

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATIONThe meeting was called to order by CHAIRMAN PAUL "BUD" BURKE at
Chairperson11:00 a.m./~~p.m.~~ on MARCH 24, 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:

Bill Edds, Dept. of Revenue
Phil Martin, Director of Property Valuation
Dennis Shockley, City of Kansas City, Kansas
Lonnie Edenfield, Winfield Area Chamber of Commerce
Kyle King, Gott Corporation, Winfield
Jamie Schwartz, Kansas Dept. of Economic Development
Harold Springer, Manager, Coffeyville Chamber of Commerce

The chairman called on Phil Martin, Director of Property Valuation, to explain a bill which they had requested, HB 2469. He said this bill was an attempt by the Division to take in property not now being appraised and makes several clarifying changes to the statutes. Section 1 clarifies that a railroad will be valued by Property Valuation if it operates in Kansas even though it may not own track in the state; limits PVD appraisal of water companies to those that operate for profit or are regulated by the Corporation Commission; adds barge lines that operate through the Missouri River to the list of properties appraised by PVD; and excludes from the definition of "public utility" oil and gas gathering lines that are located in only one county and do not cross any state boundary, and boat companies operating on the surface of any manmade waterway located entirely within one county. Section 2 amends the statutes to define "fair market value" of utilities in the same manner that "fair market value" is defined for all other property. Section 3 clarifies the requirement that a certificate of value be filed with the Director of PVD when a utility is acquired.

The committee held a hearing on HB 2498 which deals with the designation and tax incentives of enterprise zones. Bill Edds said this bill was requested by the Dept. of Revenue and the Secretary of Economic Development to amend the 1982 legislation to aid economically distressed areas of cities by providing tax and other incentives for business and industrial development.

The following appeared in support of HB 2498:

Dennis Shockley, Kansas City, told the committee he believes the purpose of this legislation is to give economic incentives to economically depressed areas. He doesn't think there will be a rush by cities to take advantage of this legislation. They do oppose the 25% proposed limitation to area and population of cities and would like to see it remain 100%, but think 50% is more reasonable than 25%. (Attachment #1)

Lonnie Edenfield, Winfield Chamber of Commerce, explained why Winfield had requested city-wide designation. He said the entire community had been designated as an economically distressed area under UDAG. He was concerned with the elimination of the sales tax refund incentives and said that the original sales tax refund provision is more than offset by gains resulting from new business locations and existing expansions. (Attachment #2)

Harold Springer, Coffeyville, said that at this time areas that can be designated enterprise zones are restricted to only those sections within the city limits and those industrial areas outside cannot be so designated. He urged the present enterprise zone be designated on annexation of those areas. He suggested making industrial areas outside the city contiguous to the city. He said they have never pushed to annex an industry because he thinks benefits to the community more than offset the loss of taxes.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 526-S, Statehouse, at 11:00 a.m./~~p.m.~~ on MARCH 24, 1983.

Kyle King, Gott Corporation, appeared in opposition to HB 2498 as it reads now because the sales tax refund is being eliminated and he feels that is the most substantial incentive in the Act. (Attachment #3) He said they probably would not have expanded and built a warehouse last year if the city hadn't qualified as an enterprise zone.

Jamie Schwartz gave some background for the joint request of KDED and the Dept. of Revenue. He said they support this bill. He noted that Section 1, Page 1, requires a partnership between state and local government and that is good. He is surprised that not more have applied for *this designation*. He said the sales tax provision is important, but the Act as it now stands would not affect the sales tax portion. He said he would respond to questions.

One of the committee members asked if the 1982 legislation was perhaps too broad and going beyond the intent. Jamie Schwartz said making them non-contiguous was a requirement to let the cities pick the area. Winfield would never have supported including industrial areas outside the city. Senator Thiessen commented that it appears the objective is to create jobs while Senator Montgomery wondered how we can keep competing this way.

Staff noted that the sales tax refund is not being eliminated—that the House Committee of the Whole struck the section amending the sales tax refund, so the section would stay as is in current law.

The chairman adjourned the meeting at 12:05 p.m. The next meeting of the committee will be upon adjournment of the session today.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
MARCH 24			
"	BRIAN TEASDALE	3712 17 th Great Bend	Sen. Ehrlich
"	DVD GRANT	TOPEKA	KACI
"	Ron Gaches	TOPEKA	KACI
"	Allen Loyd	City Hall	City of Lawrence
"	Bill Glaindorne	city Hall	City of Coffeyville
"	Harold Springen	Coffeyville	Chamber of Commerce Industrial Commission
"	Paul H Kohde	Neodesha	
"	David Farnas	COFFEYVILLE	KGGF RADIO
	Ron Calbert	NEWTON	W.T.U.
	Bob Hill	Topeka	Kansas Railroad Assn.
"	Harold Shroy	Topeka	KEC
"	Chris McKenzie	Topeka	League of Ks. Municipalities
"	Mary Ellen Cordie	Wichita	City of Wichita
"	WAYNE E ISAAC	WICHITA	City of WICHITA
"	Scott Wighton	"	"
	DAVID FARNAS	"	CHAMBER
	JANICE MARCUM	Topeka	DOR
	M. Beckard	Topeka	Revenue
	BIL STOS	"	"
	ALAN ANDERSON	"	"
	Glenn Fisher	Wichita	WSU
	Brad Moore	Wichita	WSU
	Mary M. Besseau	St. Marys	St. Marys Star
	Anita H. Holladay	"	"
	Kyle King	1616 Wheat Rd. Winfield	Gott Corp.
	M. A. F. J.	PO BOX 640 WINFIELD	CHAMBER OF COMMERCE THE ELECTRIC CO'S ASSOC. OF KS.
	D. WAYNE ZIMMERMAN	TOPEKA	
	JANET STUBBS	"	HBAK
	DENNIS STOCKLEY	CITY HALL	KANSAS CITY, KS
	Nancy Ingle	909 W 4th Pittsburg	
	Chris Imming	City of Topeka	

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE NAME ADDRESS REPRESENTING

3/24(am)

Chip Wheelen

Topeka

Leg. Policy Group

"

Jeffrey Davis

545 Lowell K.C.K.

City of Kan. C.K.



CITY OF KANSAS CITY, KANSAS

MAYOR'S OFFICE
ONE CIVIC CENTER PLAZA
KANSAS CITY, KANSAS 66101
(913) 371-2000

DENNIS M. SHOCKLEY
FEDERAL AND STATE AFFAIRS

March 24, 1983

Senator Paul Burke
Chairman, Senate Committee on
Assessment and Taxation
Statehouse
Topeka, Kansas 66612

Dear Senator Burke:

The following is a list of my city's concerns and suggested amendments regarding House Bill 2498 on enterprise zones:

1. We feel strongly that enterprise zone legislation of some kind must remain law.
2. We do not feel that the current enterprise zone law poses a threat to revenue that the Revenue Department feels it does. They have produced no figures to back up their concerns. Further, there seems to be no mass rush by cities to take advantage of this legislation, nor is there a "land rush" by businesses to "cash in" on this legislation. Frankly, we feel the Department of Revenue is over reacting. Even if some revenue was lost, it would be more than compensated by the income taxes on the new businesses and employees.
3. The City of Kansas City, Kansas opposes the 25% proposed limitation to area and population of city. For cities which qualify, we would like to see it remain 100%. Failing in this, we think 50% is more reasonable than 25%.
4. If in the event E-Zones are limited by a percentage of land area and/or population of city, we would want the option to have more than one zone, the total of those zones not exceeding the fixed percentage mentioned in number 3 above.
5. Again, if the land area is restricted, we would hope to be grandfathered in our present land area for at least five years. The Department of Revenue and the Department of Economic Development both support this. We feel it is unfair to change the rules on such short notice. Actually, we would prefer to be grandfathered permanently.

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6. If the zone is limited to a fixed percentage of land area and/or population, then why not "beef up" the tax incentives to give our E-Zones ever more national attraction?
7. A larger tax credit could be given for hiring Kansas residents. The Department of Revenue should find this easier than the present in-zone/out of zone tax credit. And really, the purpose of this law is to help Kansans.
8. The committee should bear in mind that federal zone designation is retroactive to state designation, as the federal legislation is currently written. We do not want to re-apply for state legislation.
9. We wonder, in light of pending federal legislation and no figures from the Department of Revenue, if the bill just shouldn't be given to an interim committee.
10. Because H.B. 2498 calls for a review of each zone every five (5) years, it will be impossible for a jurisdiction applying for Federal designation, which lasts for twenty (20) years, to guaranty that the State zone will be in place for the full term of the Federal zone. This could adversely affect the Federal applications of Kansas jurisdictions. Therefore, I suggest that Kansas zone designation run concurrently with Federal zone designation when such a Federal zone is in place. This will greatly enhance the opportunity for one or two Kansas communities to receive Federal designation. Following is suggested amending language:

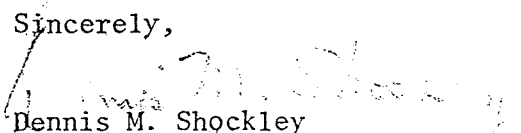
Sec. 1 (a.) (Insert after the word "approval" line 0055),
except as provided for in subsection (c.),

New Sec. 1 (c.) For any area receiving a Federal Enterprise
Zone designation, the period of State zone designation, the
period of State zone designation shall run concurrently with
the period of Federal zone designation.

I also suggest that with regard to Section 4 the original language of the law be kept. With the restricted size of the enterprise zones there is little chance that this exemption will be onerous. In addition, restricting the sales tax exemption to manufacturing equipment favors large industries while the original wording was more equitable to all sizes of business.

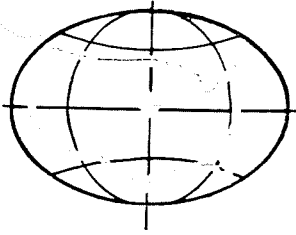
I thank you for allowing me the time to prepare these comments. If you have further questions do not hesitate to call on me.

Sincerely,


Dennis M. Shockley
Federal and State Affairs

DMS:jdh

cc: Members of Assessment and Taxation Committee

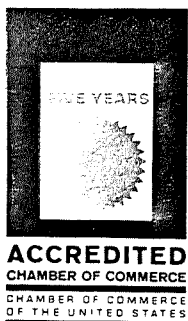
WINFIELD AREA*Chamber of Commerce*

March 24, 1983

TESTIMONY OF LONNIE EDENFIELD, EXECUTIVE DIRECTOR OF THE
WINFIELD AREA CHAMBER OF COMMERCE, BEFORE THE SENATE
ASSESSMENT AND TAXATION COMMITTEE

Good morning Mr. Chairman and members of the committee. I am Lonnie Edenfield, Executive Director of the Winfield Area Chamber of Commerce. I have been authorized by our Chamber to appear before this committee and register our concern with HB 2498 now before this body.

It would seem appropriate at this point to explain why Winfield, as the State's first zone, requested city-wide designation. Our primary intent was to address four separate areas within the community: the City's industrial park, located on the eastern edge of town; a northwestern area proposed to be redeveloped for light industrial use, a major revitalization effort underway in the centrally located commercial core, and also a southeastern area of the City presently occupied by local manufacturing concerns. Since the 1982 law required a minimum population of 2,500 in each zone, the city-wide approach seemed the most practical in order to include the four areas mentioned, as our total population is only approximately 11,000 people. Another consideration was the fact that the entire community had been designated as an "economically distressed area" under the U. S. Department of Housing and Urban Development's Urban Development Action Grant program commonly referred to as UDAG. Coincidentally, of the seven designated enterprise zones in Kansas, six are UDAG communities. Five of these six communities have requested and received

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city-wide enterprise zone designation by the Kansas Department of Economic Development.

While the above serves to provide a basis for Winfield's city-wide request, the Chamber's primary concern is with the elimination of the sales tax refund incentives in HB 2498, originally provided for under the 1982 law. We would note to committee members that the original sales tax refund provision is more than offset by gains resulting from new business locations and existing expansions.

If the law is triggered by the creation of two or more permanent jobs in a new business facility located in an enterprise zone, then it would follow that the 3% sales tax incentive is more than offset by the increased corporate income, personal sales, personal income as well as additional payroll taxes paid to the state by the new jobs created. It would appear that the 3% sales tax refund is not only an incentive to business, but an investment to the state at a time when general fund revenues are sorely needed.

However, there may also be a question of equity if in fact the 1982 Enterprise Zone Act is amended by HB 2498 to those firms having made plans to expand or locate in a previously designated enterprise zone. Since being designated in August, 1982, our Chamber has received walk-in, written and telephone inquiries concerning the benefits of locating or expanding in the community's enterprise zone. We've also been publicized with the state in such national periodicals as Plants, Sites and Parks, Business Weekly and the Enterprise Zone News noting the innovative approach taken by the State of Kansas in creating an incentive for business expansion and location addressing economically distressed areas.

At present there are two commercial projects underway that were stimulated in large part because of the incentives provided under the 1982 enterprise zone law. Combined incurred expenses for both are approximately \$50,000 with one of the two projects projected to exceed \$100,000 and create 14 new permanent service jobs.

Both are a direct result of a comprehensive strategy to employ local, state and federal incentives in spurring economic activity. We might add that Cowley County's unemployment rate was the state's second and third highest for January and February of 1983 at 10.3% for both months. Since our community is also engaged in a major downtown revitalization program, we would suggest that the sales tax incentive is a key incentive for providing meaningful employment opportunities for individuals in both service and manufacturing occupations. The growing trend of our national economy to shift towards service related occupations rather than industrial related occupations has been noted by such firms as the Fantus Company and would seem to warrant our attention. Maintaining a sales tax refund incentive under the Kansas enterprise zone law makes sense because it provides an effective tool for the creation of jobs whether they be commercial or industrial, service or manufacturing.

Many older communities such as Winfield, which are also county seats, have a high percentage of service and financial commercial businesses. They also frequently have widespread blight within their central business districts evidenced by deteriorating commercial buildings. The current enterprise legislation, by providing a sales tax refund incentive for "... repairing, enlarging or remodeling a new business facility located within an enterprise zone enhances the potential for expanding and renewing the local economy. It provides an incentive for economically distressed areas to improve the economic climate and create new permanent jobs. The Winfield initiative is accomplishing that objective by creating an incentive for business expansion in industrially zoned areas while promoting the improvement of a deteriorating commercial core which is the first thing the industrial prospect sees when he arrives in the community.

Another important consideration for committee members should be to determine the competitive position of the state under the proposed HB 2498 with regard to our neighboring states. Firms considering a Kansas location will often consider

Missouri, Oklahoma and Arkansas - at least these are the states we often find ourselves competing with according to KDED's Industrial Development Division.

According to Missouri's counterpart to KDED, that state's 1982 enterprise zone law provides the following property and income tax incentives:

- 1) A property tax abatement up to 25 years on all new real property improvements.
- 2) One-half of the taxable income derived from the new facility is exempt from paying state income tax for 10 years.
- 3) An income tax credit of \$400 for each new job created per year for 10 years plus \$100 for every 3 month period that the new employee resides in the zone.
- 4) An income tax credit of \$400 per new job if the employee is trained with company funds plus \$100 for every 3 month period that employee had exhausted unemployment benefits.
- 5) Ten percent of the first \$10,000 invested is credited against corporate income tax, five percent of next \$90,000 and two percent on everything over \$100,000.
- 6) Cash refund of unused credits up to \$50,000 the first year and \$25,000 the second year for a maximum unused credit cash refund of \$75,000.

In Oklahoma, the Senate has proposed SB 90, an enterprise zone bill which would provide for the following incentives:

- 1) Sales tax exemption on the purchase of machinery, equipment and materials for improving, constructing, expanding or renovating a new or existing facility within an enterprise zone.
- 2) No minimum number of jobs to create.
- 3) County-wide zones allowed with three or more county zones allowed to form a district and issue general obligation bonds.

The Arkansas Senate and House have approved an enterprise zone statute that is expected to be signed by the Governor this week. While incomplete information was received, the measure proposes in part to allow a sales tax exemption for machinery and equipment going into a new or expanded business facility.

In conclusion, we would suggest that the issue before this committee is not one of localities circumventing the intent of the 1982 Kansas Enterprise Zone Act for that has been effectively resolved with the proposed 25% population and geographical limitation. Nor do we respectfully believe that the issue is one of lost revenue to the state's general fund for the incentives provided under the 1982 law generate additional state revenue while providing needed jobs in economically distressed communities.

We would submit however, that the question before committee members is one of maintaining a positive attitude towards business growth if Kansas is to remain competitive in securing future job opportunities for its citizens. To eliminate the key component of the 1982 Kansas Enterprise Zone Act at this time would have the affect of sending the wrong message to businesses seriously considering locating or expanding in our state. We respectfully request your thoughtful consideration in maintaining a meaningful sales tax incentive in order for the economically distressed areas of Kansas communities to effectively compete with other such areas in neighboring states.

Thank-you for the opportunity to present our views before this committee.

GOTT CORPORATION

100 WEST ROAD • BOX 652 • WINFIELD, KANSAS 67156 • (316) 221-2111

March 24, 1983

TESTIMONY OF KYLE KING, PERSONNEL MANAGER
OF THE GOTT CORPORATION, BEFORE THE SENATE
ASSESSMENT AND TAXATION COMMITTEE

Good morning. My name is Kyle King, and I am the Personnel Manager for the Gott Corporation located in Winfield. I have been authorized by my Company's Chairman to appear before this committee to register our opposition to HB 2498 as it now reads before this committee.

Our Company has been located in Winfield for the past 67 years, but has only seen substantial growth over the past 12 years; growing from around 1 million dollars in sales in 1970 to over 30 million dollars in sales last year. During these past 12 years we have averaged a facilities expansion approximately every 24 months, with our most recent expansions being a 35,000 square foot manufacturing addition completed in April of 1982 and a 90,000 square foot warehouse addition completed in February, 1983, which were largely responsible for the creation of over 50 new jobs. These latest additions were completed under the assumption that our Company would be able to participate in the State-sponsored tax incentives as the legislation read at that time.

Now however, we are being told that the most substantial incentive in the Enterprise Zone Act, the Sales Tax Refund, is being eliminated from HB 2498. We feel this is a grave disservice to businesses like ours located in already-established enterprise zones which have begun or recently completed expansion projects under the premise that they would be able to participate in the full range of incentives offered under the previous Act if facilities were expanded and new permanent jobs were created. Our Company is not atypical of many across Kansas, and we will only

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continue to expand and create new jobs in an atmosphere conducive to such growth. Many neighboring states either now have or are in the process of implementing programs to attract business into their states. We are very aware of these programs and are watching them carefully while making our plans for future growth.

In making your decision, please take into consideration the gains in state revenue, as illustrated on the attachment, which more than offset any refund of state sales tax.

GOTT CORPORATION

1818 WHEAT ROAD • P. O. BOX 852 • WINFIELD, KANSAS 67156 • 316-221-2230

Two Million Dollar Expansion

State-Sponsored Incentives

Sales Tax Refund	\$26,600
Corporate Income Tax Credit	<u>33,500</u>
Total State Tax Incentives	\$60,100

Increased Income to State Because of Expansion

Corporate Income Tax	\$50,000
State Portion of Ad Valorem	7,000
State Payroll Withholding	15,000
State Unemployment Compensation Tax	<u>11,500</u>
Increased Income	\$83,500

Other Intangible Gains

1. Increased annual payroll by \$771,000 by addition of 53 new employees.
2. \$8,640 in maximum weekly unemployment benefits not being paid to those 53 new employees.
3. State-sponsored welfare benefits not being paid to those 53 employees put to work.