-N.

The chairman adjourned the meeting at 3:00 p.m. The next meeting of the committee will be at 11:00 a.m., March 15, in Room 526-S.

Brotherhood of Locomotive Engineers

#1

Kansas State Legislative Board



LEROY D. JONES
Kansas State Legislative Representative

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March 10, 1983

Mr. Chairman and members of the Committee, I am Leroy Jones, the Kansas State Legislative Representative for the Brotherhood of Locomotive Engineers. I am here in support of the passage of a classification amendment.

With the passage of the proposed reappraisal legislation by the Senate, it is time, likewise, to pass a classification amendment.

General property taxes have traditionally been the greatest percentage of taxes collected in the state of Kansas. The erosion of that tax has continued throughout the years. In FY 1930, general property tax made up 82.02 percent of the taxes collected. By FY 1982, that percentage has fallen to 37.34 percent. This has been basically because of the exemptions, such as the farm machinery exemption bill passed last year.

The two proposals that we are looking at today are not acceptable to our group. We would like to make just two classes. The first class would include rural and urban residential property, including mobile homes used for residential purposes, to be assessed in the area of 8-10 percent. The other class would include all other property, which we would support assessment at 30 percent.

Atch. 1

Testimony
March 10, 1983

We do not support any depreciation of inventory, livestock or any other property. That has been the problem with our property tax system. We would also support anytime that the taxing of farm machinery be reimposed.

I hope the Committee will be able to work out a proposal that the people of Kansas will be able to vote in favor of.

Mr. Chairman and members of the Committee, thank you for giving me this time to express our views.

Leroy D. Jones
Kansas State Legislative Representative
Brotherhood of Locomotive Engineers



Legislative Testimony #2

Kansas Association of Commerce and Industry

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March 10, 1983

KANSAS ASSOCIATION OF COMMERCE AND INDUSTRY
TESTIMONY BEFORE THE SENATE ASSESSMENT AND TAXATION COMMITTEE
PRESENTED BY RON GACHES
REGARDING PROPERTY CLASSIFICATION PROPOSALS

Thank you Mr. Chairman for this opportunity to present the concerns of the Kansas Association of Commerce and Industry regarding proposals to amend the constitution to permit property classification.

The Kansas Association of Commerce and Industry (KACI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KACI is comprised of more than 3,000 businesses plus 215 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KACI's members having less than 25 employees, and 86% having less than 100 employees.

The KACI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KACI has had a longstanding policy position in support of the Kansas Constitutional mandate for a uniform and equal rate of assessment and taxation. Our current policy reads:

"Property Taxation. The Association supports a constitutional requirement for a uniform and equal rate of assessment and taxation as a means of ensuring equal treatment and protection for all taxpayers in the state. Exceptions to the uniform and equal provision are acceptable only when such exceptions assist in the effective and equitable enforcement of tax laws and in the development of a tax system that will enhance the Kansas business climate, or to provide tax relief where judged to be in the best interest of the general public.

- (a) To ensure equal protection of the law for all taxpayers, revaluation of all property should be ordered with completion by 1986.

(b) A comprehensive program requiring an annual update by the County Appraiser of all property values, adjusted for inflation or deflation, must be implemented. Such a program must be supervised by the appropriate state agency and require county compliance."

The proponents of a constitutional amendment authorizing a classified property tax system spent little time discussing the merits of the existing constitutional mandate for a uniform and equal rate of assessment and taxation. KACI believes it is important to understand the principles behind this property taxation policy before we discard it so casually.

As a standard of fairness and equality, Kansas, and almost all other states, have sought to impose property taxes based on the value of the property. The mandate requires that, within a taxing jurisdiction, property having a higher value shall pay a higher tax. Properties having a similar value shall pay a similar tax. At the time local property taxes were initiated they were used almost exclusively to provide governmental services to property and property owners: fire protection, police protection, streets, sewers, and the like.

As a source of revenue the property tax has always been very stable. While income and retail sales have fluctuated, sometimes wildly, the property tax base has remained constant. Homes, businesses, and farm land seldom pack up and move away. Gradual growth in the value of property has permitted local tax revenue to grow without dramatic tax rate increases.

Equity and stability have always been the most attractive features of the local ad valorem property tax.

In Kansas we haven't done a very good job of maintaining that system. Values on real estate haven't been kept current. In fact, values of new real estate are being rolled back to keep them in line with values assigned years ago to similar property.

Not all property subject to the tax is reported. Some inventories and other personal property are simply not reported at all, or have been historically undervalued.

For years local and state officials have ignored or downplayed the significance of not complying with the property tax rules because they understood that noncompliance was beneficial to the largest block of voters and no one wanted to offend those voters by compliance with the law. The problem is not with the system of taxing property based on a uniform and equal rate of assessment and taxation. The problem is how to correct for the miserable job we have done of maintaining that system.

Classification of property does not solve the problems of the property tax system. Instead it changes the system. The rules are changed to the permanent advantage of one or two classes of property. Other classes of property are penalized by classification. Those classes must pay a disproportionate share of the property tax because state and local officials were unable or unwilling to maintain compliance with the uniform and equal mandate and the implementing statutes.

Let's look now at the provisions of SCR 1607 and SCR 1619 and particularly the assessment ratios assigned to the various classes of property. In almost every case the assessment ratio assigned reflects the current statewide average for that class of property. But that is not the case for commercial and industrial real estate. Commercial and industrial property has a higher than current-average assessment ratio assigned. The only explanation ever given for this inconsistency in the plan is that the business real estate should pay higher taxes to make up for the provision of the amendment providing for a phase-out of inventory taxes. Under this plan inventory taxes are phased out but the end result is only a shifting of property tax burden within the business community. This shift is not acceptable to KACI.

If this intra-class tax shift is acceptable for business taxpayers, why wasn't agriculture land required to make up all the difference for exemption of farm machinery and equipment. Looking further back, why wasn't residential property required to make up the lost revenue when household furnishings were exempt. Why should business property continue to be penalized in a manner unlike any other property?

Let's take a second look at the assessment ratios in these two proposed amendments. The only rationale for selecting most of these ratios is that they will reduce the amount of tax shifting taking place following statewide reappraisal. These ratios are not determined by any analysis of property tax policy. Rather, these ratios are in contradiction to our existing constitutional and statutory policy. They say, we've done such a bad job of maintaining the system designed for equity and stability that we are afraid to go back, even a little.

Actually, these ratios probably will not prevent tax shifts. When reappraisal is completed, near the end of this decade, the then current assessment ratios may be much different. Difficulties in agreeing upon a capitalization rate for use-valuation of agricultural land make a premature agreement on an assessment ratio for that class highly suspect. And finally, intra-class tax shifting may prove to be a greater burden than shifting taxes between classes.

Let's briefly address another important policy question raised by these classification proposals. Why should public utility property be the highest assessed class? This policy decision is inconsistent with almost every other legislative and regulatory activity currently taking place regarding state-assessed public utility property. In 1978 Governor Carlin campaigned with a pledge to do everything possible to hold down rising utility rates. Just a couple of years ago the legislature exempted utility charges from the state sales tax in an effort to hold down costs.

This session many proposals have been introduced designed to assure Kansas residential consumers the lowest possible price for gas and electricity. Why then put public utility property in the highest class? It would appear more rational to exempt it completely since ratepayers will eventually pay that bill. Obviously, the intent is to reduce property tax shifts. This contradiction in policy indicates the difficulties inherent in a property classification scheme.

KACI urges you to reject this solution to our property tax mess. Our preferred solution is to return to compliance with the current constitutional and statutory requirements. A discriminatory property tax system does nothing to enhance efforts to create jobs and raise the standard of living in our state.