

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Representative Jim Braden at
Chairperson

9:00 a.m./~~p.m.~~ on March 13, 1984 in room 519S of the Capitol.

All members were present except: Representative King who was excused.

Committee staff present:

Wayne Morris, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes' Office
Nancy Wolff, Secretary to the Committee

Conferees appearing before the committee:

Senator Dan Thiessen
Representative Jim Patterson
Bert Falley, Kansas Food Dealers
Todd Sherlock, Kansas Association of Realtors
Bob Weary, Kansas CATV Association
Christi Young, Topeka Chamber of Commerce
Bob Graham, Acme Foundry, Coffeyville
Kenneth Bristow, Custom Casting, Coffeyville
Joe Levy, Parmac, Inc., Coffeyville
Don Willis, Vallis, Wngroff, Cherryvale
Ray Caldwell, County Commissioner, Montgomery County
Ron Gaches, Kansas Chamber of Commerce and Industry

Wayne Morris, of Staff, presented a brief history of Senate Bill 467. The bill would amend two statutes relating to the valuation of personal property for taxation purposes. K.S.A. 75-5105a would be amended to require the Director of Property Valuation to use economic indicators reasonably applicable to the industry or property affected, and to make a study of the economic lives, in preparing trended cost factors for use in personal property appraisal guides. Fair market values established by the personal property guides could not exceed original cost unless it could be clearly established by the Director that the property could be sold for more than its original cost. K.S.A. 1983 Supp. 79-503a would be amended to prohibit the use of the going concern value of a business for determining the fair market value of the tangible personal property of that business.

Senator Dan Thiessen testified as a proponent of Senate Bill 467 as amended by the Senate committee. He stated that the amended version is compromise legislation. He also presented a listing of states utilizing trending factors. (Exhibit I)

Representative Jim Patterson spoke as a supporter of Senate Bill 467 and presented testimony previously presented to the Senate committee by Mr. Tom Boyd, Vice President of Manufacturing for Hackney and Sons, Inc. (Exhibit II)

Bert Falley, Executive Vice President and Secretary of Falley's, Inc. but representing the membership of the Kansas Food Dealers Association and the Jayhawk Food Dealers Association, presented testimony in support of Senate Bill 467. (Exhibit III)

Todd Sherlock, Kansas Association of Realtors, testified in support of Senate Bill 467 as it was amended by the Senate committee. (Exhibit IV)

Robert K. Weary, General Counsel for the Kansas CATV Association, testified in support of Senate Bill 467. (Exhibit V)

Robert Graham, President of Acme Foundry, Inc., of Coffeyville, gave testimony in support of Senate Bill 467. (Exhibit VI)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION,
room 519S, Statehouse, at 9:00 a.m. ~~XXX~~ on March 13, 1984.

Joe Levy, testifying for Parmac of Coffeyville, submitted information in support of legislation which would eliminate the use of trending factors to value business machinery and equipment for personal property taxes. (Exhibit VII)

Kenneth Bristow, Vice President and Manager of Custom Castings, Inc. of Coffeyville, testified in support of Seante Bill 467. (Exhibit VIII)

Don Willis, co-founder and President of Vallis/Wngroff Business Forms Co., Inc., of Cherryvale, testified in support of Seante Bill 467. (Exhibit IX)

Ray Caldwell, County Commissioner from Montgomery County, testified in support of legislation that would eliminate the use of trending factors. (Exhibit X and XI)

Jim Damon, Mid America, Inc., stated that the primary thrust of his organization is to attract business and industry to southeast Kansas. He testified that he would challenge the committee to draft legislation that would do away with trending factors in the taxing of machinery and equipment.

Christi Young, Topeka Chamber of Commerce, testified in support of Senate Bill 467. (Exhibit XII)

Christi Young also distributed copies of testimony from Walter Hillmer, President and major stockholder of Hillmer Leather Shop, Inc., Topeka, (Exhibit XIII), Jack Carolan, Vice President of Security Benefit Life Insurance Company (Exhibit XIV) and Herman Simon, Plant Manager of General Foods Manufacturing Corporation, Topeka, (Exhibit XV) in support of Senate Bill 467.

Ron Gaches, General Counsel and Director of Taxation, Kansas Chamber of Commerce and Industry, presented testimony that supports the proposed language in Senate Bill 467 that directs PVD in the preparation of the valuation guides. (Exhibit XVI)

There being no further time for hearings on this date, the Chairman instructed the committee that the hearings for the opponents to Senate Bill 467 would be held at the next scheduled meeting for the committee on Wednesday, March 14, 1984.

The meeting was adjourned.

DATE: 3-13-84

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
Ken Gaches	KCC 1	TOPEKA
Jim Dahmer	Mid-America Inc	Lawrence
Bob Fally	Fally's	Topeka
Robert Trace	Genbank Ford Dealers Assoc	Topeka
Christy Young	Topeka Lodge Chamber of Com	Topeka
Gene Barrard	Welch Mfg Inc	Topeka
Rob Marshall	Mid-America Cold N	Lawrence
Kelph Skaseg	K CIT TV Assn	Topeka
Ray M. Smith	Shawnee Co.	Topeka
DON GORDON	KCAA	LAWRENCE
CHARLES H. CLARK	FRANKLIN Co	OTTAWA
Chip Wheeler	KLPG	Topeka
Bob Ott	Leg	Salina
Charles Aniolay	Ks Oil Marketers Assn	Topeka
Jim McBride	United Way of Topeka	Topeka
BILL ABBOTT	BOEING	WICHITA
CHARLES BELT	WICHITA CHAMBER OF COMMERCE	WICHITA
Tom Whaker	Ks Motor Carriers Assn	Topeka
ML Jenkins	Speakers Office	"
Don Pat	Leg	
Mike Beam	KBA	Topeka
Jim Hatterson	Leg.	Independence
Ray Caldwell	Montgomery Co. Commissioner	Coffeyville, Ks.

TRENDING FACTORS

TRENDING

OHIO
CALIFORNIA
KANSAS
ARIZONA
IOWA
MICHIGAN
NEBRASKA
TENNESSEE
TEXAS
WASHINGTON
WISCONSIN
INDIANA
COLORADO
CONNECTICUT
IDAHO
LOUISIANA
NEVADA
NORTH CAROLINA
UTAH
WYOMING
OREGON

21

NO TRENDING

GEORGIA
KENTUCKY
OKLAHOMA
VERMONT
VIRGINIA
WEST VIRGINIA
ALABAMA
ARKANSAS
WASHINGTON, DC
FLORIDA
MAINE
MARYLAND
MISSISSIPPI
MISSOURI
MONTANA
NEW JERSEY
NEW MEXICO
RHODE ISLAND
SOUTH CAROLINA

19

NO PERSONAL PROPERTY

NEW YORK
PENNSYLVANIA -
NORTH DAKOTA -
SOUTH DAKOTA -
MASSACHUSETTS
MINNESOTA -
DELAWARE -
ILLINOIS -
ALASKA
HAWAII
NEW HAMPSHIRE

11

Ex. I 3/13/84

SOURCE:

Goodyear Tire & Rubber Company
Akron, Ohio

Tax Department (Frank Polichene)

used: Commerce Clearing House
various state laws
prior year's tax bills

KANSAS TAXATION POLICIES: SENDING THE WRONG SIGNALS TO BUSINESS

A scheduled presentation to the Kansas Legislature's Special Committee on Assessment and Taxation. Monday, January 30, 1984 at 11:00 a.m./Topeka, Kansas.

Good morning gentlemen. My name is Tom Boyd, and my present position is that of Vice President of Manufacturing for Hackney and Sons, Inc. Hackney and Sons is a subsidiary of Hackney Industries, Inc., and both are headquartered in Washington, North Carolina. I am a twelve-year resident of the state of Kansas, having moved here from North Carolina in 1972 to open a new manufacturing plant for Hackney and Sons in Independence, Kansas. The manufacturing facility in Independence is Hackney and Sons (Midwest), Inc., and it is now the largest operating unit of the company. Prior to moving to Kansas, I was Plant Manager of the sister company of Hackney and Sons (Midwest), which is Hackney and Sons (East), in Washington, North Carolina.

I fully realize that the thrust of these hearings is to address "trending factor" legislation. Although our company is quite disturbed about trending factors and their implications, my remarks will address taxation from a broader perspective, as relates to business and industry in Kansas.

I do not wish to engage in debate as to whether we should cut costs or raise taxes. I think the answer is an appropriate measure of both. What's important to me is what's important to my business, your business, and our state --- WE MUST STAY COMPETITIVE!

Having personally managed both of these manufacturing operations on an independent basis, and now being responsible for both operations, I feel qualified to relate to you our concerns over recent shifts in taxation policy within the state of Kansas which are sending some very disturbing signals to not only our firm, but every business currently operating in the state of Kansas, as well as those who might be considering locating here.

I would begin by telling you that we selected the state of Kansas as a place to do business, because we judged it to have a most favorable business climate as we analyzed and drew comparisons in the late sixties. Industrial Revenue Bonds proved quite attractive as a means of financing expansion for our privately held company. The Bonded Warehouse provision, commonly known as the Freeport Law, was an attractive feature of taxation policy, in that a substantial portion of our finished goods inventory is ultimately destined for out-of-state delivery. The state sales tax compared competitively, and the ad valorem tax rates, while higher than North Carolina, were not overwhelmingly so.

When we broke ground for our facilities in the Spring of 1972, there were approximately 2.1 million people residing in the state of Kansas. Today there are only a few hundred thousand more. I believe the 1980 Census revealed somewhat under 2.3 million. Simply stated, the state enjoyed very little to no

growth in the last decade. Of course, we all know what has happened to the price of maintaining our highways and supporting our educational systems; these being two vital elements of major importance, when considering state funding arrangements. With the cost of services and construction going up and the population nearly stagnant, this can only mean one thing to a property owner or business when the state chooses to center revenue generation in the "arena" of inventory, personal property, and real estate taxes. The same number of people will be paying more and more.

Since we all know there is no "free lunch", ultimately the cost of taxation is passed along to the consumer. In the case of a landlord-tenant relationship, the rent goes up. In our case, the price of our products go up. This is what concerns us most about our future in Kansas, and why we are here today. We operate in an extremely competitive marketplace where a few hundred dollars can make or break a contract. At this point, I would like to graphically show you why we are so concerned about the state's recent moves to single-out industry and business for additional tax revenues, which is a policy of focusing on a small base, and "escalating" the rates. We feel that it is a far better policy to broaden the base and lower the rates.

I would call your attention to Exhibit #1 which is a comparison of the taxes paid by our North Carolina operating unit and our Kansas operating unit for calendar year 1983. The comparison assumes identical sales volumes and operating inventory levels; all numbers are realistic and consistent with current operational records. It is important to recognize that both of our manufacturing plants are located in rural communities with population bases approximating 10,000 people. Our plant facilities are both approximately 150,000 square feet in size, and both are located within the city limits of their respective communities.

As you can see, the valuation for plant buildings and equipment in Washington, North Carolina is \$1,230,000. In Independence, Kansas our buildings are still tax-exempt under the provisions of the Revenue Bond financing program, and will continue in this status for approximately four more years. The \$437,945 of Kansas valuation represents plant equipment, exclusive of the real estate holdings and buildings. In spite of the Kansas valuation being approximately one-third of the North Carolina valuation, our Kansas tax load is 40% greater. In attempting to compare "apples with apples", we would call your attention to our estimate of what we would have paid in additional taxes during 1983 if our buildings had been on the tax rolls as they will be four years from now. You see our estimate to be \$103,000; but adding this number to our current taxes and then comparing the total with the North Carolina total, you see that we estimate the difference in taxes to be \$122,000 versus \$13,500. A tax dollar difference of almost nine times on operations that are almost identical in size, scope, and output.

Let's now look at property taxes on inventory. Subjecting the entire \$2,570,000 of North Carolina inventory to the North Carolina rates and valuation structure yields a tax load of \$28,270. While subtracting \$778,000 of the Kansas finished goods inventory excluded from taxation by the Kansas Freeport Law, and then factoring the inventory by thirty percent, we still pay \$77,835

in taxes. In other words, on an inventory valuation in Kansas which is one-fifth the North Carolina valuation, we end up paying almost three times as much tax.

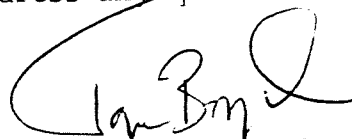
Hopefully, you can see why we and other businesses of Kansas are alarmed. You can see why the principles of our firm have begun to focus on recent moves in Kansas Taxation Policy as a considerable negative. These costs end up in our price list; and ultimately, it will be our customers who will tell us when we can no longer afford to conduct business in the state of Kansas.

When we made our decision to locate a manufacturing plant in Kansas, we did so based on the signals which the state was sending to business at that time. For the first six to eight years of our existence in Kansas, we could not have been more pleased with our decision. In the past four to five years, we have seen a shift in the "business climate" which can be linked to shifts in taxation policy, and a seemingly prevalent attitude that there is no limit to how much tax burden business can absorb without adverse affect.

Well gentlemen, I'm here today to convey a message. There is a limit, and I'm convinced we've reached it. In fact, I think we have gone past the limit. I think the only reason that you haven't heard the cries before now is because it takes a while for the policies to envelop the state and to sink in. The message which I'm hearing my colleagues espouse is that we can stand no more property tax escalation; that it is time to turn away from this taxation principle and to consider a more equitable arrangement such as advancing the State Sales Tax rate. A sales tax spreads the base, and can be administered for effectively no increase in cost, and is founded on the "ability-to-pay" principle. A small increase in the state sales tax rate would more than adequately cover the funds that are raised by selective taxes such as the Severance Tax and others which have been considered. It would also eliminate the necessity of "administrative interpretations" of existing tax statutes which are openly discriminatory, such as "trending factoring".

I firmly believe that the way to put our state on a growth track is to send positive, not negative messages to industry. To encourage existing industries to expand and others to consider moving into our state, bringing with them jobs and new dollars. I respectfully encourage you to consider a recommendation which will move us toward corrective action.

I sincerely appreciate your patience in allowing me the opportunity for these expressions, and I stand ready to address any questions which you may have.



D. Thomas Boyd
Vice President/Manufacturing
HACKNEY AND SONS, INC.



Designers/Manufacturers of TRANSPORTATION SYSTEMS

400 HACKNEY AVENUE WASHINGTON, NORTH CAROLINA 27889 PHONE 919/946-6521

HACKNEY INDUSTRIES

REPLY TO: Hackney and Sons (Midwest), Inc.
300 Hackney Avenue
Independence, Kansas 67301

Tax Comparison

ASSUMPTIONS:

	<u>NORTH CAROLINA</u>	<u>KANSAS</u>
1. Sales Volume	\$15,000,000	\$15,000,000
2. Net Income (Before Tax)	\$900,000	\$900,000
3. Average Inventories (at reported values)		
Raw Materials	\$1,270,000	\$1,270,000
Finished Goods	1,300,000	1,300,000
	<u>\$2,570,000</u>	<u>\$2,570,000</u>
4. Property Valuations	\$1,230,000	\$437,945
<u>Note</u> - Includes all buildings and equipment in N.C./ex- cludes all buildings and some major fixtures in Ks.		
5. State Income Tax Rates	6%	6 3/4% (after first \$25,000)
6. State and Local Sales Tax (in operating cities)	4 1/2%	3 1/2%
7. Property Tax Rates	\$1.10/\$100	\$14.48/\$100

TAX FACTS: (North Carolina at stated valuation while Kansas factors stated valuation by 30% to arrive at taxable valuation)

1. Income Taxes	\$54,000	\$60,188
2. Inventory Taxes	\$28,270	\$77,835
3. Property Taxes	<u>\$13,530</u>	<u>\$19,024</u>
TOTALS	\$ 95,800	\$157,047 **

** Estimate building valuations will add \$100,000 in taxes in approximately 4 years. (Under N.C. regulations, building valuation would add only \$26,000)

MANUFACTURING SUBSIDIARIES

HACKNEY AND SONS (EAST), INC.
400 HACKNEY AVENUE
WASHINGTON, NORTH CAROLINA 27889
TELEPHONE 919/946-6521

HACKNEY AND SONS (MIDWEST), INC.
300 HACKNEY AVENUE
INDEPENDENCE, KANSAS 67301
TELEPHONE 316/331-6600

Bert Falley
Executive Vice President and Secretary
Falley's, Inc.

I am here today representing the membership of the Kansas Food Dealers Association and the Jayhawk Food Dealers Association. There is an increasing concern among grocery retailers about the extent to which the Department of Revenue's Division of Taxation has executed a planned shift of the burden for paying of the cost of local and state government from real estate and personal property to the business community.

A few years ago the Legislature initiated an inventory tax that dramatically increased the taxes which business pays. Within three years, the Legislature amended this inventory tax to allow business to take a credit of 40% for certain business expenses because it was obvious that the initial tax was too high and created an unfair burden on business.

Shortly thereafter, a tax guide for farm equipment was initiated by the Director of Taxation which created the same problem for this targeted segment of this tax base. We now find that farm equipment has been totally exempted from the tax base because the extent to which farm equipment was being assessed was unreasonable.

Now we find that the Department of Revenue is recreating the same scenario with business machinery and equipment. For the past two years, the Director of the Division of Taxation has been insisting that county tax assessors use trending factors to determine the property valuation of business machinery and equipment.

Our company operates 17 retail grocery stores in the State of Kansas. Our business was founded here, and until the past three years was operated exclusively in Kansas. For the past three years we have made a concerted effort to build stores outside of our Great State, because it is more expensive to operate our store here than in other states.

At the forefront of the high cost of doing business in Kansas are the taxes on personal property which have grown at an alarming rate. As a result of the administrative discretion given to the Property Evaluation Department, County Assessors have been directed to use trending factors in assessing business property. The net effect of this directive is that our property taxes in Kansas are five (5) times greater for comparable stores that we operate in Kansas, as compared to other states where we have stores.

The use of trending factors has had such a dramatic effect in increasing the taxes of the business community that the Director of Taxation has even reevaluated its use. If we compare today's 1983 trending factors guide with the one used in 1982 we will find the Director of Taxation has reduced by 10 to 15% the trending factor's impact on the business community.

The problem with the use of trended factors, however, are not alleviated by this reduction. Even with this reduction the business community will experience, in some cases, as much as 300% increases in the annual taxes they will pay on the same equipment because of the use of trending factors in determining its assessed value.

The use of trending factors in taxing business machinery and equipment creates a scenario not unlike that presented by the tax on inventories and farm equipment. To target the business community with increases of this magnitude is both unreasonable and short sighted.

We would like to believe that it is not the Legislature's intent to unfairly burden the business community. However, by allowing the Department of Revenue to set the guidelines by which county assessors determine the assessed value of business equipment and machinery you are allowing these inequities to occur. The Legislature should solely be responsible for setting these guidelines for the county assessors.

Gentlemen, if we unnecessarily target the business community to assume an unfair burden in supporting the costs of state and local government, we will find that these businesses will either slow their growth, relocate outside of the state, or close their doors. Without businesses to provide jobs for the citizenry of Kansas, we won't have a tax base from which to collect. Let us not continue to leave discretionary judgment in the hands of the Director of Taxation to continue to institute unreasonable tax burdens which the Legislature will have to amend after the fact. The Kansas Food Dealers Association and the Jayhawk Food Dealers Association ask you to support Senate Bill SB467 and to specifically endorse the inclusion of the language which prohibits the Director to utilize trended cost factors in the preparation of property valuation guides.

<u>LOCATION</u>	<u>DATE OPENED</u>	<u>EQUIPMENT COST</u>	<u>INVENTORY</u>	<u>TAX</u>	<u>% OF ASSET</u>
Junction City	2-79	385,651	269,975	12,069.16	1.84
Salina	9-79	291,335	280,930	13,559.48	2.37
Topeka	8-81	537,555	263,711	31,342.51	3.91
St. Joseph, MO.	2-81	759,646	420,992	519.04 - Property Tax	.72
				<u>8,037.92 - Merchants & Manufacturers</u>	



Executive Offices:
3644 S. W. Burlingame Road
Topeka, Kansas 66611
Telephone 913/267-3610

HOUSE ASSESSMENT AND TAXATION COMMITTEE

Mr. Chairman and members of the Committee, my name is Todd Sherlock and I represent the Kansas Association of REALTORS. Our association supports Senate Bill 467 as it has been amended by the Senate. We take this position because of the adverse impact of the present use of trending factors in valuing business machinery and equipment for property tax purposes. The use of trending factors has had a negative impact on all business in Kansas, and in particular those businesses with a considerable amount of capital investment.

The bill, as rewritten by the Senate, would put limits on the appraisal methodology so property is valued in such a way that fair market value is not exceeded unless it can be shown that the property is worth more than its original cost.

We also agree with section two, in which "fair market value" is defined as it applies to appraisal of personal property values. The language on lines 99 through 105 also helps protect the real and personal property owner by specifying property to be valued for tax purposes "to conform to generally accepted appraisal procedures...consistent with the definition of fair market value."

In short, we share the concern of the business community in this matter. We realize business will lose important incentives to grow if they are burdened with excessive taxation. The Kansas Association of REALTORS supports the concept of a fairer tax, and we feel Senate Bill 467 provides for a taxable structure that business can live with.

EXHIBIT IV

3/13/84

Before the Kansas House Committee
On Assessment & Taxation

Hearings on the Use of Trending Factors
On Value Machinery & Equipment
Tuesday, March 13, 1984

Presentation by the Kansas CATV Association
Richard Thiessen -- President
Robert K. Weary -- General Counsel and Presenter

Prepared by:

WEARY, DAVIS, HENRY,
STRUEBING & TROUP
819 North Washington Street
Post Office Box 187
Junction City, Kansas 66441
(913) 762-2210
General Counsel for
the Association

LIST OF EXHIBITS

- Exhibit "A".....Department of Property Valuation
Trending Factors and Guidelines
- Exhibit "B".....Memorandum to County Appraisers
- Exhibit "C".....I.R.S. Rev. Proc. 83-35
- Exhibit "D".....Trending Factor Study prepared
by Wm. Gary Baker, Ph. D.
- Exhibit "E".....Useful Life and Salvage Value of
Used Cable Television Equipment
- Exhibit "F".....Portions of depositions of John
Cooper and Henry Kingman

INTRODUCTION

The Kansas CATV Association is a voluntary association of cable television companies in the State of Kansas. The association represents over 100 cable television companies serving communities in every county in the state. Although there are some larger multiple system owners in the State, the majority of cable television companies are small, single system operations that are owned locally and operated by people who live and work in the communities they serve.

In 1983, the Director of Property Valuation arbitrarily instituted changes in the system of valuing cable television tangible, personal property which has the immediate effect in many cases of doubling the amount of personal property taxes for cable companies. Not only are the changes arbitrary, they have no logical basis in the actual operation and experience of Kansas cable companies and therefore violate statutory mandates for valuing tangible, personal property.

The Association feels so strongly that the changes are arbitrary and unlawful that it, together with several individual companies, are presently seeking redress before the State Board of Tax Appeals. The Association welcomes the opportunity to testify before this Committee and hopes that this testimony will be helpful in selecting a fair and reasonable system of taxation for business tangible, personal property.

THE PRESENT SITUATION

For nearly 15 years pursuant to an informal agreement, with the Director of Property Valuation (DPV), cable companies have voluntarily followed a system of valuing their tangible, personal property based on the historical cost of such property decreased by a factor for depreciation. A more detailed explanation of this system is discussed later.

In late 1982, the DPV notified the Association and key people in the industry that they wished to review and possibly change the current system to one using trending factors. The Association met with the DPV in order to provide information and hopefully reach mutually agreeable changes to the system of valuing such property if it seemed that a change were necessary or would be helpful.

The Association's efforts were given short shrift by the DPV and it has since become apparent that the DPV had made up its collective mind before even contacting the Association.

DPV indicated to the Association that, to the cost of any given item of tangible property, DPV wanted to assign a uniform economic levy based on the Internal Revenue Service ADR guidelines and then apply a "trending factor" based on the All Items Category of the Consumer Price Index.

Initially the DPV issued the trending factors and guidelines reflected in Exhibit "A". After the deadline for filing personal property tax reports, DPV issued, on May 1-2, 1983, a directive to county appraisers revising the guidelines and setting forth the economic lives to be used for cable television property. The directive is attached as Exhibit "B". Contrary to the statements of DPV that the directive was based on I.R.S. guidelines, DPV used economic lives much longer than those suggested by the I.R.S. The I.R.S. ADR guidelines are attached as Exhibit "C".

To these economic lives, the DPV applied a trending factor based on the Consumer Price Index, All Items Category which takes into account the general inflationary trends nationwide. The trending factors adopted are reflected in Exhibit "A".

The purpose of assigning an economic life and using trending factors is to arrive at a fair market value of any given item of personal property. The Kansas statutes mandate that personal property taxes are to be based on the fair market value of property which is defined as what a willing Buyer would pay for the tangible personal property from a willing seller, both having negotiated at arm's length and neither party being under any kind of compulsion to either buy or sell. The Association realizes further that it would be difficult for county appraisers to individually appraise each item of tangible, personal property owned by a business and that it would be helpful if a statewide, uniform and reasonable system could be devised to value such property.

However, the economic lives and trending factors used by DPV grossly overstate the fair market value of cable television equipment and were not devised as a uniform system of valuing tangible, personal property but rather were developed arbitrarily to arrive at a pre-determined level of taxation which attempts to value more than items of tangible, personal property -- that is, to tax cable television systems on the basis actual market value of what they would sell for as a going business and not on the basis of items of tangible personal property utilized in the business.

There are two important considerations in the use of trending factors for property tax purposes. The first of these is the applicability of the particular trending factor selected to the industry and type of property involved and the other is the

economic life assigned to the various types of machinery and equipment. The latter of these two probably has the greatest impact upon the taxation of the property and for this reason we will analyze it first.

Originally the DPV in their guidelines issued before the assessment date prescribed for twenty year life of towers and antennae, a fifteen year life for cable, and a seven year life for all other equipment. Apparently they felt this did not produce as much in the way of taxes as they wanted to obtain, and hence quite a while after the returns were due the DPV sent out a notice of updated economic lives adopted by the department. In so doing they broke the property down into three categories, headend, subscriber connection and distribution systems, and program origination equipment. These three categories were described exactly as they are described in the I.R.S. ADR guidelines but instead of using the lives prescribed by the I.R.S. guidelines for the first two categories which include the bulk of the equipment of a cable television system, the DPV assigned a twenty year life to the headend equipment and a fifteen year life to the subscriber connection and distribution system.

The economic lives assigned to cable television property by the I.R.S. ADR guidelines as shown in Exhibit "C" have been developed by the I.R.S. over a number of years and are calculated to accurately reflect the true economic life of any particular piece of equipment. The ADR assigns both a lower and upper limit life and a mid range life. This is a reasonable approach in light of the fact that different types of equipment are involved and the fact that the economic life of even two similar pieces of equipment can vary depending upon such factors as quality of construction, use and the like. As has been noted for cable television property commonly referred to as the headend which, with the exception of the tower and headend building, consists entirely of electronic gear (and is that part of the cable television system that brings the signal to the community off the air, from microwave or satellites) the DPV arbitrarily assigned a flat twenty year economic life. This is some nine years (almost 100%) longer than that used by the I.R.S.

An economic life of twenty years for processors, modulators, receivers, amplifiers and other similar kinds of electronic equipment is unreasonably long. Experience in the industry is that most, if not all, of this kind of equipment rarely lasts ten years. The reason for this is two fold. First, this kind of equipment simply wears out and becomes unuseable generally within five to ten years of purchase without excessive maintenance and replacement costs. Second, as it true of virtually all kinds of electronic equipment, there are continual and fast technological advances and innovations which make existing equipment obsolete. For example, in the industry a similar

amplifier which is smaller and easier to handle and install and which performs a number of additional tasks not performed by the old amplifier and which has a much greater degree of reliability. Because of rapid technological advancements and programming changes, the industry is constantly having to upgrade and update its electronic equipment. Once the older amplifier is replaced it essentially has very little useful life or salvage value left because it is an outmoded and outdated piece of equipment. Attached As Exhibit "E" is an example of the distorted valuations yielded by present guidelines, based upon actual figures of a typical Kansas cable television company.

Therefore, arbitrarily assigning a twenty year economic life to all kinds of headend equipment solely to arrive at a predetermined result fails to take into account the nature of the industry and equipment involved and therefore is not representative of the true market value of this kind of tangible personal property.

This same analysis holds true with regard to cable television property commonly referred to as the subscriber connection and distribution system. The DPV has assigned an economic life of fifteen years for such equipment which consists of cable, amplifiers and other equipment used to deliver cable television signals to individual homes. The I.R.S. guidelines assign a lower limit life of eight years and a maximum of twelve with a mid range of ten. Again the DPV economic life is substantially higher (50%) than that used by the I.R.S.

During attempts to negotiate with the DPV regarding changes in the system, the cable industry was told that the state was planning to use and adopt and in fact had relied on the I.R.S. guidelines. In May, 1983, when the DPV belatedly announced the much longer economic lives (which it regards as clarifying materials), the cable industry was naturally puzzled as to why the DPV had assigned substantially longer lives to the equipment that used by the I.R.S.

In preparing for the upcoming hearings before the Board of Tax Appeals, we have discovered that the economic lives assigned to cable television property by DPV bear no relationship to the experience in the industry as to the life of equipment and further such lives were arbitrarily assigned to support an unlawful method of valuing cable television property.

It is our understanding in this regard that the DPV wants to value cable television companies for personal property tax purposes at \$300 per subscriber. Thus, taking a small system that has only 1,000 subscribers, the DPV wants to value that system for tax purposes at approximately \$300,000. This valuation is apparently based not on what the DPV thinks is the

fair market value of the equipment and tangible personal property used in the business but on what they regard as a low approximation of what the business could be sold for as a going concern.

The Kansas Personal Property Statutes provide for the taxation of only tangible personal property and do not provide for taxation based upon the sale value of a business as a going concern. A large part of the value of a cable television system sold as a going concern must be attributed to intangible property or value such as the franchise from the city, goodwill, programming, management experience and a capability, market size and relationship to programming sources, competitive factors in a given market place, the degree of saturation or development of the system, and a multiplicity of other factors. Kansas Personal Property Statutes dealing with the taxation of tangible personal property do not provide for taxing these intangibles. Therefore attempting to value a system on this basis, and interpolate that to a figure of so much per subscriber, is clearly not within the mandate of the Kansas statutes and does not even attempt to arrive at the value of the system's tangible personal property.

The DPV has admitted in its depositions that in order to support a value of approximately \$200 to \$250 per subscriber, it has simply used or backed into an economic life which if applied to average mix of cable television property would achieve this predetermined result. Therefore, in assigning the economic lives used by the DPV no real thought was given or effort made to determine the real life of the tangible personal property itself or the experience in the industry with respect to the useable, economic life of such property. Furthermore, this approach makes no effort to take into account or factor out the intangible aspects of a cable television business sold as a going concern. Thus the economic lives selected were simply a subterfuge on attempting to justify an otherwise unlawful method of valuing cable television tangible personal property.

A stark example of the complete unfairness of this approach is easily demonstrated by looking at other communications media. Not too long ago the Wichita Eagle sold for a price of \$42,000,000. We have not taken the opportunity to check and see at what value the tangible personal property of the Wichita Eagle is assessed. However, from checking with the industry sources we have determined that if all of the equipment utilized in the business were replaced it would not exceed \$5,000,000 in cost. If the DPV were correct in its analysis that it could value the tangible personal property of a business based on the sale of a business as a going concern, the property of the Wichita Eagle should be on the tax rolls at \$42,000,000. Similarly, there were recent reported sales of television broadcast stations in Wichita for amounts in excess of \$13,000,000 and in

Kansas City for approximately \$80,000,000. Again, it would be impossible to spend more than \$5,000,000 on the tangible personal property of such broadcast stations. Yet, if the legal analysis of the DPV were correct the property of the stations should be on the tax rolls at approximately \$30,000,00 and \$80,000,000 respectively. The same situation would be true with respect to the sales of radio stations. Not only is this form of taxation of tangible personal property not authorized by the Kansas statutes but to tax one communication medium on the basis proposed by the DPV, whereas all of the others are taxes in the traditional and accepted way, would be grossly discriminatory. When this issue was raised with the DPV the only response was that television stations and newspapers ought to be taxed on the basis of what they would sell for and that they just had not gotten around to proposing to tax them this way yet. Perhaps the real reason is that it may be a little easier to pick on a lot of small cable television operators than it is upon the entrenched representatives of the mass media. We would hope, however, that it is still a little difficult for the government to abandon the fundamental precept that what is fair for one is fair for all.

The second matter to be considered is the trending factor shown in Exhibit "A". The trending factor is supposed to take into effect appreciation of the sales value of the asset from inflation, if any, and, depreciation as the asset becomes older. The trending factors are multipliers based upon a consumer or user price index. The goal of using a trending factor is again to arrive at a fair market value of any particular piece of equipment or machinery. The actual effect of using the trending factor selected by the DPV with regard to cable television property, and especially the electronic equipment associated therewith, is to produce a value which is much higher than the fair market value of any given piece of cable television equipment as experienced by the industry in Kansas, not only because of the arbitrary lives selected by the DPV but also because the trending factor is an inappropriate one for the industry.

The trending factors used by DPV are based upon the All Items Category of the Consumer Price Index. This particular index is a compilation of all of the various and separate price indexes maintained by the United States Department of Labor. Accordingly, it mixed together diverse factors such as the price of food, the price of new automobiles, the price of housing, interest rates, fuel, and many others. This general index for the last several years has been a very inflationary index.

Using a trending factor based on this general index does not fairly reflect the fair market value of tangible personal property belonging to cable television companies. The reason for this is that the vast majority of cable television property is electronic in nature or at least has electronic components.

As we have all seen, for a number of years the price of electronic equipment has not been inflating but deflating. Therefore its fair market value is not truly represented by a trending factor based on a general consumer price index. BEcause of rapidly advancing technology in transistors, micro processing, circuitry, memory and storage capabilities and other components of electronic equipment, existing equipment becomes obsolete very quickly and is replaced by more sophisticated equipment which often times costs less than the original piece of equipment. In addition, once the original piece of equipment is replaced, it is economically obsolete and generally has very little salvage or resale value because someone in the market for such equipment can generally buy something better or at least something that will perform more functions at the same or a lesser cost.

Therefore, the DPV trending factors produce the absurd result of assigning to a piece of cable television equipment which is functionally and technologically obsolete a value which no one would be willing to pay. The goal of using trending factors is to arrive at a uniform system of assigning a fair market value. The application to cable television property of a trending factor which is based on a general price index does not arrive at a fair market value because it does not take into account the rapid physical and functional depreciation and obsolescence that occurs in property of an electronic nature. A more appropriate trending factor would be one based on the Standard Industrial Classification categories for Semiconductors and Related Devises (SIC 3674), Electronic Capacitors (SIC 3675), Electronic Resistors (SIC 3676) and Electronic Connectors (SIC 3678). See attached Exhibit "D" for a study which shows that this index is the more appropriate to use.

C O N C L U S I O N

For a number of years prior to 1983 and the changes made by the DPV, cable television companies in Kansas uniformly reported for property tax purposes their tangible personal property pursuant to a plan based on historical cost less straight line depreciation with a minimum residual value. This is a method still currently used and recommended by the DPV in many situations. This plan had been worked out with the DPV and was being used statewide by nearly all cable television companies. The plan was easy for the various county appraisers to use and was being used uniformly throughout the state with good results. The plan was one that was easy to monitor since balance sheets and equipment accounts were supplied to the DPV and could be verify comparison with the company's income tax returns. We are not aware of any other industry in the State that has offered this kind of cooperation with the DPV.

In lieu of this reasonable arrangement, used by Kansas with respect to most businesses, the DPV has selected and is

attempting to apply trending factors that bear very little relation in many instances to the industry involved but simply represent the most inflationary trending factor that could be used. Then in the case of the cable television business it has, without any authorization from the legislature, gone a step further and decided that it should tax cable television systems on the basis of their sale value as a going concern. In order to accomplish this, the DPV has arbitrarily assigned economic lives, without regard for the facts or even much of an attempt to investigate the facts, which mathematically would produce the desired result, i.e. arrive at an approximation of what the DPV conceived to be a conservative or low value of the sales price of a cable television system sold as a going concern. These economic lives arbitrarily arrived at are far in excess of the economic lives developed by the I.R.S. as a result of substantial investigations. They are also economic lives that have no relationship to the real world and experience of the industry in light of its particular needs and type of property. Finally, it is a process the DPV apparently has no serious intention of applying to other communications businesses and thus discriminates against the cable television industry.

Therefore we urge the Kansas Legislature to either abolish the use of trending factors or establish some sort of guidelines or directives that would preclude the DPV from arbitrarily and unfairly seeking to subvert our taxing statutes. We submit that changes in the impact of our taxing statutes are matters for legislature and not for the DPV through indirection or by any other method.

The cable television industry thinks that the most reasonable and fair method of taxing cable television tangible personal property is to continue with the system that has worked for a number of years in the cable industry and which is being used by most states. That system is to base such value on the historical cost of the equipment and then annually apply to that historical cost a straight line-type depreciation factor and further to prescribe a residual value below which a particular piece of property will not go as long as it is in service. Such a method of valuing machinery and equipment is not subjective, can be uniformly and easily applied and also has the advantage of producing a value which closely approximates the fair market value of such machinery and equipment.

CABLE TV SYSTEMS

There is a total of 151 systems in Kansas serving 198 communities with 328,800 subscribers. For uniformity in valuing these systems the trending factors are to be applied to the historical cost on the following economic lives:

Tower and Antennas	20 years
Cable	15 years ^{12 yrs}
All other in house equipment associated with the system	7 years

TELEPHONIC EQUIPMENT

Because of a change in Federal laws many users of telephone equipment are purchasing instead of leasing from telephone companies.

The trending factor should be applied to historical cost using a 10 year economic life.

EXHIBIT A



DEPARTMENT OF REVENUE

State Office Building
TOPEKA, KANSAS 66625

MEMORANDUM

DATE: January 25, 1982
TO: All County Appraisers
FROM: Philip W. Martin, Director
Division of Property Valuation
RE: Trending Factors

Trending factors have been published in the Miscellaneous Personal Property Guide since 1978 and represent the policy of this Division regarding the valuation of personal property which is not included in any other guide prepared or prescribed by the Division of Property Valuation.

The use of these factors is necessary unless adequate market information is available to you for the purpose of estimating market value of the property for ad valorem taxation and unless the resultant valuation by use of the trending factors clearly results in an over statement of the market value of the property.

In using this method, care must be taken to select the appropriate economic life table for the specific property. Secondly, an inventory of the machinery, equipment, and fixtures comprising the property must be made and analyzed before the correct economic life can be determined and applied.

We recognize that this cannot be accomplished overnight, but must be done on an on-going continuous program. If we may be of assistance to you, please let us know.

PWM:JRC:skb

EXHIBIT A

TRENDING FACTORS

Whenever current cost information for miscellaneous personal property is not available, it is sometimes necessary to update the historical cost to an estimate of current replacement cost.

The trending factors listed in the following tables may be used to update and depreciate the original cost in one operation. They have been calculated by the use of the Consumer Price Index (compiled by the U.S. Department of Labor Statistics) and then factored to include depreciation based on various economic lives (3 yr., 5 yr., 7 yr., 10 yr., 12 yr., 15 yr., 20 yr., 25 yr., and 30 yr.) with a 10% salvage value base.

Example: In 1977 a service machine was purchased for \$500. It has an economic life estimated at five years, i.e., it is physically and functionally obsolete after five years use.

From the 5 year table and the 1977 purchase year, a factor of .14 is indicated.

Therefore, the indicated market value estimate for 1983 is:

$$\$500 \times .14 = \$70.00$$

EXHIBIT A

1983
TRENDING FACTORS

Purchase Year	Economic Life									Purchase Year
	3 Years	5 Years	7 Years	10 Years	12 Years	15 Years	20 Years	25 Years	30 Years	
1983	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1983
1982	.63	.73	.78	.82	.83	.84	.85	.86	.87	1982
1981	.39	.62	.72	.80	.83	.85	.88	.90	.91	1981
1980	.11	.49	.66	.79	.83	.88	.94	.96	.99	1980
1979		.35	.60	.79	.87	.94	1.01	1.06	1.10	1979
1978		.14	.49	.74	.84	.94	1.04	1.11	1.14	1978
1977			.33	.66	.79	.92	1.05	1.12	1.18	1977
1976			.15	.56	.72	.88	1.04	1.14	1.20	1976
1975				.45	.65	.84	1.04	1.15	1.22	1975
1974				.34	.59	.83	1.07	1.22	1.32	1974
1973				.20	.49	.79	1.09	1.27	1.39	1973
1972					.36	.70	1.04	1.23	1.38	1972
1971					.21	.60	.98	1.21	1.35	1971
1970						.50	.93	1.18	1.36	1970
1969						.38	.88	1.18	1.37	1969
1968						.25	.81	1.14	1.36	1968
1967							.71	1.07	1.34	1967
1966							.62	1.03	1.29	1966
1965							.51	.94	1.24	1965
1964							.39	.88	1.17	1964
1963							.28	.77	1.11	1963
1962								.67	1.04	1962
1961								.60	.96	1961
1960								.40	.89	1960
1959								.41	.82	1959
1958								.30	.74	1958
1957									.67	1957
1956									.60	1956
1955									.50	1955
1954									.41	1954
1953									.32	1953

HOW TO USE: 198 3 COMMERCIAL PERSONAL PROPERTY STATEMENT

PROPERTY LISTING FOR <u>Doe Company</u>						APPRAISER'S USE		
List and describe all items of machinery, equipment, and supplies which are owned, such as: office machines, furniture, counters, shelving, bins, carts, tools, loaders, plant equipment and all other personal property fixtures and machinery. Add supplemental pages as required.						Substitution of a computer printout is acceptable if the property is grouped by type, purchase date, and original cost.		
"Appraiser's Use" columns to be completed by county appraiser using appropriate Kansas Appraisal Guide for personal property valuations.								
ITEM-CONDITION-AGE				Purchase Date	Cost	Econ Life	Trending Factor	Market Value
1.	Billing Machine	(good)	4	6/1978	7,421. x	5	.14	= \$1,039.00
2.								
3.								
4.	Benches and Counters	(good)	13	7/1969	18,642. x	15	.38	= \$7,084.00
5.								
6.								
7.								
8.								
9.								
10.								



Kansas
DEPARTMENT OF REVENUE

State Office Building
TOPEKA, KANSAS 66625

Recd 5. 7-9
D4
Recd 5/23/8
R

MEMORANDUM

TO: County Appraisers
FROM: John R. Cooper, Supervisor
Personal Property Section
DATE: May 2, 1983
SUBJECT: Updated Economic lives adopted by the department to be applied
in conjunction with Section 3 of Cable TV Form PP-12

Headend 20 Year Economic Life
Includes assets such as towers, antennas, pre-amplifiers, converters, modulation equipment, and program non-duplicating systems. Does not include headend buildings and program origination assets. Includes microwave equipment.

Subscriber connection and distribution systems 15 Year Economic Life
Includes assets such as truck and feeder cable, connecting hardware, amplifiers, power equipment, passive devices, directional taps, pedestals, pressure taps, drop cables, matching transformers, multiple set connector equipment, and converters.

Program origination 7 Year Economic Life
Includes assets such as cameras, film chains, video tape recorders, lighting, and remote location equipment excluding vehicles. Does not include buildings and their structural components. Includes testing equipment tools.

JRC:jd

EXHIBIT B

Internal Revenue bulletin

Highlights of this Issue

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX

Rev. Rul. 83-78, page 5.
Industrial development bonds; exempt facilities; some other similar official action. The adoption by a city of a resolution to issue bonds to finance construction of an exempt facility described in section 103(c)(4) of the Code followed by the adoption of a supplemental resolution to issue the bonds in a larger face amount because of a construction cost overrun are considered some other similar official action taken before construction commenced as required by section 1.103-8(a)(5)(iii) of the regulations. Therefore, the bonds qualify as obligations to provide exempt facilities described in section 103(b)(4) and the interest on the bonds is excludable from gross income.

Rev. Rul. 83-79, page 7.
Protective claims; FICA tax overpayment. An employer's timely filed protective claim for refund of FICA tax will also protect its employees' individual claims filed after the period of limitations has expired.

Rev. Proc. 83-35, page 54.
Class Life Asset Depreciation Range (CLADR) System; guidelines. Asset guideline classes, asset depreciation periods and ranges, and the annual asset guideline repair allowance percentages for the CLADR System are set forth. Rev. Procs. 77-10, 77-14, 78-4, 78-5, 79-26, 79-35, 79-41, 79-42, 79-60, 79-64, 79-65, 80-15, 80-33, 80-58, and 82-67 superseded.

Finding Lists begin on page 107.
Announcement of Suspensions on page 104.
Announcement of Notice of Proposed Rulemaking on page 105.

Department of the Treasury
Internal Revenue Service

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DOCUMENTS DEPOSITORY

LR-100-78, page 83.

Proposed amendments to the regulations under sections 901 and 903 of the Code relate to the description of income, war profits, and excess profits taxes and taxes in lieu of such taxes imposed by foreign countries and possessions of the United States. The proposed regulations also relate to the amount of these foreign taxes paid or accrued to the foreign country or U.S. possession which are creditable against U.S. income tax liability.

EMPLOYEE PLANS

Rev. Proc. 83-36, page 72.

Rulings and determination letters; employee plan and exempt organization matters. Procedures are provided for issuing rulings and determination, opinion, notification, and information letters and for entering into closing agreements on specific issues in employee plan and exempt organization matters. Rev. Proc. 80-24 superseded; Rev. Procs. 76-47 and 80-39 modified.

EXEMPT ORGANIZATIONS

Rev. Proc. 83-36, page 72.

Rulings and determination letters; employee plan and exempt organization matters. Procedures are provided for issuing rulings and determination, opinion, notification, and information letters and for entering into closing agreements on specific issues in employee plan and exempt organization matters. Rev. Proc. 80-24 superseded; Rev. Procs. 76-47 and 80-39 modified.

(Continued on page 4)

EXHIBIT C

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Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.105: Examination of returns and claims for refund credit, or abatement; determination of correct tax liability. (Also Part I, Section 167; 1.167(a)-11.)

Rev. Proc. 83-35

SECTION 1. PURPOSE

.01 The purpose of this Revenue Procedure is to restate, pursuant to section 167(m) of the Internal Revenue Code of 1954 with certain substantive modifications as noted below, the asset guideline classes, asset guideline depreciation periods and ranges, and annual asset guideline repair allowance percentages for the Class Life Asset Depreciation Range (CLADR) System. For purposes of defining the classes of recovery property under the Accelerated Cost Recovery System (ACRS), section 168(c)(2) of the Code makes reference to the present class life for the property. The present class life is the asset guideline period (midpoint class life) established for the class as of December 31, 1980, except for asset guideline class 48.12. Asset guideline class 48.12 is effective on January 1, 1981. See section 168(g)(2) of the Code.

.02 The Class Life Asset Depreciation Range (CLADR) System cannot be elected for recovery property (within the meaning of section 168 of the Code) placed in service after December 31, 1980. See section 167(m)(4) of the Code, which was added by the Economic Recovery Tax Act of 1981 (H.R. 4242, 97th Congress; Public Law 97-34). In addition, Public Law 97-34 repealed section 263(e), Reasonable Repair Allowance, for property placed in service after December 31, 1980.

.03 This Revenue Procedure supersedes Rev. Proc. 77-10, 1977-1 C.B. 548, and the supplements and revisions of the asset guideline classes, periods, and repair allowance percentages published since the publication of Rev. Proc. 77-10. These Revenue Procedures are as follows:

77-14, 1977-1 C.B. 571
78-4, 1978-1 C.B. 555
78-5, 1978-1 C.B. 557
79-26, 1979-1 C.B. 566

79-35, 1979-2 C.B. 498
79-41, 1979-2 C.B. 506
79-42, 1979-2 C.B. 507
79-60, 1979-2 C.B. 574
79-64, 1979-2 C.B. 579
79-65, 1979-2 C.B. 579
80-15, 1980-1 C.B. 618
80-33, 1980-2 C.B. 768
80-58, 1980-2 C.B. 854
82-67, 1982-52 I.R.B. 54

SEC. 2. RULE OF APPLICATION

.01 The asset guideline classes, asset guideline periods and ranges, and annual asset guideline repair allowance percentages set forth are for use under the rules set forth in section 1.167(a)-11 of the Income Tax Regulations.

.02 It should be noted that the following special rules apply as specified:

(i) It is expressly provided that asset guideline classes and subclasses 00.4, 20.5, 30.11, 30.21, 32.11, 33.21, 34.01, 37.12, 37.32, 37.33, and 49.121 are part of existing activity classes to which the assets included in them relate as stated in the revenue procedures establishing these subclasses; therefore, assets included in these classes and subclasses are not separately subject to possible exclusion from an election to apply sections 1.167(a)-11(b)(4)(ii) and 1.167(a)-11(b)(5)(v) of the Income Tax Regulations.

(ii) If the asset guideline class repair allowance for class 32.1 is elected in accordance with section 1.167(a)-11(d)(2)(ii) of the regulations, "cold tank repairs", including refractory relining expenditures to glass furnaces, shall be treated as deductible repairs within the provisions and limitations of section 1.167(a)-11(d)(2)(iv)(a) dealing with the application of the asset guideline class repair allowance.

(iii) General rebuilding or rehabilitation costs for the special tools defined in class 30.11 that have been traditionally capitalized as the cost of a new asset are included in class 30.11.

(iv) Asset guideline class 00.3, "Land Improvements", includes "other tangible property" that qualifies under section 1.48-1(d) of the

regulations. However, a structure that is essentially an item of machinery or equipment or a structure that houses property used as an integral part of an activity specified in section 48(a)(1)(B)(i) of the Code, if the use of the structure is so closely related to the use of the property that the structure clearly can be expected to be replaced when the property it initially houses is replaced, is included in the asset guideline class appropriate to the equipment to which it is related.

.03 Property that is used predominantly outside the United States may be eligible property if the requirements of section 1.167(a)-11(b)(2) of the regulations are met. In the case of property first placed in service and used predominantly outside the United States during the taxable year of election, an asset guideline period, but no asset depreciation range is in effect. Accordingly, such property shall not be treated as included in the same asset guideline class as property used predominantly inside the United States for purposes of determining the asset depreciation period under section 1.167(a)-11(b)(4). Thus, for this purpose, each asset guideline class described in this revenue procedure has an exact counterpart that consists of property otherwise includable within the class, but used predominantly outside the United States during the taxable year of election. Generally, for this purpose, property is used predominantly outside the United States if such property is physically located outside the United States during more than 50 percent of days of the taxable year of election, beginning with the date the property is first placed in service. However, there are ten exceptions to this general rule and these are contained in section 48(a)(2) of the Code. The asset depreciation period for property, which is determined in the taxable year of election, will not be changed because of a change in predominant use after the close of such taxable year. Although treated as in a separate class for purposes of determining the asset depreciation period, property predominantly used outside the United States

Asset guide- line class	Description of assets included	Asset depreciation range (in years)			Annual as- set guide- line repair allowance percentage
		Lower limit	Asset guideline period	Upper limit	
48.2	Radio Television Broadcastings: Includes assets used in radio and television broadcasting, except transmitting towers ----- Telegraph, Ocean Cable, and Satellite Communications (TOCSC) Includes communications-related assets used to provide domestic and international radio-telegraph, wire-telegraph, ocean-cable, and satellite communications services; also includes related land improvements.	5	6	7	10
48.31	TOCSC-Electric Power Generating and Distribution Systems: Includes assets used in the provision of electric power by generation, modulation, rectification, channelization, control, and distribution. Does not include these assets when they are installed on customer's premises -----	15	19	23	—
48.32	TOCSC-High Frequency Radio and Microwave Systems: Includes assets such as transmitters and receivers, antenna supporting structures, antennas, transmission lines from equipment to antenna, transmitter cooling systems, and control and amplification equipment. Does not include cable and long-line systems -----	10	13	15.5	—
48.33	TOCSC-Cable and Long-line Systems: Includes assets such as transmission lines, pole lines, ocean cables, buried cable and conduit, repeaters, repeater stations, and other related assets. Does not include high frequency radio or microwave systems -----	21	26.5	32	—
48.34	TOCSC-Central Office Control Equipment: Includes assets for general control, switching, and monitoring of communications signals including electromechanical switching and channeling apparatus, multiplexing equipment, patching and monitoring facilities, in-house cabling, teleprinter equipment, and associated site improvements -----	13	16.5	20	—
48.35	TOCSC-Computerized Switching, Channeling, and Associated Control Equipment: Includes central office switching computers, interfacing computers, other associated specialized control equipment, and site improvements -----	8.5	10.5	12.5	—
48.36	TOCSC-Satellite Ground Segment Property: Includes assets such as fixed earth station equipment, antennas, satellite communications equipment, and interface equipment used in satellite communications. Does not include general purpose equipment or equipment used in satellite space segment property -----	8	10	12	—
48.37	TOCSC-Satellite Space Segment Property: Includes satellites and equipment used for telemetry, tracking, control, and monitoring when used in satellite communications -----	6.5	8	9.5	—
48.38	TOCSC-Equipment Installed on Customer's Premises: Includes assets installed on customer's premises, such as computers, terminal equipment, power generation and distribution systems, private switching center, teleprinters, facsimile equipment, and other associated and related equipment -----	8	10	12	—
48.39	TOCSC-Support and Service Equipment: Includes assets used to support but not engage in communications. Includes store, warehouse and shop tools, and test and laboratory assets -----	11	13.5	16	—
	Cable Television (CATV): Includes communications-related assets used to provide cable television (communications antenna television services). Does not include assets used to provide subscribers with two-way communications services.				

Asset guide- line class	Description of assets included	Asset depreciation range (in years)			Annual as- set guide- line repair allowance percentage
		Lower limit	Asset guideline period	Upper limit	
48.41	CATV-Headend: Includes assets such as towers, antennas, preamplifiers, converters, modulation equipment, and program non-duplication systems. Does not include headend buildings and program origination assets	9	11	13	5
48.42	CATV-Subscriber Connection and Distribution Systems: Includes assets such as trunk and feeder cable, connecting hardware, amplifiers, power equipment, passive devices, directional taps, pedestals, pressure taps, drop cables, matching transformers, multiple set connector equipment, and converters	8	10	12	5
48.43	CATV-Program Origination: Includes assets such as cameras, film chains, video tape recorders, lighting, and remote location equipment excluding vehicles. Does not include buildings and their structural components	7	9	11	9
48.44	CATV-Service and Test: Includes assets such as oscilloscopes, field strength meters, spectrum analyzers, and cable testing equipment, but does not include vehicles	7	8.5	10	2.5
48.45	CATV-Microwave Systems: Includes assets such as towers, antennas, transmitting and receiving equipment, and broad band microwave assets if used in the provision of cable television services. Does not include assets used in the provision of common carrier services	7.5	9.5	11.5	2
	Electric, Gas, Water and Steam, Utility Services: Includes assets used in the production, transmission and distribution of electricity, gas, steam, or water for sale including related land improvements.				
49.11	Electric Utility Hydraulic Production Plant: Includes assets used in the hydraulic power production of electricity for sale, including related land improvements, such as dams, flumes, canals, and waterways	40	50	60	1.5
49.12	Electric Utility Nuclear Production Plant: Includes assets used in the nuclear power production of electricity for sale and related land improvements. Does not include nuclear fuel assemblies	16	20	24	3
49.121	Electric Utility Nuclear Fuel Assemblies: Includes initial core and replacement core nuclear fuel assemblies (i.e., the composite of fabricated nuclear fuel and container) when used in a boiling water, pressurized water, or high temperature gas reactor used in the production of electricity. Does not include nuclear fuel assemblies used in breeder reactors	4	5	6	—
49.13	Electric Utility Steam Production Plant: Includes assets used in the steam power production of electricity for sale, combustion turbines operated in a combined cycle with a conventional steam unit and related land improvements. Also includes package boilers, electric generators and related assets such as electricity and steam distribution systems as used by a waste reduction and resource recovery plant if the steam or electricity is normally for sale to others	22.5	28	33.5	5
49.14	Electric Utility Transmission and Distribution Plant: Includes assets used in the transmission and distribution of electricity for sale and related land improvements. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102 ..	24	30	36	4.5

KANSAS CABLE TV ASSOCIATION
PERSONAL PROPERTY TAX CASE

Report prepared by

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PROPERTY VALUATION

Currently the Division of Property Valuation of the State of Kansas uses trending factors to update historical costs of property. The trending factors are intended to combine depreciation with inflation in order to value personal property owned by cable TV companies for ad valorem tax purposes.

The process of determining the market value of an asset involves utilizing the following formula:

$$\text{Market Value} = \text{Historical Cost} \times \text{Trending Factor}$$

The trending factor is determined by the economic life of the asset and a measure of inflation. The Kansas Division of Property Valuation currently uses the Consumer Price Index as the measure of inflation.

THE CONSUMER PRICE INDEX

The Consumer Price Index is the name typically applied to the statistic that measures changes in prices of a large number of goods and services purchased by the typical household. The underlying concept is to measure the change in the cost of a fixed market basket of goods and services. While, from time to time, the market basket does change such changes are accounted for in the construction of the Consumer Price Index. This index is compiled and published monthly by the Bureau of Labor Statistics.

The Consumer Price Index is a Laspeyres Index. The formula is:

$$\text{Index}(t) = \left[\frac{\sum P(t)Q(a)}{\sum P(0)Q(a)} \right] * 100$$

P is price

Q is quantity

\sum is the summation of products of price and quantity

t is the time period to which the index refers

a is the base period for quantity weights

0 is the base period to which the prices refer

The seven major categories in the Consumer Price Index and their weightings are:

<u>Categories</u>	<u>Weighting</u>
Food and beverage	18.8%
Housing	42.9
Apparel	7.0
Transportation	17.7
Medical Care	4.6
Entertainment	4.5
Other	4.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, The Consumer Price Index: Concepts and Content over the years, May 1978 (revised), p. 8.

Each of the categories is broken down into sub categories. As an example, the Housing Component of the Consumer Price Index is included as Table I.

Table I

HOUSING

Shelter

- Rent, residential
- Other rental costs
 - Lodging while out of town
 - Lodging while at school
 - Tennants insurance
- Homeownership
 - Home purchase
 - Financing, Insurance and Taxes
 - Property Insurance
 - Property taxes
 - Contracted Mortgage interest Costs
 - Maintenance and repairs
 - Maintenance and repair services
 - Maintenance and repair commodities

Fuel and other utilities

- Fuel oil, coal and bottled gas
 - Fuel oil
 - Other fuels
- Gas (piped) and electricity
 - Electricity
 - Utility (piped) gas
- Other utilities and public services
 - Telephone services
 - Local charges
 - Interstate toll calls
 - Intrastate toll calls
 - Water and sewerage maintenance

Household furnishings and operation

- Housefurnishings
 - Textile housefurnishings
 - Household linens
 - Curtains, drapes, slipcovers and sewing materials
- Furniture and bedding
 - Bedroom furniture
 - Sofas
 - Living room chairs and tables
 - Other furniture
- Appliances including TV and sound equipment
 - TV and sound equipment
 - Television
 - Sound equipment
 - Household equipment
 - Refrigerator and home freezer
 - Laundry equipment
 - Other household appliances

THE PRODUCER PRICE INDEX

The Producer Price Index, formerly known as the Wholesale Price Index, is one of the oldest continuous statistical series published by the Bureau of Labor Statistics. The Index was first published in 1902.

The Wholesale Price Index was designed to measure price changes for goods and services sold in primary markets in the United States. In 1978 the name of the index was changed to Producer Price Index to indicate that the index measures changes in selling prices received by producers from whoever makes the first commercial purchase.

The Producer Price Index is currently undergoing a comprehensive overhaul. By the mid 1980's all indexes will be calculated using the new methodology. As of January 1982, nearly 3,450 commodities were included in the PPI. The Bureau receives some 18,000 price quotations per month. The data base is being expanded every six months until all 493 manufacturing and mining industries are included in the index. Under the new methodology the Bureau will receive some 90,000 price quotes and publish 6,000 product indexes.

The prices used in constructing the index are those that apply to the first significant transaction in the United States. The prices are generally collected the Tuesday of the week containing the 13th day of the month. Prices are based on actual transaction prices. Companies are to report prices less discounts, allowances, and rebates. Prices are generally f.o.b. production or central marketing point to eliminate affects of transportation changes.

Although prices of goods are reported each month it is necessary to make adjustments for quality changes. A new price series resulting from quality changes is substituted for the earlier series. The substitution is done by direct comparison or linking. Linking is a process designed to determine only the change in price which was not due to a change in quality.

As an example of linking consider the following situation. In September an antenna dish cost \$20,000. In October the dish cost \$22,000. However, the new dish has a motorized, chain driven, automatic rotation system not included on previous models. The addition to the system cost \$1,850. The linking process establishes a September dish price of \$21,850 ($\$20,000 + \$1,850$). Thus the change in price, not attributed to quality change is .6% ($\$22,000 / \$21,850$). Thus, the purpose of the linking process is to eliminate all quality changes when measuring changes in the Producer Price Index.

The specific items in the Producer Price Index are designated both by Industry Code and by Product Code. For example, Semiconductors and Related Services are Industry Code 3674. The components of the industry are shown in Table II.

Table II

SIC Code 3674

<u>Product</u>	<u>Product Code</u>
Primary Products	3674-P
Integrated circuits	3674-1
Digital monolithic integrated circuits	3674-1A
Bipolar	3674-12
Memory	3674-121
Other	3674-12105
Logic	3674-122
Transistor logic	3674-12216
other logic types	3674-12226
Metal oxide on silicon	3674-13
Metal processor	3674-13128
MOS except Microprocessor	3674-132
MOS memory	3674-13231
MOS digital	3674-13232
Amplifier	3674-14116
Interface	3674-14219
Voltage regulator	3674-14117
Hybrid integrated circuits	3674-11
Film interconnected devices	3674-111
This film	3674-11111
Multi chip type	3674-11216
Transistors	3674-2
Signal	3674-21
Power	3674-22
Regular	3674-222A
10 watts and over	3674-22267
Diodes and rectifiers	3674-3
Signal diodes	3674-31122
Zener diodes	3674-31194
Semiconductor rectifier	3674-32242
Other Semiconductor devices	3674-9
Optoelectronic devices	3674-91
Thyristors	3674-921
Semifinished parts	3674-925
Secondary products	3674-S
Other secondary parts	3674-SSS
Electronic components	3679-S

CABLE TELEVISION

It can be demonstrated that the CPI is not indicative of price changes to Cable TV Companies. These Companies do not face the types of costs shown in Table I. The price changes facing Cable Companies may be more accurately reflected by the Standard Industrial Classification 3674, Semiconductors and Related Devices. The following Table compares the Consumer Price Index and the Price Index for SIC 3674.

Table III

INDEX TABLES

Year	CPI	SIC 3674
1982	289.1	90.8
1981	272.4	90.9
1980	246.8	90.6
1979	217.4	84.8
1978	195.4	85.3
1977	181.5	91.0
1976	170.5	96.7
1975	161.2	102.0
1974	147.7	99.4
1973	133.1	92.4
1972	125.3	91.8
1971	121.3	93.9
1970	116.3	95.6
1969	109.8	92.6
1968	104.2	92.3

The base year for the Consumer Price Index is 1967.

The base year for the SIC Code is 1967 for the years 1970 to present. The 1968 and 1969 figures have a base period of December 1966. The 1968 and 1969 have not been changed to the 1967 base. However, if the 1968 and 1969 figures were adjusted to the 1967 base both indices would be slightly higher.

It should be noted the Consumer Price Index has increased almost three times from 1968 to 1982. This can be seen by dividing the 1982 CPI by the 1968 CPI [$2.77 = 289.1 / 104.2$]. However, the index for the Standard Industrial Classification Index 3674 has declined slightly over this same period of time, currently standing at 98.37 percent of the 1968 index [$.9837 = 90.8 / 92.3$].

TRENDING FACTORS

The "1983 Trending Factors" Table, as published by the Division of Property Valuation, has estimated the inflation rates for 1982 and 1983. Since it is not the purpose of this presentation to evaluate the accuracy of the forecasts used by the Division, the following Table uses data published by the U.S. Department of Labor, Bureau of Labor Statistics. The base year is 1982, this is the most current data available.

The inflation factor is the Current Consumer Price Index divided by the Historic Consumer Price Index. For example, the 1970 inflation factor would be $2.7745 = [289.1 / 104.2]$.

Table IV

INFLATION FACTORS

Year	CPI	SIC 3674
1982	1.0000	1.0000
1981	1.0613	0.9989
1980	1.1714	1.0022
1979	1.3298	1.0708
1978	1.4795	1.0645
1977	1.5928	0.9978
1976	1.6956	0.9390
1975	1.7934	0.8902
1974	1.9573	0.9135
1973	2.1720	0.9827
1972	2.3073	0.9891
1971	2.3833	0.9670
1970	2.4858	0.9498
1969	2.6330	0.9806
1968	2.7745	0.9837

This Table again dramatically demonstrates the significant difference in the price changes reflected by the two indexes.

The trending factor is computed as follows:

$$TF = [CCPI/HCPI] / [(HC - AD)/ HC]$$

where

TF = Trending Factor

Inflation Factor

CCPI = Current Consumer Price Index

HCPI = Historical Consumer Price Index

Asset Base

HC = Historical Cost of Asset

Typically the purchase price

AD = Accumulated Depreciation

In calculating the trending factors the Division of Property Valuation uses a straight line depreciation computation with a ten percent salvage value. This translates to an annual depreciation expense of 30 percent of historical cost for the class of assets having a three year life, 18 percent for the class of assets having a five year life, nine percent for the class of assets having a ten year life, etc.

After calculating the trending factor, as explained above, the Division then reduced the trending factor by fifteen percent. Tables V and VI compare the differences in trending factors using the Standard Industrial Classification Number 3674 and the Consumer Price Index as a measure of the rate of inflation. For illustrative purposes Table V is for classes of assets having a five year life. Table VI is for classes of assets having a ten year life.

As indicated in Tables V and VI, there are significant differences in the trending factors computed using the Consumer Price Index and the Standard Industrial Classification 3674. The trending factors based on the Consumer Price Index results in more than doubling the value of the taxed assets when compared to the Standard Industrial Classification 3674.

Table V

Trending Factors 1982 Guide
Using CPI and SIC 3674
5 year life 10% salvage value
Without 15% reduction
in trending factor

Year	Base	CPI	CPI Factor	SIC 3674	SIC Factor	Difference
1982	1.00	1.0000	1.00	1.0000	1.00	
1981	.82	1.0613	.87	.9900	.81	7.4%
1980	.64	1.1714	.71	1.0022	.64	10.9%
1979	.46	1.3298	.61	1.0708	.49	24.5%
1978	.28	1.4795	.41	1.0645	.30	36.7%
1977	.10	1.5928	.16	.9978	.10	60.0%

Table VI

Trending Factors 1982 Guide
Using CPI and SIC 3674
15 year life 10% salvage value
Without 15% reduction
in trending factor

Year	Base	CPI	CPI Factor	SIC 3674	SIC Factor	Difference
1982	1.00	1.0000	1.00	1.00	1.0000	
1981	.91	1.0613	.97	.9989	.91	6.6%
1980	.82	1.1714	.96	1.0022	.82	17.1%
1979	.73	1.3298	.97	1.0708	.78	24.4%
1978	.64	1.4795	.95	1.0645	.68	39.7%
1977	.55	1.5928	.88	.9978	.55	60.0%
1976	.46	1.6956	.78	.9390	.43	81.4%
1975	.37	1.7954	.66	.8902	.33	100.0%
1974	.28	1.9573	.55	.9135	.26	111.5%
1973	.19	2.1720	.41	.9827	.19	115.8%
1972	.10	2.3073	.23	.9891	.10	130.0%

Table VIII recomputes the trending factors using Standard Industrial Classification 3674 as the measure of price changes. In order to recompute the 1983 trending factors it was necessary to forecast the inflation for 1983. Based on the historic performance of the Standard Industrial Classification 3674 no price change was projected. The results are shown in Table VII.

Table VII

1983 Trending Factors
Using SIC 3674

Purchase Year	3 Years	5 Years	7 Years	10 Years	12 Years	15 Years
1983	1.00	1.00	1.00	1.00	1.00	1.00
1982	.60	.70	.74	.77	.79	.80
1981	.34	.54	.63	.70	.72	.75
1980	.08	.39	.52	.62	.66	.70
1979		.25	.44	.58	.63	.69
1978		.09	.32	.50	.56	.63
1977			.20	.37	.47	.54
1976			.08	.30	.38	.46
1975				.21	.30	.39
1974				.15	.25	.36
1973				.08	.21	.33
1972					.15	.28
1971					.08	.23
1970						.18
1969						.13
1968						.08

Table VIII

INFLATION FACTORS

SIC 3674
1983 Current Year
Assuming no inflation in 1983

Year	SIC 3674
1983	1.0000
1982	1.0000
1981	0.9989
1980	1.0022
1979	1.0708
1978	1.0645
1977	0.9978
1976	0.9390
1975	0.8902
1974	0.9135
1973	0.9827
1972	0.9891
1971	0.9670
1970	0.9498
1969	0.9806
1968	0.9837

CONCLUSIONS

A comparison between the trending factors published by the Division of Property Valuation and that shown in Table VII, using Standard Industrial Classification 3674, indicates a consistent pattern of excessive valuation of the assets for tax purposes.

Class of Assets	Excess Valuation
3 years	5.44%
5 years	12.12%
7 years	20.36%
10 years	34.90%
12 years	45.32%
15 years	60.58%

For the Cable Television Industry the Standard Industrial Classification 3674 is a more accurate indicator of industry price changes. The trending factors based on 3674 are significantly different from the trending factors based on the Consumer Price Index and would result in a much lower property valuation.

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EXHIBIT "E"

<u>Selected Head-end Equipment</u>	<u>Purchase Year</u>	<u>Cost</u>	<u>1983 List (new)</u>	<u>Used Price</u>	<u>Assessed Value per guidelines</u>
Jerrolds Pass Band Fitter	1971	92	93	65	90
Jerrold Processor CMMP-3	1976	1,732	not manufactured	895	1,801
Jerrold Module IFC-6	1977	406	472	250	426
Sci. Atlanta 6601 Receiver	1979	2,775	---	1,890	2,802
Sci. Atlanta Modulator T9	1981	1,751	---	940	1,540
4.5 Meter Antennae	1979	12,485	4,200	---	12,609
Low Noise Amplifier 120K	1978	2,520	325	---	2,620
Terracom Receiver	1978	6,490	2,350	---	6,750
Andrew Earth Station and related Electronics	1976	96,000	16,000	---	99,840

1 A. Right.

2 Q. And then you supervised Mr. Cooper?

3 A. Well, both.

4 Q. Does Mr. Kingman report first to Mr. Cooper or
5 does he also report directly to you?

6 A. Oh, we're fairly loose in that regard. My door
7 is open. He can come in and see me if John's not around.
8 We're not structured where he has to go to John first and
9 then me, you know.

10 Q. If there was an organization flow chart of those
11 three, Mr. Kingman would be lower and then Mr. Cooper in
12 the middle and you above both of them, correct?

13 A. That's correct.

14 Q. When was it first brought to your attention that--
15 by your staff that there ought to be some changes made in
16 cable TV tangible property assessment?

17 A. I'm guessing it was in 1982 sometime.

18 Q. And who brought that to your attention?

19 A. Both John and Henry.

20 Q. Can you tell us, you know, how they put it?

21 A. Very simply they felt that cable TV wanted to
22 deal exclusively in the cost area and did not want to look
23 at the market approach or the income approach to value and
24 that the cost approach under the previous guidelines in
25 their opinion was nowhere close to market value.

1 Q. At that time, at the time they first contacted or
2 discussed this with you in 1982 did you personally have any
3 sufficient basis for either agreeing or disagreeing with
4 them?

5 A. No.

6 Q. Were you aware prior to 1982 of any work being
7 done by Mr. Kingman in evaluating cable TV companies and
8 their property?

9 A. Yes.

10 Q. Was this something that he had been doing at your
11 direction?

12 A. It was an ongoing, I believe, study that he had
13 started back in the late '70's.

14 Q. Did he make any periodic reports to you or to
15 your knowledge your predecessor in regard to what he was
16 finding in this study?

17 A. I can't speak for my predecessor but for myself
18 he would try to gather up as much information as he could
19 in terms of sales that were according and also would look
20 back into the income analysis.

21 Q. All right. This had been an ongoing thing even
22 prior to 1982 then?

23 A. Well, that was something he was looking at, yes.

24 Q. Was he also discussing his finding with you prior
25 to 1982?

1 or on an average inventory basis.

2 Q. All right, now, when Mr. Kingman and Mr. Cooper
3 first brought this problem to your attention in 1982 I
4 believe you indicated at that time you didn't have a basis
5 to either agree or disagree with their conclusions, is that
6 correct?

7 A. That's correct.

8 Q. What reason did they give you for believing that
9 the then existing system of taxing cable TV tangible
10 personal property was inadequate or inappropriate?

11 A. The sales and the income approach which they were
12 utilizing.

13 Q. You mean the income as to an entire cable TV
14 system?

15 A. The income that would be derived from a cable TV
16 system, yes.

17 Q. Just so we can be absolutely clear, you presently,
18 the State of Kansas or the local counties, do not have the
19 authority to tax a cable TV company, is that correct, as a
20 going business?

21 A. I think we have the obligation of valuing the
22 property that the cable TV system has.

23 Q. The tangible personal property, correct?

24 A. The property which they have, yes.

25 Q. Well, do you have any statutory or other

1 authority to tax anything other than tangible personal
2 property?

3 A. I believe that they fall under 503, 79-503.

4 Q. Do you have any authority to tax anything other
5 than tangible personal property of the cable TV company?

6 A. I think, you know, our authority lies in 79-503.
7 I'd be more than happy to read that for you.

8 Q. All right. Are you not able to answer yes or no
9 whether you believe you have authority to tax other than
10 tangible personal property?

11 A. What I believe is that our authority to tax cable
12 TV companies come under 79-503.

13 Q. All right. What does 79-503, say?

14 A. If you would care to hand me a statute book I'd
15 be more than happy to read it to you.

16 Q. I don't have mine handy with me. I'm sure we
17 have one someplace.

18 MR. DICKINSON: I've got a copy of it if you want
19 to look at it?

20 A. Yeah, why don't we read it. 79-503A, "Fair
21 market value" means the amount in terms of money that a
22 well informed buyer is justified in paying and a well
23 informed seller is justified in accepting for property in
24 an open and competitive market, assuming that the parties
25 are acting without undue compulsion. For the purposes of

1 A. If it would be it would be in the intangible
2 section, I would suppose. That I'm not clear on. I would
3 expect that they would be like other people and pay an
4 intangible tax on their intangible properties.

5 Q. With respect to the personal property valuation
6 guide for 1982, who on your staff is involved in the
7 preparation of that document?

8 A. On personal property?

9 Q. Yes, it's Exhibit 3 or Exhibit 2 and 3 of our--
10 this document here?

11 A. The whole personal property staff would be
12 involved in the preparation of the Miscellaneous Property
13 Guide but if you're speaking of just cable TV that would be
14 Henry and John.

15 Q. With respect to the entire guide, would that be
16 something that the ultimate approval or disapproval of its
17 contents would be yours?

18 A. Yes.

19 Q. When after Mr. Kingman and Mr. Cooper contact you
20 in 1982 did you become convinced that they were correct
21 that there were some problems with the present method of
22 assessment?

23 A. Shortly after we had a discussion because they
24 had met with some representatives for cable TV. I became
25 very convinced that there was probably a problem in the

1 present or the past method of achieving market value.

2 Q. And why was that?

3 A. The first thing that really convinced me that we
4 were probably correct in our analysis is when I had a visit
5 by Rob Marshall with the association.

6 Q. All right. And what did Mr. Marshall tell you
7 that convinced you?

8 A. That he didn't want to look at any type of sales
9 or didn't want to do an income approach to it. They wanted
10 strictly the cost approach of value.

11 Q. Why do you say that caused you to be concerned
12 about the present method?

13 A. Because I felt that they had something to hide.

14 Q. What deficiencies-- I assume then you're
15 suggesting that the cost approach is not a proper approach?

16 A. I'm suggesting that it could be deficient.

17 Q. All right. What deficiencies do you see in
18 utilizing the cost approach?

19 A. A good appraiser will always want to look at
20 three approaches to value. He'll want to look at the sales,
21 he'll want to look at income approach and he'll want to
22 look at cost approach. They should be taken into context
23 and it was very obvious to me that the industry did not
24 want to deal in sales or the income analysis.

25 Q. Now, when we're talking about sales, using the

1 sales approach, are you talking about sales of an entire
2 cable TV company or sales of a tower or an antenna or
3 subscriber device?

4 A. Both.

5 Q. Can you tell me, please, of what bearing sale of a
6 going business concern would have in valuing the-- of a
7 piece of equipment owned by that business?

8 A. Well, it would have an indication on what its
9 fair market value might be.

10 Q. Can you be a little more specific about how you
11 would analyze that from the going concern sale price?

12 A. Well, we would want to look at the details of the
13 sales and what occurred.

14 Q. Can you be a little more specific. What details
15 would you want to look at to value the tangible personal
16 property?

17 A. Well, we would like to talk to both the buyer and
18 the seller about their analysis on why they bought this.

19 Q. Have you done that in regard to any cable TV
20 company transactions?

21 A. I hope to do that.

22 Q. Then your answer is no, you have not?

23 A. Not to this point but we hope to get to that
24 point at some day.

25 Q. Is the income approach helpful in valuing

1 property that does not by itself generate income?

2 A. I would never ever exclude out an approach to
3 value. I have seen a lot of properties that maybe for one
4 year or the next year do not generate income but typically
5 a commercial or an industrial property is bought on a basis
6 of what type of income it will produce so if it's not
7 producing income I would question why people are buying or
8 selling it. There has to be another motive in there.

9 Q. Well, for example, would the income of my law
10 firm be of any relevance to you in valuing the typewriter
11 on my secretary's desk?

12 A. Well, if we wanted to spar about analysis, the
13 law firms are, I don't think, bought and sold based upon
14 typewriters.

15 Q. Are you suggesting that cable television
16 companies are bought and sold basically upon their hardware?

17 A. I'm suggesting that some properties are bought
18 and sold because of their hardware.

19 Q. Do you know of any such properties?

20 A. Yes, I do.

21 Q. Which properties are those?

22 A. The Mobile Refinery just sold to the Williams
23 Brothers.

24 Q. I'm sorry, I meant cable TV properties?

25 A. Well, if I could finish my answer.

1 Q. All right.

2 A. And it sold all of their property that they had
3 at the refinery along with some other properties and I see
4 no difference between it and the cable TV properties.

5 Q. You see no difference between a refinery and a
6 cable TV company?

7 A. From the standpoint that they sold in
8 conglomerate and there are other occasions where they
9 parcel that stuff out so there are two different types of
10 sales there are-- we would look at.

11 Q. Have you considered any data of sales of tangible
12 personal property of cable TV companies?

13 A. In my discussions with the cable TV industry they
14 were just absolutely hard lined that they would not get
15 into sales approach to value and I have not been able to
16 crack that at this point.

17 Q. You're aware that there are companies involved in
18 selling used cable TV equipment, are you not, that have
19 price lists available for the general public?

20 A. I suspect that there probably are, yes.

21 Q. So there is sales data available for individual
22 property that is not sold with a cable TV system, isn't
23 that correct?

24 A. And there are sales data available for those
25 which sell in totality just like there are with the

1 refineries. There are people that will sell components of
2 that refinery and there are people who buy the total thing.

3 Q. Other than refineries or cable TV companies, is
4 there any other industry in the State of Kansas in which
5 you think it is appropriate to value the tangible personal
6 property of a company based upon the sales price of its
7 entire-- of the entire going concern?

8 A. Oil and gas would be the first one that comes to
9 my mind. I'm sure there are probably others but not, you
10 know, thinking about that.

11 Q. How about newspaper, for example?

12 A. A newspaper could also be, a TV station, a radio
13 station, there is-- probably they would be bought and sold
14 on some type of subscriber basis.

15 Q. Is a subscriber that-- does a subscriber to a
16 cable TV company, newspapers or whatever, constitute an
17 item of tangible personal property that is subject to
18 taxation under the Kansas statutes?

19 A. No. What I think it is is a method of breaking
20 out into a laymen's term in easy definition of where these
21 people are at for equalization purpose.

22 Q. You don't-- you don't claim to have the authority
23 to be able to tax a company on the number of subscribers it
24 has because it has a subscriber?

25 A. What we're saying is that there are many

1 different roads, many different methods to get to valuation
2 that are included within cost, market and income but when
3 you finally break it out so that it's an easily
4 understandable thing rather than just dealing in raw
5 figures, it's very easy to deal in a per subscriber basis
6 or a per barrel analysis or a number of factors. That is
7 just-- that is just a language is what that is.

8 Q. Let's take the case, for example, of a newspaper,
9 the only newspaper in a metropolitan area?

10 A. Um-hum.

11 Q. Now, presumably because it's the only one it can
12 charge its buyers more than if it had competition, right,
13 usually?

14 A. I guess. You know, you're dealing in
15 hypotheticals and it's difficult for me to deal in
16 hypotheticals. It could be higher, it could be lower.

17 Q. You recall the interrogatories and request for
18 admissions that you signed and answered that I had sent to
19 you?

20 A. I think I recall them. I looked at them.

21 Q. You read those over and those were your answers,
22 your signature?

23 A. Yes, yes.

24 Q. Now, I asked you on No. 3 to admit that the 1983
25 Kansas appraisal guide for miscellaneous personal property

1 appraisal guide was intended to increase the assessment of
2 anyone who was following the prior guidelines?

3 A. It was intended to find fair market value.

4 Q. And it was your judgment that the prior
5 guidelines were less than fair market value, correct?

6 A. Yes.

7 Q. With respect to No. 4 you denied that request and
8 I would ask you if your denial is because you didn't know
9 or because you were stating that you did know that there
10 was no such property owned by other companies that was
11 identical or substantially similar to cable TV tangible
12 property?

13 A. Well, I don't think that there was, you know,
14 substantial comparability.

15 Q. All right. Do you have any engineering or
16 technical background training?

17 A. No.

18 Q. Did any members of your staff have such training
19 or background to your knowledge?

20 A. I don't believe we've got any engineering degrees
21 on board.

22 Q. Do you know then what the difference between the
23 satellite dish that's out on the Holidome out west of
24 Topeka and one owned by a cable TV company might be?

25 A. No.

1 Q. And in fact so far as you know they may be
2 identical or substantially similar?

3 A. In my opinion they're probably not comparable but
4 that's a layman's opinion.

5 Q. Upon what do you base that opinion?

6 A. Just experience.

7 Q. Well, they both have the same function, do they
8 not, to get signals off of satellites?

9 A. They could have a different function or I would
10 just suspect, again, based upon just a layman's experience
11 in this area and understanding that I'm not an engineer
12 that there would be a difference.

13 Q. All right. What?

14 A. I might be incorrect, I don't know.

15 Q. Do you know of a difference of purpose in the two
16 satellite dishes? One owned by the Holiday Inn and one owned
17 by cable TV?

18 A. No, I don't know of any difference between the
19 two. I suspect that there is a difference but I don't know.
20 I don't hold myself out to be a technical expert.

21 Q. And would that be the same with respect to say an
22 antenna owned by a cable TV company and an antenna owned by
23 a television station or radio station? Would you have any
24 knowledge as to how those differ?

25 A. I would suspect that one would be more complex

1 than the other.

2 Q. Which would be more complex?

3 A. Well, if you're comparing it to a satellite dish
4 that somebody might have in their backyard versus a
5 television antenna, I would think that the television would
6 be much more complex. The same thing goes with the cable
7 TV system. If you're comparing it to a dish that they've
8 got on top of a Holiday over in Lawrence. I'd think
9 that's fairly simple compared to the equipment that you
10 have in some of your larger cable operations.

11 Q. Well, how about-- we're not talking about dishes
12 in somebody's backyard. How about an antenna that's owned
13 by a TV station, commercial TV station and one owned by a
14 cable TV company? Do you know whether in fact those
15 antennas have any significant difference?

16 A. There could be a difference. Again, I don't know.

17 Q. But again there may not be?

18 A. May not be. Probably is.

19 Q. Is it your understanding that with the present
20 guidelines that those items of property would be taxed
21 differently because of the business in which the owner was
22 involved rather than because of the value of the property?

23 A. Well, I think that there could be a difference?

24 A. Yes.

25 Q. All right. Do you believe it is lawful under

1 television tower would be different than a cable TV tower
2 or cable TV would be different than television, you in fact
3 don't know that there's any difference?

4 A. I would suspect that there is a difference.

5 Q. Why would you suspect that?

6 A. Because they're different operations.

7 Q. Well, speaking of going to court, have you
8 consulted yet with any experts outside of this division or
9 outside of the Department of Revenue in regard to this?

10 A. I believe Henry or John has contacted an
11 individual by the name of Joe Veck (sp).

12 Q. Have you consulted with any of these technical or
13 engineering experts that you've referred to that you would
14 have--

15 A. No. As the case develops if we go to court we
16 will probably consider that.

17 Q. If a technical expert were to substantiate that
18 the satellite dish on the Holiday Inn is essentially similar
19 and may be the same model as the one of the cable TV
20 company and costs the same, would, in your judgment, it be
21 permissible to tax those two items of property differently?

22 A. We would want to look at the two other approaches
23 to value, also. The income and the sales and, of course,
24 there, I think you're talking about substantially different
25 criteria.

1 Q. Do I understand you then to say that you do feel
2 that an identical item of personal property can have a
3 different value for tax purposes depending on who owns it
4 and how much money they make?

5 A. What I'm saying is that the value could be higher
6 or could be lower depending upon the facts of the other two
7 approaches to value.

8 Q. Okay. So it would, in your judgment, be
9 permissible under Kansas law to assign two different values
10 to the same property owned by two different owners if the
11 income and--

12 A. I think you're missing the point. Obviously with
13 the Holidome you're looking at something that's involved in
14 the hotel and motel industry. With the cable TV you're
15 looking at a different analysis there and obviously in the
16 sale of Mr. Brock's Holidome over there, that little dish
17 that's sitting up there is just going to play a little
18 portion of it and there could be a different value that
19 could be assigned to it in comparison to a cable TV system.
20 That is going to be something that is the buyer and the
21 seller would probably tell us what value they placed in
22 purchasing it.

23 Q. That dish has a fair market value as a dish
24 though, doesn't it? Can be bought and sold?

25 A. The dish has a fair market value being bought and

1 sold.

2 Q. All right.

3 A. It has a value to those people who run that
4 particular operation.

5 Q. That's not--

6 A. It might be greater than and it might be less
7 than what the item standing by itself.

8 Q. Okay. That value to the people who run the
9 operation is not what we're taxing, correct? That's not
10 fair market value, would you agree with that?

11 A. Well, the people that are running that operation
12 buy and sell things in conglomerate. Obviously when Brock
13 sells a hotel he doesn't sell it one room at a time or bed
14 at a time or pillow at a time or sheet at a time. He's
15 selling it as an operation and I think that that's
16 something that we have to get in and analyze as to what
17 occurred and I think what the cable TV industry has said to
18 me very clear is that we don't want to look at sales,
19 period.

20 Q. While we're on that subject, have you considered
21 valuing tangible property owned by motels based upon the
22 sale price of the whole motel?

23 A. If they are bought and sold in that manner and I
24 think there is some disagreement as to whether they are but
25 I have talked to a number of people in the hotel-motel

1 you're asking for.

2 MR. TROUP: I'm asking for any of those that were
3 not in compliance with the 20, 15, 7 and with the trending
4 factors and if there was some other adequate justification
5 given then I want to know that, too.

6 MS. SCHERRAKE: Okay.

7 Q. No. 9 of your admissions you denied that the
8 useful lives in the guidelines were not based upon any
9 empirical evidence or data derived from actual experience in
10 the cable television industry in Kansas or elsewhere. Can
11 you state the empirical evidence or data you have to support
12 those useful lives?

13 A. Be the study that the staff had.

14 Q. All right. If there were such data would Mr.
15 Kingman know about it?

16 A. Mr. Kingman or Mr. Cooper, I would imagine.

17 Q. All right. Are you aware that Mr. Kingman has
18 testified under oath that there is no such data and that he
19 has-- that the guidelines were in affect artificial in
20 order to achieve a value that they wanted to reach?

21 A. Well, they were wanting to achieve fair market
22 value and their empirical evidence would be the study that
23 he has done. I understand what you're saying there but we
24 would stand with our admission.

25 Q. All right, Mr. Kingman was asked and I'll just

1 ask if you agree or disagree with his testimony in each of
2 these instances. He was asked to produce at page 79 of
3 Volume one of his deposition any documents that he had to
4 substantiate the 20 year useful life was appropriate for
5 headend assets, fifteen for the subscriber connection,
6 seven for the programer and he answered, "I don't have any
7 documents to substantiate that." Do you agree or disagree
8 with that testimony?

9 A. Well, I think if you look at it from the context
10 of the sales and the income approach that he used also I
11 think that that gets into this particular guide, also.

12 Q. Okay. He was also asked at page 13 of Volume two
13 of his deposition by Mr. Dickinson, "Did you make any
14 effort to determine the actual experience of either Kansas
15 cable TV companies or other cable TV companies as to the
16 useful life in their operations of the assets described in
17 the subscriber connection and distribution system category"
18 and he answered no. Do you agree or disagree with his
19 answer?

20 A. I'll let Henry's statements stand for itself.

21 Q. If he didn't make any such attempt do you know of
22 anyone on your staff or you personally who did make such an
23 attempt to determine actual life?

24 A. What they determined was that of course you're
25 talking about empirical evidence or data derived from

1 actual experience in the cable television industry so I
2 would suggest that are other criteria that are in there.
3 Again, the cable TV industry just wants to deal in the cost
4 approach. That's what this thing is all about and if we
5 ever get down to the point to where we either use sales and
6 income approaches in this thing, then we'll either go
7 forward with this case or it will go away.

8 Q. Well, we wouldn't care about useful lives if we
9 weren't talking about the cost approach, isn't that correct?
10 A useful life is an element in the cost approach?

11 A. Useful life, that is something that is
12 argumentative. I mean it's an argumentative tool that this
13 industry has used for the past decade to keep their taxes
14 equalized on real property.

15 Q. Are you aware of any evidence of any kind to
16 support the suggestion that the cable--

17 A. I will--

18 Q. Let me finish my question. Cable TV tangible
19 personal property actually has in practical useful lives of
20 20, 15 and 7 year as categorized in your guidelines?

21 A. There are possibly some that are out there but
22 from the standpoint of the overall view and, again, we're
23 looking at this from more of the cost approach, I think
24 there's an enhancement to this particular property. Sales
25 will indicate that.

1 Q. Do you agree with Mr. Kingman that the useful
2 lives included in the guidelines were artificial in order
3 to reach a certain predetermined level of fair market value?

4 A. I agree that the guide which we put out would
5 achieve market value. I don't think they're artificial in
6 that regard.

7 Q. So you would agree-- I asked him, "All right.
8 And is it correct that the description of those items as
9 actually having a 20 year economic life or 15 year economic
10 life are in effect artificial in order to achieve that
11 valuation level," and he answered, "That's correct. It was
12 just the end result, all we wanted."

13 A. The end result is what we want to market value,
14 yes, that's what we're looking for is market value and I
15 believe that there is an enhancement to a process to that
16 particular equipment.

17 Q. Can you expound on that a little. What do you
18 mean enhancement?

19 A. Well, the value of the property is enhanced,
20 equally, by the income that it is generating. Again, we
21 come back to the same square one. We're dealing with an
22 industry that wants to deal with cost and cost alone.

23 Q. I understand. You're not talking to the
24 legislative committee now so we don't need to hear the
25 editorials?

1 Q. Now, would the converse of that be correct that
2 if you do have--

3 A. Current cost information.

4 Q. Then you would not need the trending factors to
5 up-date historical cost?

6 A. No, I wouldn't-- no, I wouldn't necessarily go
7 along with that because within the cost approach there are
8 three accepted methods that you can look at. There is
9 original cost, depreciated cost and your trended cost.

10 Q. Under what circumstances would it be appropriate
11 to value property for tax purposes at a higher value than
12 what you can replace that property for, what the owner
13 could replace it for?

14 A. Where the sales indicate that they're above
15 replacement cost.

16 Q. Sales of what, sales of the entire company?

17 A. Sales of the property or in sales of the entire
18 property. I mean we've got to look at the sales, that's
19 the whole thing.

20 Q. Let's talk about an individual?

21 A. Or if the income approach is also indicating that,
22 you know, the properties are earning way above what it's
23 replacement cost is. That would be another.

24 Q. You mean if the income approach justified it. If
25 I've got a thousand-- if I buy today a thousand dollar

1 piece of equipment for my cable TV company, put it in
2 service tomorrow, that it might possibly be justifiably
3 assessed at two thousand dollars if my company is
4 successful, making a lot of money?

5 A. Well, maybe that thousand dollar piece of
6 equipment might be very scarce and sales today is just like
7 the same comparison with the drilling rigs. You might not
8 be able to get that piece of equipment. Here again, we
9 start to deal in hypotheticals.

10 Q. All right. I'm not talking about hypotheticals
11 though. If you have a piece of equipment such as we do in
12 the cable TV industry which is presently available at a
13 price less than what it is assessed at through the use of
14 trending factors, do you feel that the use of trending
15 factors has reached fair market value?

16 A. There again, you're looking at just the cost
17 approach to value and I think you are dealing in
18 hypotheticals because you're not being specific with me.

19 Q. All right. Now, you can keep looking at that for
20 this question. I did ask you to admit that the trending
21 factors in the guidelines are intended to provide an
22 estimate of current replacement cost. Now, after looking
23 at this language there under trending factors in the
24 guideline can you now state whether that's true or false?

25 A. What admission are you on.

1 Q. Fourteen?

2 A. Well, again, I'll stand by my answer that they're
3 designed to get the fair market value.

4 Q. All right. And you're just disclaiming
5 responsibility for the contradiction in the text of the
6 guideline.

7 MR. WHITTMORE: Objection, misstating the
8 contents of the guide.

9 Q. There's no-- you'll agree that there's nothing in
10 the text under trending factors that talks about fair
11 market value, it talks about current replacement cost,
12 right?

13 A. No. It does say, therefore, the indicated market
14 value estimate, so there is market value that is in that
15 guide and it is within the context of all the guides.

16 Q. Please distinguish as used in this page one of
17 the Market Value Guide, tell me the difference between
18 current replacement cost and fair market value as you've
19 used it in there?

20 A. We're indicating in this case that the
21 replacement cost would be the indicator that would be used
22 for market value but the ultimate goal of the guide is to
23 attain market value.

24 Q. Admission No. 15, I asked you to admit that the
25 Miscellaneous Personal Property Guide is based on the cost

1 approach to valuation and you denied that. Do you still
2 deny that?

3 A. Um-hum.

4 Q. The first sentence of the Miscellaneous Personal
5 Property Guide says that the Miscellaneous Personal
6 Property Guide is based on the cost approach?

7 A. Um-hum.

8 Q. Can you please explain or reconcile those, what
9 seem to be, inconsistencies?

10 A. What we're looking at is the three approaches to
11 values, also. The sales and the income, also.

12 Q. Would you agree that there is nothing in the
13 Miscellaneous Personal Property Guide that indicates that
14 you're using any approach other than cost?

15 A. No, but when I put out a guide I have to
16 correlate to those three.

17 Q. No, you don't agree or no--

18 A. I agree that the guide is intended to represent
19 market value but it's based upon my analysis of all three
20 approaches.

21 Q. But it expressly states that it's based upon the
22 cost approach, correct?

23 A. But our answer states we're trying to do three
24 approaches of value.

25 Q. Why didn't you just say in the guide that you

1 were using other approaches other than the cost approach?

2 A. I don't know.

3 Q. What in the guideline would assist a county
4 assessor in using anything other than the cost approach for
5 valuing cable TV company property?

6 A. Sales and income that's in the statute of 503.

7 Q. Please show me in the guide how a county assessor
8 could use that in assessing the sales to income approach?

9 A. Because the guide is intended to achieve market
10 value under 503 and he can use any part of 503 that he
11 wants to.

12 Q. I'm not asking about the statutes?

13 A. I understand that.

14 Q. I'm asking about the guide. You're saying the
15 guide is based not on the cost approach?

16 A. He can deviate from that guide.

17 Q. Now, why in the guide does it give him any
18 guidelines as to how to use any approach other than the
19 cost approach or does it?

20 A. Well, it doesn't specifically give him any other
21 guidelines but it does, you know, state that we are to
22 achieve market value and that's what the whole principal is.
23 Now, if the guy doesn't, then he has all the authority and
24 all the ability to deviate from it that he wants to.

25 Q. Why?

1 A. If he can justify his position.

2 Q. Why didn't you just put out a guide saying
3 achieve fair market value. Why the stuff with the 20, 15,
4 7 years?

5 A. Helps with uniformity.

6 Q. The useful lives would be of any assistance in
7 using the other two approaches, would it?

8 A. That's strictly cost approach but the sales and
9 the income would be another analysis that they could do
10 themselves.

11 Q. Is it correct that there is nothing in the
12 guideline to help the county assessor in using either of
13 those approaches?

14 A. Well--

15 Q. The guideline is only of a benefit if he's using
16 the cost approach, right?

17 A. Right.

18 Q. Thank you. You're aware that there are other
19 price indexes other than the consumer price index?

20 A. Yes.

21 Q. And can you explain why you would not allow the
22 use of trending factors incorporating a price index for
23 electronic equipment or semiconductors?

24 A. We haven't ever seen any information that is that
25 detailed.

1 Q. What do you mean?

2 A. We know of no index that speaks to semiconductors
3 by-- standing by themselves.

4 Q. Are you familiar there is an index for
5 semiconductors and related devices?

6 A. No, I'm not.

7 Q. Okay. That wasn't made available to you during
8 the course of the negotiations with the association?

9 A. Not to my knowledge that I can remember, no.

10 Q. If there were such an index would you consider
11 that that might be useful in adopting trending factors for
12 use in a high technology industry such as cable TV?

13 A. It would be one of the approaches that we would
14 use in adopting a guide to value the cable TV industry but
15 again, I would not put all my weight on that standing by
16 itself.

17 Q. Okay.

18 A. And I think that's again where our breakdown
19 comes whether I'm on a soap box or not.

20 Q. Now, in Admission No. 19 you stated you denied my
21 request that you admit that you acquired no empirical
22 evidence or data with respect to the actual current
23 replacement cost of any item of personal property generally
24 used by cable TV companies in Kansas. Can you please state
25 what evidence you have with regard to actual current

1 types.

2 Q. They don't talk about actual current replacement
3 cost of specific items of property, do they?

4 A. No.

5 Q. Do you have anything like that?

6 A. Not that I know of.

7 Q. Okay. Maybe your denial is because you didn't
8 understand what I was asking in that?

9 A. Right.

10 Q. Would you agree with that then?

11 A. Right.

12 Q. Okay. Now, since you referred to No. 21 I'll ask
13 you about that. I'm intrigued by your suggest that current
14 cost information is irrelevant. I understood you to say
15 earlier it's not the only thing you would use but--

16 A. Well, our goal--

17 Q. How do you determine that the amount that it
18 would cost you to buy a piece of property right now is
19 irrelevant to determining what the fair market value of
20 that property is?

21 A. Well, the relevance is what the market place is
22 doing.

23 Q. Right, and isn't that part of current cost
24 information, what this item would cost?

25 A. Not necessarily, no, not necessarily. Cost and

1 market don't actually equate in all cases.

2 Q. What-- maybe we don't understand what we're
3 talking about or maybe we don't agree on what current cost
4 information means. What does current cost information mean
5 to you?

6 A. Current cost information I guess would be the
7 price that property is bringing at a retail basis.

8 Q. Okay. And you don't feel that that would have
9 any relevance on what that property is worth?

10 A. Not necessarily.

11 Q. You're saying it's irrelevant. As an appraiser
12 you would not even consider what property was bringing on
13 the market today?

14 A. As an appraiser what I would look at is the three
15 approaches to value.

16 Q. Isn't current cost information part of one of
17 those approaches, at least one of those approaches?

18 A. One-third of the cost depreciation. There's
19 depreciated books and trended cost as well.

20 Q. So, how would you say that it is not-- that it is
21 irrelevant to determining fair market value?

22 A. You've got to look at all three approaches.

23 Q. Okay. In other words, it is relevant, it's one
24 of the three factors you would consider?

25 A. Cost is pretty irrelevant though.

1 Q. It is the least important or least relevant of
2 the three approaches--

3 A. Um-hum.

4 Q. --in your judgment? Is that just for cable TV
5 companies or anything?

6 A. That's basically my whole opinion on valuation,
7 that cost information is not probably the better tool there
8 is to use. I prefer to look at sales and the income
9 approach.

10 Q. Is it correct that your intention at the present
11 time is that cable TV property should be taxed upon the
12 going value of the cable TV company as a business entity,
13 the sale price of the entire company or the value of the
14 entire company?

15 A. No, it is our intent to value them according to
16 the statutes in 503 and when we get down with that process
17 we would like to break it out on a per subscriber basis so
18 that we can use that as an equalization tool. Now, that
19 might give us-- the sales will obviously give us benefits
20 in that regard as to what this industry is worth, the
21 income also.

22 Q. You're more concerned with what the industry is
23 worth rather than what the nuts and bolts and the tangible
24 personal property is worth then, is that correct?

25 A. We're concerned with both in that regard.

1 Q. Why are you even concerned with what the business
2 itself is worth?

3 A. Well, because I feel that that gives an
4 indication as to what the nuts and bolts are worth.

5 Q. Do you feel there's anything in a cable TV
6 company other than the value of its nuts and bolts, other
7 than the tangible personal property?

8 A. There could be something else, I don't know. I
9 haven't had the honor to check the sales out yet but if we
10 ever get to that point--

11 Q. As I know it your guidelines are based upon sales,
12 is that correct?

13 A. Right, but the industry has not cooperated, let's
14 say, in that regard.

15 MR. TROUP: I have no other questions. I believe
16 Mr. Dickinson does.

17 MR. DICKINSON: May I proceed?

18 A. Go ahead.

19 MR. DICKINSON: Thank you.

20 MR. WHITMOPE: You have nineteen minutes.

21 CROSS EXAMINATION

22 BY MR. DICKINSON:

23 Q. Mr. Martin, are you familiar with the
24 interrogatories submitted over your name to the World
25 Company doing business as Sunflower Cablevision?

1 intervenor, Kansas CATV Association, your response was
2 quote, the useful lives were based on a review of seven
3 years rendition for the 150 cable systems in Kansas, period.
4 Renditions were reviewed to determine the length of time
5 that the equipment was actually kept, period, unquote.
6 Which is correct, Mr. Kingman's response or yours?

7 A. I think that they both are. It gets back down
8 into a definition of what you're talking about in terms of
9 your study. You know, I view this that we put down as
10 truthful and honest. We have seven years worth of
11 renditions up there and they were reviewed and I understand
12 and I read the portion of his where you said, show me those
13 renditions. Well, I think it gets down into what actually
14 accomplishes the goal that you're asking about. In my mind
15 I was satisfied with the answer that I gave.

16 Q. So you see no inconsistencies between the
17 Kingman's responses and your own?

18 A. That's correct.

19 Q. Also in part two of the Kingman deposition at
20 page 108 beginning on line seven, the statements are as
21 follows and I will need to read this so that you recall
22 what it states. Question by Mr. Dickinson, quote, are you
23 permitting county assessors to exercise any discretion as
24 to whether they will or will not apply the May 2 guidelines.
25 Answer, negative, period. The Director ordered that to be

1 used and followed, period. That's his orders and it's up
2 to them to follow his directive, period. Does that
3 correctly state your position with respect to the
4 permissibility of deviation from those guidelines by the
5 county appraisers?

6 A. No, it would not.

7 Q. What then is your position with respect to
8 deviations?

9 A. That they can deviate from our guidelines with
10 documentation as to why they did.

11 Q. Have you informed Mr. Kingman that his position
12 stated in the deposition is incorrect?

13 A. No, I have not.

14 Q. Is it permissible under Kansas law to tax
15 identical personal property at different values depending
16 upon the business in which the property is used.

17 MR. WHITTMORE: I'm going to object to that
18 question. It's been asked several times in this deposition
19 and you're just plowing old ground. Mr. Troup went through
20 that.

21 MR. TROUP: He hasn't asked that.

22 MR. DICKINSON: With all due respect, Mr.
23 Whittmore, I have carefully phrased it.

24 MR. WHITTMORE: You have twelve minutes.

25 MR. DICKINSON: Thank you.

1 from there.

2 A. I thought you said we were going to get over it
3 in two or three minutes.

4 Q. Well, that was--

5 MR. TROUP: That was without objections.

6 MR. WHITTMORE: This was with the one question.

7 Q. I have three or four. Is it permissible under
8 Kansas law to tax personal property at different values
9 depending upon the respective incomes earned by the
10 different users of that identical property?

11 A. Perhaps.

12 MR. WHITTMORE: I'm going to object to that one
13 too?

14 MR. TROUP: He has answer it.

15 Q. Under what circumstances would that be
16 appropriate?

17 A. I can't go into that at this point. They're
18 hypotheticals. Most of your questions are hypothetical
19 questions. If you would be concrete with me in terms of
20 facts that you've got, I'll answer it.

21 MR. DICKINSON: I have no more questions.

22 MR. WHITTMORE: Counsel, any further questions?

23 MR. TROUP: (Counsel shakes head back and forth)

24 MR. WHITTMORE: No questions.

25 MR. TROUP: No, they'll probably get referred

EFFECT OF TRENDING FACTORS ON 1983 PROPERTY TAXES
OF ACME FOUNDRY, INC.

I am Robert D. Graham, President of Acme Foundry, Inc., of Coffeyville, in Montgomery County, Kansas. Our Company manufactures gray iron castings. We were founded in 1914, and now employ approx. 200 people, with sales averaging \$8 and \$12 million annually. We market our product nationally.

During 1982 and 1983, our company's sales reflected the decline in the national economy, and it was only due to drastic cost-cutting measures during this period that we were able to maintain a break-even status. Many foundries across the country were closing at this same time.

In 1983 the Montgomery County Assessor used trending factors to establish the market value of our equipment for tax purposes. As a result, our taxes for 1983 ballooned to over 150% of the prior year amount, while our sales were dropping to less than 50% of 1981 figures. Because of this, our management made a concerted effort to determine the validity of trending factors in establishing the true market value of foundry equipment.

We believe we can now demonstrate that the trending factor multipliers (shown as Exhibit #2 herein) under the 15-year economic life category, which are used for most foundry equipment, are grossly in error and are not applicable for use in determining the fair market value of used foundry equipment in the present day marketplace. We also believe that use of the Consumer Price Index (CPI) distorts these multipliers upward and results in taxable value figures far in excess of the equipment's actual value, and significantly above the prices this type of equipment is currently bringing in today's marketplace.

We attach a letter (designated Exhibit #1) from Mr. James Hudock, of Universal Machinery and Equipment Company, a reputable Used Foundry Equipment Dealer in Reading, PA. In our letter of inquiry to Mr. Hudock, we had referred to the hypothetical example of a piece of used foundry equipment, now 5 years old, purchased new in 1978 at a price of \$100,000.00. The Trending Factors indicate this piece should now have a fair market value of \$94,000.00. In Paragraph 4 of his letter in reply, Mr. Hudock referred to this item and indicated its value would probably be closer to \$60,000 - \$75,000, depending of course on its condition.

Mr. Hudock also enclosed a listing from a foundry liquidation sale (Exhibit #3) of the assets of Alloy Steel Castings Company, of Southampton, PA. Under "Blast Cleaning Equipment" on that list, it will be shown that a 1978 Wheelabrator (5 years old) and its related equipment, is listed at \$60,000.00. He later advised us by phone that this equipment had not as yet sold and has now been "down-priced" to \$50,000.00. This is the same equipment shown as Items 1, 2, and 3 on the Purchase Order copy of Alloy Steel Castings Co., (Exhibit 4 herewith) purchased new in 1978 at a total price of \$146,059.00.

The trending factors indicate that the item above should have a fair market value of \$137,295.00 (94% of its cost when new), and yet it is currently priced at \$50,000., or only 34% of its purchase price, and has not sold.

Furthermore, on the back of the Foundry Liquidation Sale sheet (Exhibit #3, P.2) are listed several British Molding Machines. The manufacturer was contacted to determine the cost when new of the machines, and Mr. Hudock advised us by phone that each was sold at the following prices:

<u>Item</u>	<u>Age</u>	<u>New Price</u>	<u>Selling Price</u>	<u>% of New Pr.</u>
1	1976	\$22,000.00	\$4,500.00	20%
2	1976	22,000.00	4,500.00	20%
5	1978	5,800.00	2,000.00	34%

Items 1 and 2 were sold for \$4,500.00 (20% of their new price) while the trending factors indicate they should have sold for \$19,360.00, or 88%. Item 5 sold for \$2,000.00 (34% of its new price) and the trending factors place its value at \$5,452.00, or 94%. In all cases, the trending factors set the values of this equipment much higher than the prices it is bringing on the open market.

In summation, we believe that present taxable values as determined by the trending factors are far in excess of realistic fair market values for this type of equipment today, and have thus imposed unfair additional taxes on an already heavily economically burdened industry. Furthermore, it would appear to be a foregone conclusion that decisions by new industry whether to locate in Kansas will be negatively impacted by the effect of the tax burden imposed by the trending factors.

We therefore urge this committee to recommend to the legislature the elimination of trending factors as a method for determining taxable values of equipment, in favor of a fairer, more equitable and reasonable method.

Thank you.



UNIVERSAL MACHINERY AND EQUIPMENT COMPANY

1630 North 9th Street • P.O. Box 873 • Reading, Pa. 19603

Telephone (215) 373-5103 • Telex 83-6430

October 4, 1983

Acme Foundry, Inc.
1502 Spruce Street
P.O. Box 908
Coffeyville, Kansas 67337

Attention: Mr. R.D. Graham, President

Dear Mr. Graham:

I read your letter of August 24, and would like to help you and other foundries in Kansas. However, to answer your questions is a rather complex and lengthy explanation.

First, we both know that the useful life on a piece of foundry equipment depends on the individual piece as well as its foundry application. For instance, a shot blast machine is self destructive. A brand new machine will be destroyed within one or two years if it is not maintained. If it is maintained, the machine will operate for 20 or 30 years.

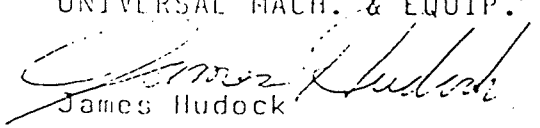
I assume that a foundry operating at full capacity would replace equipment approximately every 15 years. If the equipment is in use after 15 years I would agree on a residual value of approximately 25%. Again, this is an estimate and cannot be true of every machine. A few machines after 15 years may belong in your scrap pile!

I totally disagree, as an across the board example, of a piece of equipment purchased in 1978 for \$ 100,000.00 and today has a value of \$ 94,000.00. If this example is true for the taxing authorities I have not encountered this in the past twelve years of buying and selling foundry equipment. My figures would be close to \$ 60,000.00 - \$ 75,000, assuming a new piece is selling for \$ 150,000.00 in 1983. The bottom line for establishing any value on equipment is the type and condition.

Enclosed are a few examples of purchase price vs. selling price. I hope they are of some use to you. If you require the services of our company to value equipment we are available for \$ 250.00 per day, plus expenses.

Yours very truly,

UNIVERSAL MACH. & EQUIP. CO.


James Hudock

JH/mw
Encls.

1983

TRENDING FACTORS

Purchase Year	Economic Life										Purchase Year
	3 Years	5 Years	7 Years	10 Years	12 Years	15 Years	20 Years	25 Years	30 Years		
1983	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1983
1982	.63	.73	.78	.82	.83	.84	.85	.86	.87	.87	1982
1981	.39	.62	.72	.80	.83	.85	.86	.90	.91	.91	1981
1980	.11	.49	.66	.79	.83	.88	.94	.96	.99	.99	1980
1979		.35	.60	.79	.87	.94	1.01	1.06	1.10	1.10	1979
1978		.14	.49	.74	.84	.94	1.04	1.11	1.14	1.14	1978
1977			.33	.66	.79	.92	1.05	1.12	1.18	1.18	1977
1976			.15	.56	.72	.88	1.04	1.14	1.20	1.20	1976
1975				.45	.65	.84	1.04	1.15	1.22	1.22	1975
1974				.34	.59	.83	1.07	1.22	1.32	1.32	1974
1973				.20	.49	.79	1.09	1.27	1.39	1.39	1973
1972					.36	.70	1.04	1.23	1.38	1.38	1972
1971					.21	.60	.98	1.21	1.35	1.35	1971
1970						.50	.93	1.18	1.36	1.36	1970
1969						.38	.88	1.18	1.37	1.37	1969
1968						.25	.81	1.14	1.36	1.36	1968
1967							.71	1.07	1.34	1.34	1967
1966							.62	1.03	1.29	1.29	1966
1965							.51	.94	1.24	1.24	1965
1964							.39	.88	1.17	1.17	1964
1963							.28	.77	1.11	1.11	1963
1962								.67	1.04	1.04	1962
1961								.60	.96	.96	1961
1960								.40	.89	.89	1960
1959								.41	.82	.82	1959
1958								.30	.74	.74	1958
1957									.67	.67	1957
1956									.60	.60	1956
1955									.50	.50	1955
1954									.41	.41	1954
1953									.32	.32	1953

HOW TO USE: 198 3 COMMERCIAL PERSONAL PROPERTY STATEMENT

PROPERTY LISTING FOR <u>Doe Company</u>								
List and describe all items of machinery, equipment, and supplies which are owned, such as: office machines, furniture, counters, shelving, bins, carts, tools, loaders, plant equipment and all other personal property fixtures and machinery. Add supplemental pages as required.								
Substitution of a computer printout is acceptable if the property is grouped by type, purchase date, and original cost.								
"Appraiser's Use" columns to be completed by county appraiser using appropriate Kansas Appraisal Guide for personal property valuations.								
					APPRAISER'S USE			
ITEM-CONDITION-AGE				Purchase Date	Cost	Economic Life	Trending Factor	Market Value
1.	Billing Machine	(good)	4	6/1978	7,421. x	5	.14	= \$1,039.00
2.								
3.								
4.	Benches and Counters	(good)	13	7/1969	18,642. x	15	.38	= \$7,084.00
5.								
6.								
7.								
8.								
9.								
10.								



Kansas DEPARTMENT OF REVENUE

March 16, 1983

State Office Building TOPEKA, KANSAS 66625

TO: All County Appraisers
FROM: Philip W. Martin, Director, Division of Property Valuation
RE: 1983 Trending Factors - Economic Life Guidelines

The following amendments to the 1983 Miscellaneous Personal Property Guide, Pages 4 thru 6, are issued for your use in the 1983 tax year:

Economic life definition: the estimated period within which an asset may be used profitably.

Banks:

Most bank personal property is either office equipment or merchandising type, therefore, use those schedules for that equipment.

- Drive-thru, walk-up facilities 10 yrs
Vaults 20 yrs

Merchandising:

Shelves, gondolas, display fixtures, material handling equipment for retail or wholesale sales, and other basic equipment used in the routine retail or wholesale sales facility 10 yrs

Refrigeration display equipment and storage equipment used for or designed for use in merchandising facilities, wholesale or retail 10 yrs

Office Furniture and Equipment:

Whether used in an office setting, in a retail or merchandising facility, or in most manufacturing and service situations including file cabinets, desks, chairs, bookshelves, book racks, and other property intended for the use of the staff and employees of the facility (non-electric) 10 yrs

Office Machines:

Including electric typewriters, calculators, adding machines, and non-computer electronic equipment 5 yrs

Computer equipment - from the guide 5 yrs

Manufacturing:

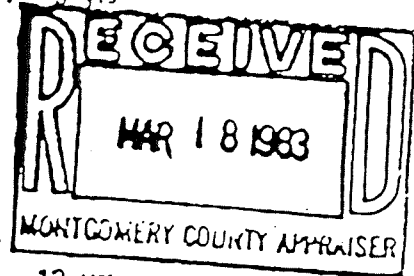
Office furniture is to be handled the same as for merchandising unless the environment is especially damaging to the equipment.

Most General Manufacturing:

Machines and equipment NOT including short-lived dies, jigs, forms, etc., and NOT including hand tools 12 yrs

Foundries and Other Heavy Manufacturers:

Machines and equipment, NOT including molds, dies, jigs, etc., and not including hand tools 15 yrs





VERSAL MACHINERY AND EQUIPMENT CO.
1630 North 9th Street • Reading, PA 19603

• QUALITY EQUIPMENT SINCE 1939 •

BULK F E
U. S. POSTAGE
PAID
PERMIT NO. 201
CLEVELAND, OHIO

EXHIBIT # 3, P. 1

FOUNDRY LIQUIDATION SALE

ALLOY STEEL CASTINGS, SOUTHAMPTON, PA

★ Late Model Equipment - Well Maintained ★

— AIR COMPRESSORS —

Air Compressor, Rotary Type Two Stage, 350 CFM Fuller, Size C70LP, 870 RPM, 100 PSI, Serial No. 8494-A, 70HP G.E. Motor, Heat Exchanger, After cooler and manzel forced lubrication, age 1976, Rebuilt 1983.

Air Compressor, Rotary Type Two Stage, 350 CFM; Fuller, Size C70LP, 880 RPM, 100 PSI, 15135-B, 75 HP, 230/460 V. Heat Exchanger, After cooler, and manzel forced lubricator, age 1981.

Air Compressor Rotary Type, Two Stage, 350 CFM, Fuller, Size C70LP, 75 HP, 880 RPM, 100 PSI, 15356-A Heat Exchanger, After cooler and manzel forced lubrication, age 1979.

Air Compressor, Fuller, Rotary, 2-stage, 200 CFM Type C40411, Serial No. 7171, 1160 RPM, 40 HP.

— BLAST CLEANING —

PRICE \$ 60,000:

Wheelabrator 96" single door swing table, age: 1978, Mag. liners, Serial No. A131374 Dual scrubbers, 10-ton per hour, Sand Reclamation System inc. Dynamic air sand transporter, (2) 30 HP shot wheels, 52" work height.

Wheelabrator 48" Swing Table, 15 HP motor, Serial No. A99255 - single door.

wheelabrator, 20 x 27 Blast Cleaner, Serial No. A52802, rubber belt, 2 years old belt.

Wheelabrator Tumblast, 22 Super (New in 1968), Rebuilt 1978, Serial No. A123329, with skip hoist, Mag. flytes.

Wheelabrator Sand Blast Cabinet, No. 1B, 48" lg. x 24" wide.

— CORE EQUIPMENT —

Shalco U-180 Shell Core Machine, Gas Fired, Serial No. 3868GL, 440 volt, feed hopper, Rebuilt in 1980.

B. & P. SF6BA Shell Core Machine, Serial No. CSC62076204, Manual Feed.

B. & P. SF6CA Shell Core Machine, Serial No. CSC64456510, Manual Feed.

B. & P. CBDH4 Flexiblow Core Machine, Serial No. 3915808.

Redford Cartridge Type Core Blower, Bench Model.

— CRANES & HOIST —

Jib Crane, Free Standing, 360°, W/2 ton electric hoist, trolley type, floor operated, 20 ft. jib arm.

Jib Crane, Free Standing, with 1-ton electric hoist, Shaw Box, pendant operated, monorail type with trolley.

2 — Electric Hoist, 6000 Lb. capacity Monorail type, Pendant Operated.

3 — Electric Hoist, 2-tons, Shaw Box Pendant Operated, Monorail type with trolley.

2 — Electric Hoist, 1-ton capacity, Shaw Box Pendant Operated, Monorail type with trolley.

Electric Hoist, 1-ton capacity, Budget floor operated (old style) Monorail

Electric Hoist, 1/2 ton capacity, Shaw Box Pendant Control, Monorail type, with trolley mounted on jib crane, free standing, 360°.

Electric Hoist, 500 lb. capacity, Lone Star floor operated, Monorail trolley.

Air Hoist, 1-ton capacity, Floor control, chain lift.

— DUST COLLECTORS —

Wheelabrator Pulse Jet, Size 90, Model 108, Type 10, 1,260 sq. ft. Cloth, 10,483 ACFM at 8:32 to 1 ratio. Blower is 30 H.P., Serial No. 131374. Dimensions 8' - 6" wide x 8' - 0" deep x 23' - 4" high. Age: 1977.

American Air Filter, 13,600 CFM, Size 10-120-1650. 2 Hoppers, 50 H.P. Fan, 10' - 0" wide x 9' - 0" deep x 25' - 0" high. 220 Cu. Ft. Hopper capacity, New Bags 1980.

Dust Collector, Pangborn Type CD1, Serial No. 2CD1-5194, 2-hoppers 24" wide x 5' long x 10' high.

Dust Collector, A.A.F., Self contained. Approximately 300 - 500 CFM, single hopper 28" x 30" x 8' high, Age: 1967.

— FURNACES —

Inductotherm 500 KW, Induction Melting Unit VIP, Powertrac, Serial No. 773150024511, 450KW, 529 KVA, 665 amps, 460 volt, 3 phase, 60 cycle, 1250 V. capacitor, 1200 cycle operation. Age 1978.

1 — Inducto Furnace Box - 1000 capacity, Serial No. 112081080, Hoist tilt, front trunion pour.

1 — Inducto Furnace Box, 2000 Lb. capacity, Serial No. 71002580, Hoist Tilt, Front trunion pour.

1 — Spare Coil, 1000 lb. capacity.

1 — Water Cooling System, control by Towermatic, No. 125, includes a BAC cooling tower and a Marly aqua tower, rated 75 tons.

BAC Cooler - Model VNT30D - Serial No. 768264, double fan unit, belt No. A71. Marley Aqua Tower, Serial No. 4633526, Belt B124.

PRICE \$ 7,500.

Ajax Induction Melting Unit, 250 KW, 400 HP, vertical motor/generator, 4160 volt, water cooled 2-bearing.

1 — Inductotherm Furnace Box, 1500 lb. capacity, Serial No. 580487310, Rear Hoist Tilt, Front Trunion Pour.

1 — Inductotherm Furnace Box, 1500 lb. capacity, Serial No. 12484981, Rear Hoist Tilt, Front Trunion Pour.

Heat Treat Oven, 48" wide x 72" long, Surface Combustion Co., Model LO 4872, Serial No. BX34461-1, 2300° Max., 600° Min., Cat. #MODL04872, gas fired, 14-burners, 6 top 8 bottom, refractor is in excellent condition. 36" floor of oven to top of arch, counterweight door with Honeywell circular chart recorder and Honeywell temperature control.

Heat Treat Furnace, Car Bottom Type, Inside dimensions 5' wide x 10' long. Car is 58" wide, counterweight door. Total 12-burners, 6 burners, each side. Burners are combination gas/oil type. Blower and controls

— LABORATORY —

Sand Strength Machine, Dietert #405, Motorized.
 Electric Permeator, Dietert, #338899.
 Ro-Tap Machine, Serial No. 22509, Tyler Industrial Products.
 Electric Permeator, Dietert, #338898.
 Lab Oven, 5" x 4" Inside, Temco, Elec., 115 volt.
 Sand Rammer, Dietert, No. 315.
 Moisture Teller, Dietert, Speedy Type.
 Dietert Balance, Analytical Balance, 0 - 10 Grams.

— MACHINE SHOP —

Swing Frame Cutoff, Fox, 20" dia. wheel, 15 HP.
 Swing Frame Cutoff, Fox, 24" dia. wheel, Model 4C, Serial No. 7754246, 15 HP.
 Swing Frame Grinder, Fox, 20" dia. wheel, 20 HP.
 Swing Frame Cutoff, 20" dia. wheel, 15 HP, Model 6CR, Serial No. 8733960, 14,200 SFPM, recently rebuilt.
 Double End Stand Grinder, 7" dia. wheels, 17" centers, 230 V., 3/4 HP motor.
 Double End Grinder, 18" dia. wheels, 51" centers, direct drive unit, 10 HP.
 Double End Grinder, 12" dia. wheels, 41" centers, direct drive, 5 HP.
 Double End Grinders, Bench Type, 8" dia. wheels, 14" centers, 230 volt, 1 HP motor.
 Double End Grinder, 8" dia. wheels, 18" centers, 3/4 HP, Bench Type, 208 V.
 Do All Band Saw, Model 7S3620, Serial No. 31672447, 440 volt, 3 phase, 60 cycle, Adjustable Table, 15 HP, One speed.
 Drill Press, Walker Turner, Model 711, 1/2 HP, 208 volt, 18 x 24 table.
 Drill Press, Delta.
 Lathe, South Bend, 48" bed.
 Wilson Hydraulic Press, 60-ton capacity, Age: 1956, Model 376, Serial No. 2970.
 Table Saw, Rockwell, #3435, Serial No. 1309706, 38 x 48 table, 12" dia. Jaw.

— MOLDING MACHINES — *\$ 4,500.00 Ea.*

BMM Molding Machine, Type CZ, jolt squeeze pin lift, Model V1990, Serial No. DH4440, 30 x 40 table, Age: 1976, 1500 lb. jolt cap., 12 1/2" draw.
 BMM Molding Machine, Type CZ, jolt squeeze pin lift, Model V1990, Serial No. DH4439, 1500 lb. jolt cap., 30" x 40" table, Age: 1976, 12 1/2" Draw.
 BMM Molding Machine, CK, jolt squeeze, 20 x 55 table, 750 lb. jolt cap., Serial No. DH5236, Age: 1977.
 BMM Molding Machine, CK, jolt squeeze, 20 x 25 table, 750 lb. jolt cap., Serial No. DH2800.
 BMM Molding Machine, OCK, jolt squeeze, 20 x 25 table, 750 lb. jolt cap., Serial No. DH5704, Age: 1978.
 Osborn 712 PJ, stationary jolt squeeze pin lift. *\$ 2,000.00*
 B. & P. Hydraulic Rol-A-Draw, 4025H, 10 HP, hydraulics, Serial No. HRD2126405, Rebuilt in 1979

— PALLET SYSTEM —

Royer 2-Station Pallet System, Serial No. MD4276225, 42" rail width, 45' long, 30 x 72 pallet cars, Total 38-cars with 2-air operated pallet lifts.

— PLANT SERVICES —

1 — Lot Roller Conveyor, 40 ft., in 10 ft. sections, 18" Dia. Rollers, 3" Centers, 2 1/2" Dia. rollers, above rail.
 1 — Lot Roller Conveyor, 40 ft. in 10 ft. sections, includes 4 - 90 turns, 15 1/2" wide rollers, 3 1/2" centers above rail, 1 1/2" dia. rollers.
 120 ft. Heavy Duty Roller Conveyor, 36" wide x 3 1/2" Dia. rollers above rail, 6" centers, 6" rail, 22" height.
 1 — Lot Roller Conveyor, Buschman Mfg. Company, 18" wide, 3" Roller Centers above rail, 2 1/2" Dia. rollers, 3" Rail w/support legs - adjustable, approximately 25 - 10 ft. sections, 2 - 90° turns, 2 - 24" long pivotal transfer rollers

Floor Scale, Toledo, Model 2191, 1600 lb. capacity, Serial #4129, 0 - 1000 lb. scale, Platform is 38 x 46"
 Toledo Floor Scale, Model 2191, Serial No. 3636, Capacity 1600 Lbs., 0-1000 Lbs. in 1 lb. grad. pit type, 38 x 46 weight capacity.
 Scale, Portable, Fairbanks-Morse, 100 Lb. capacity, 18 x 20 platform.
 Modern FA9 Pouring Device, 24" hand wheel, 24" lift, with trolley.
 Modern FA9 Pouring Device, 1500 lb. capacity.
 Tape Embosser, Roover, 135 tape size.

— SAND CONDITIONING —

B. & P. 50A Speedmuller, Serial No. 2986705 forced cooling with overhead batch hopper, Newaygo 10 ft. dia. plate feeder and multitrol controls.
 Continuous Sand Mixer, CE Cast, Model CEL 1000, Single trough, 500 to 1000 lbs. min., 3 - Pumps, Age: 1981. Unit has Enviro-Cone.
 Continuous Mixer, Omega 1, 200 to 300 lb./min., 4 KW, rating on motor, single auger 1976.
 Carver 3GF Mixer, 800 lb. capacity, 15 HP, 36" dia. x 6' high.

— SAND HANDLING/TRANSPORT —

Royer, 3-Station Overhead Sand System, SU-16, 20 cu. ft. hoppers, 8' ctrs. on hoppers, air gates. Overall length is 30'; overall width is 6'. Serial No. C78733, Age: 1978. 2 HP drive, 18" wide distribution belt, air plows.
 2 — Station Royer Overhead Sand Hoppers. Air Gates, 50 cu. ft. serves molding machines, Inv. #3621 & 3620 with overhead 18" wide x 22' long distribution belt with air plows, 20' long x 6' wide support structure.
 Royer Sand Distribution Belt, 20" wide x 52' long, Serial No. C76656, Trough Style, 3 HP Motor.
 Royer Sand Distribution Belt, 18" wide through belt, 3 HP, Serial No. C78782, 30" centers on rollers, 50 ft. long.
 Belt Conveyor, Trough type, Royer 24" wide x 60' ft. long, 40" Ctrs. on rollers, Serial No. C76679, 5 HP, Drive.
 Belt Conveyor, Trough Type, 24" wide x 24' long, 3 HP drive.
 Oscillating Pan Conveyor, 36" wide x 22' long, 17 ft. straight section, 5' is 5° incline. Simplicity Serial No. 324 - PAA3 - 1854, 7" sides, Age: 1976.
 Newaygo Hand Sandy (without overhead sand hoppers). Elevator is 17 ft. high. Serial No. EHS3085, Shop No. 14614, 18" x 30" casing. Unit includes sand hopper for feed.
 2 — Shakeouts, 4' x 6', Simplicity.
 Vibrating Screen, 3' x 6' Simplicity, Age: 1976. Serial No. 236 M702220, Double deck, 2 HP.
 Sand Storage Bin, Free Standing, 8' wide x 6' deep, 8' high straight section, with single hopper.
 Sand Hopper, Free Standing, Single Hopper, with air gate, 40 cu. ft. capacity.
 Bucket Elevator, Newaygo, 45' high, Serial No. EL839, Shop No. 14614, 22 x 40 casing, 9" x 6" x 5" bucket.
 Sand Transporter, Newaygo Dri-Veyor, Serial No. PNP579, Shop No. 14614, Chamber capacity is 2 cu. ft., Hopper capacity is 4 cu. ft., Transport up to 18,000 lbs. per hour.
 Pneumatic Sand Transporter, Dynamic-Air 900 FPM sand speed.
 COMPACTION TABLE, CARVER MODEL 500 - 5000 Vari-Load, Serial No. 2540, New 1977.
 MOLD HANDLER, Cleveland Products, Model H-15, 1500 Lb. Cap., Ser. 22600, Handles Molds 36" to 48", New 1977.

— WELDERS —

Welder, Westinghouse, 400 Amp., D.C.
 Welder, Air Products, 300 Amp.
 Welder, Westinghouse, 400 Amp.
 Welder, Hobart, 400 Amp., Model R400.
 Welder, Miller, SR300, 300 Amp.
 Welding Rod Oven, Electric, 18" dia. inside x 24" long, Temp 100 - 500°F, 1000 watts, 120 V. AC
 Arc Air Station, 10 ft diameter

TERMS OF SALE

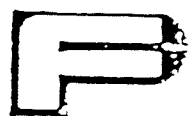
- All equipment offered subject to prior sale, or other disposition, and all sales are final.
- All machinery and equipment being sold on an "as is—where is" basis. Rigging and loading costs to be borne by the purchaser.
- All sales are on a CASH basis. Payment in full must be made in advance of removal.
- The description of items in this brochure are believed to be correct. However, we make no warranty or guarantee, expressed or implied, as to the accuracy of the information contained herein, or the condition of the items being sold.
- Selling agents will assist in obtaining services of qualified riggers for loading and transportation, if desired.



UNIVERSAL MACHINERY AND EQUIPMENT COMPANY

1630 North 9th Street • P.O. Box 873 • Reading, Pa. 19603
 Telephone (215) 373-5103 • Telex 83-6430





RECEIVING COPY

PURCHASE ORDER
 DUNS 00 234 567

PAGE	OF	PL. ORDER NO.
		A-22544

DELIVERY REQUIRED BY: **12 SEPT. 77**
 SHIP VIA: **TRK.**
EXHIBIT #4

SHIP TO: PPD ALLOWED SHIP POINT FACTORY DIST. INATION OTHER SH. BELOW

TO: **WHEELABRATOR-FRYE INC.**
390 REED RD.
BROOKHALL, PA 19008

SHIP TO: **COUNTY LINE ROAD**
SOUTHAMPTON, PA. 18966

SUBJECT TO PENNA. SALES TAX
 PENNA. SALES TAX EXEMPT
 CERTIFICATE NO 09-10721

QUANTITY	STANDARD PART NUMBER	DESCRIPTION	ACCOUNT NUMBER	PRICE
			530-438490 101-43902	
1		96" WHEELABRATOR SWING TABLE		92,692.00
1		10 TPH SAND RELAXATION SYSTEM	\$ 146,059	39,124.00
1		1 ULTRA-JET DUST COLLECTOR		14,233.00
1		SET 3/8" MANGANESE CABINET LINERS		10,705.00
1		SET LONG LIFE IN LINE WEAR PLATES		834.00
1		SHOT ADDING UNIT		814.00
1		SET RECOMMENDED SPARE PARTS		759.45
1		ENGINEERING SERVICE		1000.00
ALL PER TERMS & CONDITIONS OF W/A REP. PROPOSAL NO. 771-TLE-1431(9)				
CONFIRMING TO TED FACETT & MICHAEL KEEGAN				
				WIRAMS/JB

BUYER: DIRECTOR OF PURCHASING
 ALL PAPERS AND INVOICES MUST BE PREPAID WITH P.C. NO. 2. ALL SHIPMENTS TO BE PREPAID. 3. COPY OF BILL MUST ACCOMPANY INVOICES. 4. INVOICE BY TELETYPE TO ATTENTION ACCOUNTS PAYABLE DEPT., SOUTHAMPTON, PA. 5. COPY OF FREIGHT BILL REQUIRED FOR ALL FREIGHT CHARGES.

IMPORTANT THIS ORDER IS SUBJECT TO ALL TERMS AND CONDITIONS SPECIFIED ON REVERSE SIDE.
 PLEASE ACKNOWLEDGE THIS ORDER WITH PRICE AND DELIVERY.
 NOTE: ANY INQUIRIES SHOULD BE REFERRED TO BUYER LISTED ABOVE.

22544

HALL, LEVY, LIVELY, VIETS & DEVORE

ATTORNEYS AT LAW

815 UNION

P. O. BOX 9

COFFEYVILLE, KANSAS 67337

TELEPHONE
AREA CODE 316
251-1300

CLEMENT H. HALL
JOE L. LEVY
JACK L. LIVELY
JON R. VIETS
THOMAS A. DEVORE
MONTI L. BELOT

March 13, 1984

House Assessment and Taxation Committee
State Capitol
Topeka, KS 66612

Re: Trending Factors

Gentlemen:

We are submitting this information in support of Trending Factors legislation, which proposes to eliminate the use of trending factors to value business machinery and equipment for personal property taxes. Appearing for Parmac are R. L. Shadwick, Controller, and Joe L. Levy, Attorney.

We represent Parmac, Inc., of Coffeyville, Kansas, a manufacturing concern, which has been located in Coffeyville since 1919 and is engaged in the manufacturing and production of energy related products. Some two years ago, the employment consisted of 300 persons and was doing a business of \$3,000,000.00 per month. We now have 50 employees and are doing \$250,000.00 per month. Parmac's 1983 personal property taxes were \$250,000.00, approximately one month's gross sales.

The trending factors concept was not implemented until 1983 in Montgomery County, Kansas. Obviously, this came at a very inopportune time as Coffeyville and Montgomery County had the highest unemployment rate in the State and the bottom had dropped out of energy oriented manufacturing business.

As you are probably aware, Phillip W. Martin, the Director of the Division of Property Valuation, has a great deal of authority in establishing guidelines for the application of trending factors, even though the final decision of the application rests with the County Tax Assessor. All property is to be appraised uniformly and equally at its fair market value in money as defined in K.S.A. 79-503 and assessed at 30% thereof. "Fair market value" means the amount in terms of money that a well informed buyer is justified in paying, and a well informed seller is justified in accepting for a property in an open and competitive market, assuming that the parties are acting without

EXHIBIT VII

3/13/84

undue compulsion (K.S.A. 79-503 a). The statute further provides that sales in and of themselves shall not be the sole criteria of fair market value but shall be used in connection with costs, income, and other factors, including, but not limited by way of exclusion: "(d) depreciation, including physical deterioration or functional, economic, or social obsolescence". This portion of the statute is relevant to Parmac's type of equipment in view of the rapid change in technology.

Mr. Martin's office, by letter to all county appraisers on March 16, 1983, for the purpose of establishing trending factors-economic life guidelines, suggested that machines and equipment, not including short lived dies, jigs, forms, etc., and not including hand tools have an economic life definition of twelve years. In the past, we have been subjected to a straight line depreciation schedule of five years with the bottom being 20% of the assessed valuation. Increasing the amount of years allowable to depreciate the economic life on manufacturing plant equipment from 5 to 12 years and with the use of trending factors will more than double the base. For instance, a piece of equipment purchased in 1980 and having an economic life based upon five years would have a market value of 40% of its cost; whereas, on a twelve year economic life, it would have a market value of 83% of its cost. Assuming you are on a five year straight line depreciation, your base has been reduced to 40%, yet under trending factors on a twelve year life, you are increasing the base to 83% with nine years remaining on the schedule. The same piece of equipment purchased in 1978 would, under the straight line method, be valued at 20%. Under the twelve year trending factors method, it is valued at 84%, which is 4 times the old method.

The use of the acquisition cost of a piece of machinery is not a realistic approach to the problem, nor does the application of the economic life ultimately determine the fair market value of the property. As an example, in April of 1983, Parmac sold various pieces of equipment and machinery by public auction, which was well advertised and was well represented by equipment buyers, compatible manufacturers, and representatives of other manufacturing concerns. Based upon prices received at the sale, Parmac has overlaid the current market value to its equipment and machinery as listed for assessment purposes (dated November 4, 1983) and determined that the fair market value is overstated by \$1,100,000.00 or \$48,236.84 in excess taxes. Our appeal is pending on this matter before the State Board of Tax Appeals.

The acquisition cost of all the property was \$1,858,000.00. The sale brought \$811,000.00; thus, indicating the fair market value of the property. The property was appraised at \$829,000.00 on the trending factors method by the county assessor. Obviously,

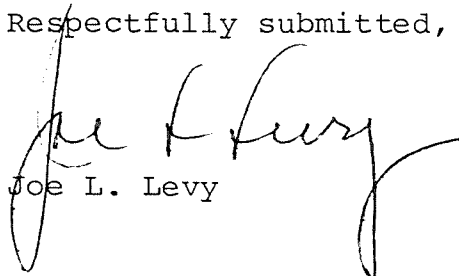
March 13, 1984

this is a standard by which the local assessor could place a fair market value on comparable machinery and equipment still remaining in the Parmac plant rather than following the acquisition cost and then applying the economic life of twelve years. The assessor immediately has the benefit of comparable sales, and a determination could be made by him pursuant to the factors to be considered in determining fair market value pursuant to K.S.A. 79-503a.

Without going to great length and burdening you with figures, Parmac, based upon the 1983 trending factors, is of the opinion that the implementation of trending factors on its present inventory equipment and machinery will increase its taxes approximately \$40,000.00 for 1984. Using the 1983 method has increased the market value 28%.

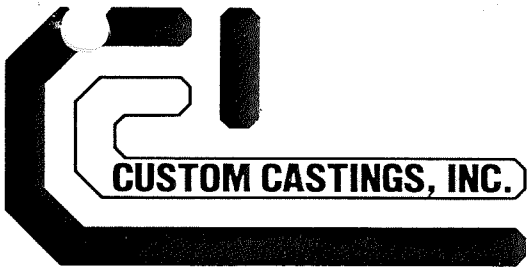
On behalf of Parmac, Inc., of Coffeyville, we respectfully request that you take appropriate action to dissolve the trending factors concept and allow the county assessor to determine the fair market value of the property.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joe L. Levy". The signature is fluid and cursive, with a large loop at the end.

Joe L. Levy

JLL: jh



(316) 251-3633

P. O. Box 711

Coffeyville, Kansas 67337

March 10, 1984

Attention: State of Kansas House Assessment & Taxation Committee
Subject: Trending Factors in Personal Property Valuation

Gentlemen:

My name is Kenneth G. Bristow. I am Vice-President and Manager of Custom Castings, Inc. of Coffeyville, Ks. Our company is located in the City of Coffeyville, Montgomery County, and we produce and supply Grey and Ductile Iron Castings.

Custom Castings, Inc. began operations in Coffeyville in August 1981, hoping to not only provide a service to industry but, also, to provide jobs for the unemployed of Montgomery County.

During the past two years, the Foundry Industry--the fifth largest in the U.S.--has suffered greatly as a result of the economic problems we are all familiar with. At one period, we were losing Foundries at the annual rate of 300 per year.

Without the products that the Foundry Industry supplies, this nation would literally come to a stand still! Grey and Ductile iron castings play an integral part in the construction of many farm implements, automobiles, refrigerations, washing machines, machine tools, homes, etc., etc. The general public comes into contact with our products, or is affected by our products, at least as much as fifty percent of its life.

It is important to the lifeblood of this nation and this State, that the Foundry Industry, as basic as it is, to be encouraged to not only survive but to expand and grow.

The Trending Factor is a particularly vicious way to undermine the stability of the Foundry Industry in Kansas because of the way it "values" our capital equipment. Gentlemen, I submit that it is absolutely ludicrous to suggest that foundry equipment has an economic life of 15 years and to tax us on this, based on the Consumers Price Index.

EXHIBIT VIII

3/13/84

Custom Castings, Inc.

With 28 years experience in this Industry, I believe I am qualified to question the validity of the claim that our equipment has an economic life of fifteen years. Frankly, most foundry equipment will either self destruct or lose its economic functionality within five to seven years of operation. This statement can be substantiated, not only by all of the foundries in this nation and state, but more effectively by the market place.

Appended to this testimony is a Xeroxed copy of a page, Exhibit A, from a Foundry Trade magazine with names of used "Foundry Equipment" dealers who can, at will, be contacted to verify my claims.

Also, appended is a copy of a letter from "Inducto Therm Corp;" Exhibit B, pertaining to equipment within our operation. The equipment referred to is almost 13 years old and cost approximately \$100,000.00 new. The letter catagorically states that the furnaces we are using are completely obsolete and the current power system may have a trade-in value of \$8000-10,000. According to the Trending Factors, that equipment has a current market value of \$60,000.00. Gentlemen, who are we trying to fool!

We have submitted, also, as part of this testimony, Exhibit C, a copy of our Depreciation worksheet which was submitted to the Montgomery County Assessors office. The equipment referred to in that worksheet was purchased, almost in its entirety, in July, 1981, in "used condition" and in a private sale, from R.B. Industires Inc., Pleasent Hill Missouri, for a total cost of \$70,000.00!

As with all industry in Kansas, we do not object to taxation, provided it is realistic and fair. Apart from being totally un-constitutional, the Trending Factor valuation of Industrial Personal Property is grossly inconsistent because it fails to recognize "fair market value."

The continued use of the Trending Factor for computing Industrial Personal Property Taxes in the State of Kansas, particularly in these times of economic depression in the Foundry Industry, will prove catastrophic! Competition in our industry is currently vicious and every cent counts. We are constantly being outbid on contracts by sources from other states, by as much as 50%. In one recent incident, our bid~~d~~ was exoeptionally low by our standards and we were still 59% higher than our competition. Much of our costing relates to overhead--taxes are part of our overhead and

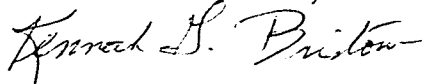
Custom Castings, Inc.

naturally these substantial increases in taxation will force our prices higher. As one might expect, if we cease to be competitive, we will ultimately be forced to close our doors. By contributing to this condition by its policy of increased tax burden being placed on Industry, the State of Kansas will inevitably turn out the loser. What ever taxes may have been available, now become nonexistant!!

On behalf of the forty or so Foundries or Foundry related companies left in the State, I urge this committee to reconsider this unconstitutional form of taxation. I recommend that the State consider a broader base form of taxation.

Currently, the State policy on Taxation can do nothing but alienate Industry location and indeed drive industry in general to more sympathetic locations from which to operate. If industry across the State can be represented by the attitude in Montgomery County, it could lose up to 25% of its revenue from Ad Valorem taxes by substantially contributing to the forcing of such industry into Bankruptcy.

Respectfully Submitted,
CUSTOM CASTINGS, INC.



Kenneth G. Bristow
Vice-President & Manager



INDUCTOTHERM CORP.
A SUBSIDIARY OF INDUCTOTHERM INDUSTRIES INC.

10 INDEL AVENUE RANCOCAS, NEW JERSEY, USA 08073 (609) 267-9000 FAX (610) 683-9392

July 21, 1983

Mr. Ken Bristow
Custom Castings Inc.
P.O. Box 711
Coffeyville, Kansas 67337

Dear Ken:

It certainly was a pleasure speaking with you, and I hope that our conversations were useful for your future planning. At the present time, you now are operating the 200 KW TRI-LINE which operates at 230 KW using 280 KVA, having a melt rate of 700 pounds per hour or 2.5 pounds per KVA.

As we discussed, the new solid state POWER-MELT systems have proven to show an increase in efficiency that more than justifies a good return on investment. The 350 KW POWER-MELT system we talked about will operate at 350 KW using 395 KVA, and having a melt rate of 1400 pounds per hour, or 3.54 pounds per KVA. In other words, the new solid state system has an increase in efficiency of approximately 30%.

The approximate cost of the new POWER-MELT is approximately \$70,000, and assuming that the TRI-LINE is in relatively good shape, I would estimate the trade-in value to be \$8,000-\$10,000.

As an added consideration, we also discussed upgrading your furnaces to the new Dura-Line furnaces, which not only replaces your existing asbestos furnaces but will improve overall refractory and furnace life. The new furnaces are approximately \$10,000. Doing it in this fashion would give you a complete upgrade of equipment, and I am sure an R.O.I. that you should consider.

As an added note, your district manager is Don Miller (318-929-3852), or you can reach any of us in Rancocas at our toll-free number (800) 257-9527. I hope, Ken, this is the information you were looking for. If we can help any further, please give us a call.

Very truly yours,

INDUCTOTHERM CORP.


Paul B. Cervellero
Vice President, Sales

PBC:pn

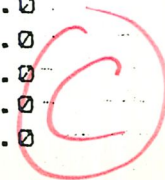
Encl: Bulletin 95, 10-42, Reprint

(B)

CLASS OF PROPERTY	DATE	COST/BASIS	PER.	MTH	PCT.	DEDUCTION
5 YEAR PROPERTY	<i>OF ACQUISITION</i>	<i>NEW</i>	<i>MARKET VALUE</i>			
WHELLABRATOR	08/01/81	1980 30,280.12	20000	5	SL 20.0	6,056.02
2-INDUCTOTHERM FURN.	08/01/81	1971 30,280.12	9000	5	SL 20.0	6,056.02
5-TON VIBRA-MILL	08/01/81	1976 22,710.99	8000	5	SL 20.0	4,542.20
20-TON BUCKET ELEVAT.	08/01/81	1976 1,514.55	✓	5	SL 20.0	302.91
20-T.SAND STOR TANKS	08/01/81	1975 2,270.00	✓	5	SL 20.0	454.00
5-TON SAND HOPPER	08/01/81	1975 379.54	✓	5	SL 20.0	75.91
2500# MANUAL LIFT	08/01/81	1976 379.54	✓	5	SL 20.0	75.91
STAHL AUTOCAST MOLD	08/01/81	1968 304.35	✓	5	SL 20.0	60.87
HYD.LIFT TABLE CONVE	08/01/81	1976 379.54	✓	5	SL 20.0	75.91
HYD.LIFT & TILT TABLE	08/01/81	1976 379.54	✓	5	SL 20.0	75.91
CARVER SAND MIXER	08/01/81	1976 1,514.55	✓	5	SL 20.0	302.91
SETCO 30" SNAG GRINDE	08/01/81	1977 1,514.55	✓	5	SL 20.0	302.91
DYNAMIC AIR COLLECTO	08/01/81	1976 755.47	✓	5	SL 20.0	151.09
UNLOADER #1830	08/01/81	1977 9,083.68	4500	5	SL 20.0	1,816.74
GARDNER DENVER COMP	08/01/81	1968 755.47	✓	5	SL 20.0	151.09
BRIDGECRANK & WRIGHT	08/01/81	1973 454.72	✓	5	SL 20.0	90.94
HITACHI 1-T. HOIST	08/01/81	1978 150.36	✓	5	SL 20.0	30.07
VARIOUS SMALL ITEMS	08/01/81	1974 2,875.12	✓	5	SL 20.0	575.02
COIL	08/01/81	OK 2,616.00	✓	5	SL 20.0	523.20
SAND HEATER	08/01/81	OK 7,970.50	✓	5	SL 20.0	1,594.10
HEATING	08/01/81	OK 5,127.14	✓	5	SL 20.0	1,025.43
COOLING FANS	08/01/81	OK 388.60	✓	5	SL 20.0	77.72
TRANSFORMERS & ETC.	08/01/81	OK 42,670.70	✓	5	SL 20.0	8,534.14
DIGA LAB (DIGITAL EQPT)	08/01/81	OK** 6,269.43	✓	5	SL 20.0	1,253.89
FURN & FIXTURES	08/01/81	OK 574.09	✓	5	SL 20.0	114.82
LEASEHOLD IMPROV.	08/01/81	10,952.00		5	SL 20.0	2,190.56
AIR RECEIVER	03/31/82	1978 103.50	✓	5	15.0	15.52
CABINET	04/01/82	1973 164.22	✓	5	15.0	24.63
22" BRIDGE CRANE	03/31/82	1968 98.33	✓	5	15.0	14.75
600# LADDLE	03/31/82	1975 465.75	✓	5	15.0	69.86
ROOF FANS	03/31/82	1966 155.25	✓	5	15.0	23.29
FLASKS	04/01/82	1972 200.00	✓	5	15.0	30.00
GRINDER	04/01/82	OK 168.44	✓	5	15.0	25.27
CHART RECORDER	04/01/82	1976**	563.95	5	15.0	84.59
TECH T.P. SYSTEM						
FLASKS	05/01/82	1974 600.00	✓	5	15.0	90.00
WELDER	07/01/82	OK 250.00	✓	5	15.0	37.50
SAW	08/01/82	✓ 246.69	✓	5	15.0	37.00
WHEELABATOR & VIBR	09/01/82	D* 355.47	✓	5	15.0	53.32
W/B & BUST COLLECTOR	09/01/82	✓* 1,056.83	✓	5	15.0	158.52
OVERHEAD RELAY MAGS	09/01/82	✓* 177.12	✓	5	15.0	26.57
BLOWER E ENDS & OUT	09/01/82	✓* 512.73	✓	5	15.0	76.91
CARVER MIX	09/01/82	✓* 3,463.40	✓	5	15.0	519.51
BENDICATOR	09/01/82	✓* 234.03	✓	5	15.0	35.10
METER	12/01/82	✓* 375.00	✓	5	15.0	56.25
BATTERY CHARGER	12/01/82	✓* 92.09	✓	5	15.0	13.81
CEILING FANS	05/01/82	✓* 378.69	✓	5	15.0	56.80
DOOR	05/01/82	✓* 303.15	✓	5	15.0	45.47
ELECTRICAL	08/01/82	✓* 6,261.81	✓	5	15.0	939.27

* Elect. Instal. Costs

** THESE ITEMS ELECTRONICALLY or COMPUTED CONTROLLED.



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- 1—B & P 2000# Rollover Draw, 20" Draw
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- 1—B & P Rol-A-Draw, Mdl. HRD-12032H, 12,000# cap., 32" draw, New 1970

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- 1—BMM Mdl. BT-7 Mold Machine
- 1—Do-All V-26 Contourmatic Band Saw
- 1—Whiting Ladle, 5000 lb Geared, Teapot
- 1—Whiting Ladle, 10,000# Geared, Lip Pour
- 1—Whiting Ladle, 20,000# Geared, Lip Pour
- 1—Whiting Ladle, 25,000# Geared, Lip Pour
- 1—Simplicity Oscillating Conveyor, 24" W x 8" D x 65" w/Shakeout Deck
- 2—Osborn, Mdl. 716JPSL, Automatic
- 2—Osborn Mdl. 722, automatic Whisperam—Like New Condition

- 1—Ajax Coreless Solid State, 1000 KW, 1000 Cycle — New 1977
- 1—Inductotherm 400 KW Coreless Tri-Line — (2) Furnaces 1500 & 2000, Water-Cooled, All Hydraulics
- 1—Inductotherm 600 KW V.I.P. Coreless, (1) 500#, (2) 1000#, (3) 2000# Solid State
- 1—Brown Boveri 1000 KW Coreless, Still Installed — 1974 Unit, 7000# Furnace
- 1—Hunter Auto Mold Machine, HMP-10, 1975
- 1—Leco Carbon Sulfur Determinator
- 1—A.R.L. Spectrograph — Brass, Iron, Steel
- 1—Simplicity 4' x 10' Shakeout, Mdl. BG
- 1—Simplicity 6' x 10' Shakeout, Mdl. DE
- 1—Robins 5' x 6' Shakeout, Portable
- 1—Robins 8' x 10' Shakeout, Mdl. MF11
- 1—B & P 70A Speedmuller
- 4—Setco Dbl End Grinder, 30", Var. Speed
- 1—Setco Sgl End Grinder, 30", Var. Speed
- 1—Hanchett Tub Grinder, 53" Wheel
- 1—Wheelabrator 3 cu. ft. Rubber Belt
- 1—Wheelabrator 5 cu. ft. Rubber Belt
- 1—Pangborn 6GN, 6 cu. ft. Rubber Belt
- 1—Wheelabrator 11 1/2 cu ft — Steel Belt
- 1—Pangborn 12GN, 12 cu. ft.
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DISAMATIC 2013 MK1
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40 H.P.M.-2500 States Engineering ringmuller with automatic controls to 6-station molder hopper system, 1000 lb capacity each with Bindicators. 10 H.P. belt conveyor 29" W x 35" L. 20' bucket elevator. Newco shakeout, very good condition. Best offer — subject to prior sale. Phone: 206/767-9880, Attn: R. E. Gould or J. D. Horton.

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Shalco Model 3040 MM shell molding machines. Shalco bonding machines with glue tables. Shalco automatic feed hoppers for 3040 machines. Shalco dust hoods. All this equipment is in "as new condition," used less than one year. **NEWARK ALUMINUM CASTING**, Newark, OH, 614/344-1735.

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Inductotherm 2250 kW Coreless Induction Furnace
Conveyors — Belt Steel Apron, Oscillating Overhead Sand System — 24" x 120", 9-Station States & Carver Sand Mixers
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P.O. BOX 7 • CHERRYVALE, KANSAS 67335 • PHONE (316) 336-2171

My name is Don Willis, co-founder and president of Vallis/Wngroff Business Forms Co., Inc., located in Cherryvale, Kansas.

We started our business in 1964 with four employees - today we have 102 fulltime employees, 82 living in Cherryvale and the other 20 in surrounding communities. Our payroll in 1984 will be close to \$2,000,000.00.

Vallis/Wngroff is locally owned and operated with 94% of our sales generated outside the state of Kansas. With this amount of sales outside the state the trending factors put us in a non-competitive position.

We are a highly capitalized business. In the past three years we have spent over \$2½ million for new equipment. This investment was made necessary by the revolution in computer technology.

Three years ago we produced "unit-set" business forms 100%. Today 45% of the forms we produce are "continuous" business forms. This change in product line requires a heavy investment in high technology equipment.

While, much of our equipment is satisfactory for producing the old "unit-set", it is either sized wrong or not cost effective to produce "continuous" forms for computers. Right now we need to replace a \$12,500 piece of typesetting equipment with new laser equipment that will cost over \$225,000.00. We must improve our product through new technology giving our customers more and at a better price than they can get elsewhere.

I am concerned about foreign manufacturers with their sophisticated technology. We have seen watches, cars, cameras, and steel go to the foreign manufacturers when technology lapsed in the United States.

In December 1971 we built a new building and installed lots of new equipment. Our 1972 personal property taxes were \$5792. In comparison our 1983 personal property taxes were \$62,847 - an increase of \$57,055.

Here are some relative comparisons:



MANUFACTURER MEMBER OF NATIONAL BUSINESS FORMS ASSOCIATION

MEMBER



EXHIBIT IX

3/13/84

The selling price of our product is up	89%
Our hourly wages are up	111%
Number of people employed is up	24%
Total annual sales are up	300%
Personal Property Taxes are up	985%

Our 1982 personal property taxes were \$39,560. Our 1983 personal property taxes are \$62,847. This is a 59% increase in one year.

The trending factors place a high market value on a machine that is possibly mechanically sound while technologically impractical to produce the products we will be selling tomorrow.

I urge you to find a better method to supply our revenue. One that spreads the taxes out among all users of government services.

COUNTY COMMISSIONERS
MONTGOMERY COUNTY
INDEPENDENCE, KANSAS 67301

The House Assessment and Taxation Committee
Representative Braden, Chairman

IN RE: Senate Bill 467 Revised

The problems that we have encountered in Montgomery County by using trending Factors based on the Consumer Price Index and the Economic Life, as provided by the Department of Property Valuation, creates values far in excess of market value.

However, the market values that we are aware of are based on information that the division will not accept.

We had a company located in our county that chose to voluntarily dispose of approximately 1/3 of their equipment on April 14, 1983. Included in the disposition was several items of high quality, late model equipment. The method of disposal that they chose to use was a nationally advertised auction conducted by a reputable and recognized machinery and equipment auction firm. There were 83 prospective buyers registered from 16 states.

The sale results indicated values of approximately 63% of the values that the trending factors indicated.

The County Appraiser's staff visited with the auction company by phone to their home office and their staff indicated that well advertised auctions were the accepted method of disposition for this type of equipment in todays market place.

The Secretary of Revenue Harley Duncan, and Property Valuation director Phillip W. Martin, both stated that we could not use the sales as an indicator of value because Kansas statutes prohibits the use of auctions as an indicator of value. The Statute referred to by these gentlemen refers to forced auctions as a result of Bankruptcies, etc. and not auctions of a voluntary nature which would in part comply in the definition of Fair Market Value wherein a willing buyer and a willing seller would make an agreement to purchase.

We had one other major firm that conducted extensive research in the market place to provide us with documentation of the market value of their equipment. They spent considerable time and money contacting manufacturers, equipment distributors and brokers, searching for used equipment comparable to their equipment. Upon finding a machine comparable to one of theirs they would ask the company what they would take in money for the machine.

We were not allowed to use this information as an indicator of value, as it was not a sale but merely a quote from some salesman.

However, the division was made aware of the fact that in 1980 this company had sold in its entirety, including machinery and equipment. So the vast majority of the machinery and equipment was actually purchased

used and the director instructed our County Appraiser to use a seven year economic life on the equipment instead of the 12 year economic life that he had required to be used on all other industries of this type. Coincidentally, when charted out in graph form, the 7 year economic life and the values determined by the company's research in the market place were very very close.

We had more than one foundry in our county that provided letters from suppliers and dealers of foundry equipment to our County Appraiser indicating an actual monetary life of about 7 years maximum. The Director required us to use a 15 year economic life on all foundry equipment, thus creating a value far in excess of actual market value in money.

It would seem that the results produced by the division's interpretation of Economic Life being:

"The estimated period within which an asset
may be used profitably."

does not comply with KSA 79-503 which states in part:

Fair market value in money shall mean the amount of money that a well informed buyer is justified in paying and a well informed seller is justified in accepting, assuming that the parties thereto are acting without undue compulsion.....

Perhaps if we had trending factors based on industry multipliers and not the CPI and more realistic economic lives, it would create a value more equitable and more acceptable to all parties concerned.

Our observation is that the trending factor decimal system, per se, may be justified as a vehicle, however, it should be up to the individual County Appraisers to determine the exact life of a machine to which this is applied and not a theoretical manual devised by a person in Topeka. It should in no way be applied to the Consumer Price Index, as a lathe in Coffeyville, Kansas has absolutely no relationship to a head of cabbage in Buffalo, New York. A more realistic indicator would be the publication of Industrial Machinery News, which indicates lives and values.

The problem with the system is the entire law which gives the Director of the Department of Property Valuation absolute authority and control. This should be revised statutorily to curb his ability to set up a dominant kingdom as the present Director has done.

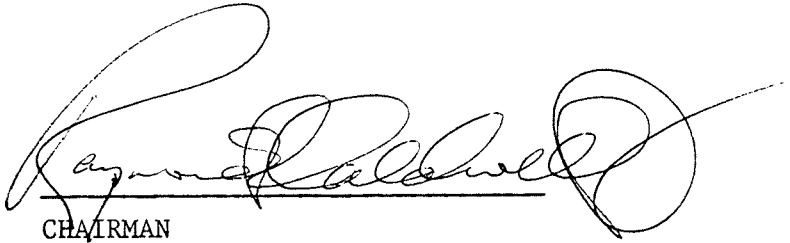
I would advise you that the present situation has totally NEGATED all the fine work done by so many hard working folks in Industrial Development at the State and local level and has almost totally destroyed our ability to attract new industry and thus broaden our tax base.

We, in Montgomery County have lost two major industries in the last two months due to this unfair and unconstitutional method of Valuation. These were large item Products involving the need of expensive machinery and we could not justify the cost of Production, based on this method of Taxation. The net loss of employment was 400 jobs.

It would be our recommendation at this point to accept SB 467 as presented and work to correct deficiencies in the existing laws so

we will not be subjected to situations which existed in 1884 and are not applicable in 1984.

BOARD OF COUNTY COMMISSIONERS
Montgomery County, Kansas

A handwritten signature in cursive script, appearing to read "Raymond Caldwell", is written over a horizontal line. The signature is highly stylized with large loops and flourishes.

CHAIRMAN

Report Urges Pentagon Help Tool Builders

WASHINGTON — The domestic machine tool industry received a boost from the National Academy of Sciences recommending widespread productivity improvement programs from the Pentagon which would enable machine tool builders to benefit more directly from them. The report also urged that these programs get increased congressional funding as separate items in the defense budget.

The report encourages more direct business relationships between tool builders and the military services and suggests implementing a Technology Modernization program to expedite and simplify contracting procedures. Establishing joint industrywide research centers would provide builders with resources now channeled mostly through defense contractors.

Noting a shift in emphasis from domestic to a more global market, the study cautioned that "the current situation is not subject to a quick fix. On the contrary, the only valid solution is one that prepares an already diverse industry for a climate of continuing rapid technological advance and strong foreign competition in domestic and world markets well into the future."

The study, which was requested by the Defense Department, also recommended Commerce Department and machine tool industry cooperation on export promotion, including relaxed restrictions on sales to Eastern Bloc countries of machinery available from other western countries. □

Alan W. Johnson is president of Johnson Hershey Corp. of San Rafael, CA, management consultants specializing in business valuation, marketing and retail systems, serving a wide range of clients. He has more than 25 years of experience with closely held business operations and has authored numerous articles in business publications. In the following article, he discusses the factors involved in negotiating business valuation.

How Much Is A Business Worth ?

Ask any owner about the value of their business and you will probably be handed the latest balance sheet. Something about accounting statements makes us take them as the final opinion. Yet many other considerations apply. Your land or buildings may be under valued on the books. You're well established . . . there are nice perks . . . you have good employees. And then there is your patent. How much do these things add to the value?

Unlike some of the larger publicly-held companies, most metalworking firms are closely-held corporations. The stock is owned by a few individuals or perhaps all in one family. As a result there is little or no market for the stock.

Three Approaches To Value

Professional appraisers use many techniques to arrive at a reasonable worth, but they really

are all variations on three basic themes:

1. **A company is worth what it earns.** For an operating business like a manufacturer or job shop, earnings are the most important benchmark of worth. The past earnings record is one of our few guides to what the future might be. Buyers are interested in future benefits. The investment in inventory, equipment, buildings or leasehold improvements has only one purpose: to generate income.

As a rule-of-thumb, the maximum value most buyers are willing to pay for a typical small business is about five times the current pre-tax annual profits. On the low side, a minimum is the liquidation value of the inventory and equipment. These formulas are dangerous to apply to any specific

See How Much Continued on Page 34

Enter The IRS

Over the years a massive body of law, rulings and court decisions have modified the approach to appraisals. IRS Revenue Ruling 59-60 describes the relevant factors to be used in appraisals:

- The nature and history of the business with close attention paid to the current financial condition.
- The general state of the economy and the condition of the specific industry involved.
- The earning potential of the business.
- The capacity of the business to pay dividends, whether or not any have actually been paid.
- Prior sales of the company's stock to "informed" buyers.
- Evidence of goodwill and other intangible assets.
- Comparison with other similar businesses.
- The book value or net worth of the corporation.

Different weights may be assigned to these factors. Not all apply to every business. The IRS cautions: "Valuation is not an exact science. A sound valuation will be based on the relevant facts, but elements of informed judgment and common sense must enter the process." □



M. M. Ecksel

W. J. Ellison

MDNA Seminar Debates Industry's Role

How can we keep up with technological changes? How have imports helped or hurt your business?

These were just a few of the questions asked Mike Ecksel, publisher of Industrial Machinery News, Southfield, MI and W.J. (Jim) Ellison, president, Ellison Machinery, Santa Fe Springs, CA, keynote speakers at the Machinery Dealers National Association's (MDNA) seminar on current and future trends in the used machinery industry held recently in the Hilton Inn at Detroit's Metro Airport.

The one-day session, attended by over sixty machinery dealers, focused on "the realities of the mar-

ket" that directly or indirectly have an impact on the used machinery business. Several key issues were cited by Jim Ellison in his opening address. Among the challenges facing the industry he noted the importance of the Federal legislative stance on product liability and protection from foreign imports, especially price cutting. According to the latest statistics, he said that there are 1.7 million machine tools on the market, and 215,000 used machine tools in the open market. Keeping pace with technological change is essential to increase U.S. competitiveness in world markets, he said.

The used machinery industry is becoming a more marketing oriented business. Setting objectives, planning strategy, and establishing goals are basic management processes that make up a successful business enterprise, Ellison noted. The key test to profitability is return on invested capital, he added.

In accompanying remarks, Mike Ecksel pointed out that the number of warehousing dealers in the United States has grown steadily since World War II, reaching a peak of 1400 dealers by 1981. Although there are still approximately 1200 warehousing dealers operating today, he said the decline was due to business conditions and the maturity of industry. Needs are changing in the metal

See MDNA Continued on Page 34

IMN index/directory

Turn To Pages 59-66 Of This Issue To Find What You Need Fast!

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3/13/84

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Purchasing

FLORIDA'S SUPERMARKET

Money! Check Our Priced Listings! See Under Power

PRODUCTION MILLS

CINCINNATI Model OT Profiler, 1952	
CINCINNATI 24"x34" Table	\$1,450
RAMM Hydraulic, 10"x30" Table	\$3,950
CINCINNATI Vert. Mill, 1960	\$8,750
CINCINNATI, 1960 RPM	\$4,950
CATT & WHITNEY Keller	\$3,950

VERTICAL MILLS

No. 83-1000 MOOG Machining Centers, 1972	
1 HP "J" Head BRIDGEPORT	
2 HP KONDIA, 42" Table, 1978	\$4,750
No. 20V TREE, 42" Table, Power Feed	\$4,250
No. 4 CINCINNATI, P.D.F., 16"x78" Table	\$12,500
No. 3 CINCINNATI H.S.D.T., P.D.F., (1956)	
No. 2 CINC. H.S.D.T., P.D.F., (1956)	
No. 814 GORTON, 9"x34" Table	\$3,250
No. 12 VAN NORMAN Ram Type, 9"x37 1/2" T.M., (52) \$5,250	

GEAR HOBS & SHARPENERS

No. 358 GOULD & EBERHARDT Hob	
24H GOULD & EBERHARDT Hob, 24" Table, 27" Cap.	\$6,950
No. 3 BARBER-COLMAN Hob Grinder, All Hydraulic, 1963	\$9,250
(2) JOST GLEASON Cutter Sharpener, 1951-1953	\$3,450
No. 7125 FELLOWS Univ. Gear Sharpener (Rebuilt)	\$3,950
No. 3 BARBER-COLMAN Gear Hob, 1940's	\$3,450
No. 1205 MICHIGAN Lead Checker, 1950	

SHAPERS & SAWS—HOR. & VERT.

24" GROB Vert. w/Welder	\$3,250
24" GOULD & EBERHARDT, Heavy Duty	
20" POWERMATIC-Vertical Band Saw, NEW!	
7"x7" PEERLESS High. Hack Saw, 1956	\$1,850
5" STONE Cold Saw, 1978	\$4,950

DRILLS—ALL TYPES

8 Spdl. AVEY Tape Controlled Turret Drill, 1963	
8 Spdl. BURGMASER #28 Turret Drill, 1960	P.O.R.
3 Spdl. ALLEN #28D Drill, 1952	\$2,450
1 Spdl. BARNES #282 Drill, #5 Taper, 1960 (3)	
1 Spdl. BARNES #242 Drill, 10 HP X-Tr. Ht.	
1 Spdl. BAKER #217 Drill, 5 HP, #5 Taper	\$2,950
1 Spdl. BAKER #121, Power Feed	\$2,150
1 Spdl. ALLEN #28D, 1952	\$2,450
1 Spindle CINCINNATI-BICKFORD 28" "Super Service"	\$7,950
1 Spindle CINCI-BICK, 21" "Super Service", 2500 RPM	\$4,750
(4) 1 Spdl. LELAND-GIFFORD 26", Power Feed	(from) \$2,450
5"x13" CINCINNATI-BICKFORD, #5 M.T., Box Table, Excellent	
5" WESTERN Radial Drill, 10 HP	\$6,750
3"x3" ARBOGA, 850 RPM, 1968	\$4,250
3"x3" JOHANSSON Radial, 1800 RPM, 1973	P.O.R.
3"x3" AMERICAN "Hole Wizard", 1500 RPM	\$7,450

BORING MILLS—ALL TYPES

5" SELLERS H.B.M., 48"x36" Table, 62" Vertical	
36" NILES V.B.M., Side Head, 70 RPM, 44" Swing (from)	\$7,250
(2) 4BA HEALD Single End Borematic	(from) \$1,950

JIG BORERS

No. 2 PRATT & WHITNEY Jig Borer	\$4,950
No. 2A PRATT & WHITNEY, Rebuilds, Rebuild	
No. 6080 ATLANTIC, Rebuilds, 1965	
#30A FOSDICK, 44"x22" Tbl, 1500 RPM	

GRINDERS, TOOL & CUTTER & MISC.



LANDIS 10"x24" UNIVERSAL GRINDER

Plunge & Spark-Out

1963—\$19,500

No. 1 1/2 GALLMEYER & LIVINGSTON	\$1,450
No. 2 CINCINNATI Tool & Cutter, Tit Head, 1956	
No. LM CINCINNATI 1" Spiral Point Drill Grinder, 1960	\$1,450
No. 14 STANDARD 14" Double End Carbide Grinder	\$2,150
No. 510 OLIVER Drill Grinder, 3" Capacity, 1958	

FABRICATING EQUIPMENT

Brake Press, 14"x300 TAN PACIFIC Hydraulic, 1968	(units)
Brake Press, 8"x316" LONG & ALLSTATTER	\$4,750
Brake Press, 8"x14" BATH, Wide Bed	\$12,500
Brake Press, 8"x45 TAN VERNON	\$6,950
Brake Press, 4"x316" DRESS & KUMMP, 50 Ton, 1956	
Inverter: 5"x3"x38" KINGSLAND 34 Ton University, 1973	\$6,750
Rolls, Banding: 4"x4"x58" BUFFALO #2, Vertical Angle, 1948	
Shear: 10"x316" PEXTO, 36" Back Gauge, 1970	
Shear: 6"x14 GA. PEXTO, 1964	\$750
Shear: 4"x316" S.P.C., 1977	\$4,950
Shear, Double Angle: 6"x6"x4" COVINGTON	\$8,950

CRANES, BRIDGE

1 Ton to 5 Ton, 18' Span (8)	
------------------------------	--

MISCELLANEOUS

Air Compressor: 80 HP INGERSOLL-RAND w/Tank, 1973	
Air Compressor: 20 HP SCHRAMM	\$1,150
Air Compressor: 20 HP INGERSOLL-RAND	\$1,950
Branch: 12 Ton AMERICAN, 30" Stroke	\$2,950
Cell Cyclic: 5,000 Lb., 60" D.D. Capacity	\$1,450
Compressor: 10"x12" BAUSCH & LOMB, 1970	
Compressor: 14" KODAK (8 Lb.), Like New	
Elec. Disp. Mach.: 80 Amp. CINC. Electro Jet, 72, Rht. \$8,950	
Grinder: 3 HP BOSTON	\$950
Heat Sealer: No. 2CL PACK LITE	\$750
Keypaster: No. 4 DAVIS with Cutters, 1958	\$4,250
Mortising Machine: #294 WYSONG & MILES H.L., 1963	\$2,950
Steel Blast Unit: 36"x48" PNEUMATIC, Nice	\$1,150
Table, Positioning: 24"x34" WARNER & SWASEY M/C	
Table, Rolling: (2) No. 8008 CENTURY Fiberglass, 1978	
Table, Rotary: 28" S/P	\$2,750
Threader, Pipe: 2" BEAVER Type A, 1962	\$950
Threader, Pipe: 4" OSTER No. 304, 1962	\$3,950
Transfer Line: 10 Station GILMAN, 1967	
Welder, Spot: (2) 25 KVA PEER, 1962	
Welder, Seam: 150 KVA TAYLOR-WINFIELD Universal, 1968	

ERS—I.D.—O.D.—& SURFACE

# Hydraulic O.D.	\$14,500
#1 & SHARPE #4 Universal	\$8,950
#4 Universal O.D., I.D. Spindle	\$8,950
#1 & SHARPE #2 Universal O.D.	\$5,950
NATI Universal, Internal Ast., Rebuild 1981	\$29,500
Plain Hyd. O.D.	\$9,950
Type H Universal O.D., Plunge, 1963	\$19,500
Anglo Head O.D., 1968	
NATI Hydraulic O.D. Grinder 10 HP	\$4,450
normal, Hydraulic, Hand Operated, C.S.H.	
normal Grinder (Hydraulic)	\$3,250
normal Grinder (Hand Operated)	\$2,750
normal Grinder, 1967	\$8,750

Incremental Down Feed, P.R.T., 1961

SON Surface, 18" Height, 1954	
SON Hydraulic Surface (1954)	\$8,250
AN & SHARPE Surf., (1) Power Ft.	\$1,950
Hydraulic Surface, 1971	
Two-Way Hydraulic Feed, 1968	\$6,250
LAN Castiron, Hydraulic Dresser (2) 1968	
I.D. Grinder	

PUNCH PRESSES

RA #77HE S.S.D.C., 3" Stroke, 20" S.H.	
IRD O.B.L., 8" Stroke, 14" S.H.	\$12,500
A O.B.L., 3 1/2" Stroke, 12" S.H.	\$8,250
O.B.L., 4" Str., 12" S.H.	
R O.B.L., 4" Str., 11" S.H.	\$7,950
B.L. 5 1/2" Str., 14" S.H.	\$6,950
Str., A.C., 1968	\$12,500
S O.B.L., 4" Str., 9 1/2" S.H.	\$4,950
IG Press, 6" Str., 20" S.H. (1955)	
A O.B.L., 3" Str., 1963	\$5,950
A O.B.L., 4" Str., 9 1/2" S.H.	\$4,250
O.B.L., 1 1/2" Str., 7" S.H.	\$950
Hydraulic, 10" Str., 1966	\$6,950
Hydraulic, 14" Str.	\$1,250

FORK LIFTS

STER Hand Truck, 5' Lift, 1970	
Hand Truck, 150" Lift, 1960's	
Hand Truck, 10' Lift, 1964	
Hand Truck, 5' Lift, 1960's	
CHALLENGER Hand Truck, 11' Lift, 1964	
WAGYORS Hand Truck, 5' Lift, 1963	
Hand Truck, 5' Lift, 1968	

NET AND PRODUCTION S & SCREW MACHINES

Bar Feed & Tbl. (1958)	
31"x1" Hubs, 15" 3-Jaw	\$7,250
31"x1" Hubs, 800 RPM	\$3,450
Hubs, 1500 RPM, 1964	
Hubs, 18" 3-Jaw	\$4,950
LANGRAN Hydraulic Bar Feed, Tending, 1968	
ER & SWASEY, 2 1/2" Hubs Bar Feed	
ER & SWASEY, Square Head, Bar Feed, Tending 1968	
ER & SWASEY, 2 1/2" Hubs, 650 RPM	\$5,750
2 1/2" 730 RPM	\$4,950
ER & OLIVER, 2 1/2" Hubs, 650 RPM	\$4,450
Hubs, Bar Feed, 2000 RPM, 1964	
STRAND, 10-Hub Shims, 400 RPM (from) \$3,950	
STRAND, 1960	
STRAND, 1960 RPM	
STRAND, 1960 RPM, 1968	\$8,500
"Shimaster" 1968	
Str., 1972	P.O.R.
Inds. Automatic, 1963	
Inds. Automatic, 1963	
Inds. Automatic, 20 HP, 1963	
SHARPE WIRE: 20 HP	\$3,450
1, 6 Rebuild 1968-A-Mechan.	

ODGERS MACHINERY COMPANY

ORZONTAL MILLS	
REBUILT: Rebuilds/Vertical, 1971	
TL 20 HP, 42" Table Travel	\$6,950
EE, AC Table Travel	\$6,950
H, 1200 RPM, 32" Table Travel	\$6,950
IT, REBUILT, Rammer Operation	
Type, 1000 RPM, 20" Table Travel	\$4,250
Table, 1200 RPM, 20" Table Travel	\$4,250
AT, Table Travel, Vertical Mill, 1957	P.O.R.
AT, Table Travel, 2000 RPM	\$6,950
AT, 2000 RPM	\$2,250

ODGERS MACHINERY COMPANY
U.S. 1 SOUTH • P.O. BOX 428
TITUSVILLE, FLORIDA 32780 • PHONE: (305) 269-3921

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How Much Continued From Page 1
business. At best they can be used as a test of reasonableness for the range of values indicated by careful analysis.

2. A company is worth what it owns. If a metalworking firm owns land or buildings which have appreciated, the total value of these can easily exceed the numbers indicated by an earnings based appraisal. It often depends on the special purpose nature of the construction. Book value sometimes bears little resemblance to true worth after tax-saving depreciation has been applied. This is especially true of equipment. Nearly every plant has a fully depreciated lathe or milling machine that is running as well as the day it was purchased. On the negative side there is probably some old inventory that realistically should be marked way down. Reserves may not fully cover uncollectable receivables.

Most metalworking businesses have intangible assets (often lumped together in "goodwill") not shown on the balance sheet. A large body of tax law determines how these may be used for valuation purposes. A well established customer base, mailing lists, leasehold interests, patents, licenses, special equipment you have developed and the recognition value of your name are all examples. Some of these can be appraised individually; others are inseparable from the going business.

3. A company is worth what it will bring in the market. Sometimes appraisers can compare the market price of similar publicly traded firms to the company being valued. It's difficult to find truly comparable firms but if it is done carefully, price/earnings ratios can be used as a guide.

Step-By-Step Through An Appraisal
Let's look at a typical small parts manufacturer. Holland Products (a fictitious name) machines and assembles die cast valves and governors. With their principal market the automotive and aircraft industries, they've had some rough years. The year just completed, however, was much improved, with sales of about \$12 million, net after taxes of \$537,000. The net worth or book value is about \$3 million. The facilities are leased. What's it worth?

The process begins with an interview of the owners and key managers plus an inspection of the premises. A study of management, marketing plans, budgets, banking relationships, leased, stock options, and competition would follow. With five years of financial statements and tax returns, buy/sell agreements, employment contracts, sales projections plus any other useful data, the appraisal begins.

Capitalization of past earnings. Since earnings are a key measure of value, this method looks at past pre-tax income as a guide to the future. This is a cyclical industry. Recent earnings should bear more weight than those of five years ago. We also have to deal with a loss three years ago. A weighted average is the best way to emphasize the

trend. The IRS suggests adjusting or eliminating the loss from the average, if it represents unusual conditions which can be identified. For Holland Products the weighted pre-tax income with the loss adjusted averaged \$785,000 per year. However, bonuses to management above the industry norm were \$110,000 annually. Adding the bonuses back, the average pre-tax earnings becomes \$885,000.

To capitalize these earnings, some rate of return is selected that takes into account the risk involved and income that is available from other investment opportunities. For Holland a 25% return seems reasonable. The value indicated by this method is then \$885,000 x .25, or \$3,540,000.

Discounted future earnings. This method is gaining increased acceptance among appraisers since the value of any business depends upon future income. Forecast earnings for the next five years must be discounted back to present value. If we assume that Holland can average a 15% growth in adjusted after-tax income for the next five years and that this risky forecast should be discounted 25%, then the indicated earnings works out as the sum of the discounted values. We must also add a discounted estimate of the asset value in five years:

YEAR	NET INCOME	DISCOUNTED 25%/YR
1984	\$ 617,000	\$494,000
1985	716,000	454,000
1986	817,000	418,000
1987	939,000	384,000
1988	1,086,000	354,000

Present value of future earnings:	\$2,104,000
Present value of future assets:	1,600,000
Indicated value of Holland Prod.	\$3,704,000

Excess earnings valuation. A much debated appraisal technique uses the premise that stockholders are entitled to a reasonable return on their investment. Applying this rule to Holland we learn that the average invested capital for the past five years has been \$2,100,000. If 15% was considered an acceptable return, then \$2,100,000 x .15 or \$315,000 is reasonable annual income. Since after-tax earnings averaged \$415,000 for the same period, the excess is \$100,000. These are the earnings that the IRS considers an indication of goodwill. Capitalized at 15% the excess becomes \$666,000. Added to the net worth of \$3,000,000 the indicated value of Holland is \$3,666,000.

Price/earnings ratio. Holland Products is large enough that some firms which trade over-the-counter can be found which are roughly similar. Using the SIC (Standard Industrial Code) number to locate metal fabricators of the same type and size as Holland Products, it was found that the trading range for profitable companies was 8 to 18 times current after-tax earnings. A few high flyers had a P/E of 28 to 35. It is appropriate to use the low end of this scale for a non-public company. This places Holland at \$535,000 x 8 or an indicated

Concluded on Page 88

How Much Concluded From Page 34
value of \$4,280,000.

Adjusted book value. In reviewing the assets owned by Holland, a number of adjustments can be made to make the book value more realistic. Writing down the out-of-date or unsaleable inventory is a first, conservative step. Valuing equipment at market, showing appreciation where it appears is second. Parts and raw material can produce adjustments in either direction.

There are also intangibles to value. Holland owns a patent which adds significantly to one of its products. For appraisal sake, things to consider are the cost to create it, the cost to have it produced by others, the royalty it may bring, or the relief from paying royalties.

The remaining patent life is a factor. When it was all added up, the book value of Holland Products was adjusted up some \$420,000, indicating a worth of \$3,420,000.

Summary of Values

Working with the best data available, we have developed the following range of values for Holland Products:

Liquidation Value:	\$2,100,000
Book Value:	3,000,000
Adjusted Book Value:	3,420,000
Capitalization of	
Past Earnings:	3,540,000
Excess	
Earnings/Goodwill	3,666,000
Discounted	
Future Earnings:	3,704,000
Price/Earnings Ratio	4,280,000
Rule-of-Thumb	
Maximum	4,800,000

Which price do we choose? We can see a cluster of values around \$3.6 million. Holland is returning about 18% on invested capital, with 8% earnings on sales before tax. The final value might well be in the \$3.8 to \$4 million range. But there is no single correct answer. In the end someone must make a decision or a price is negotiated between buyer and seller. □

Minority And Liquidity Discounts
Courts have long recognized that a person owning stock in a small corporation is at a great disadvantage over those holding publicly traded shares. Restrictions severely limit the marketability. It may require selling the whole company to get your money out, even if you're the majority stockholder. Persons owning just a few shares, such as employees, are in an even worse position: no liquidity and no control. This has resulted in discounts being applied to fair market value which average about 35 percent. If the value of Holland was established at \$4,000,000 and 100,000 shares were outstanding, the value of a minority share might be \$40.00—35% or \$26.00 per share. Sales of stock to family members sometimes do not qualify for the minority portion of the discount.
For Additional Information
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MDNA Concluded from Page 7
working industry but no more than 30 years ago. "Back in 19 the Society of Manufacturing Engineers was telling us that machinery would be run by computers," explained Ecksel. "Today, we're hearing the same thing but we are still another ten or twenty years away from the true obsolescence of the manual machine tool," he added.

The rallying cry to increase productivity and upgrade machinery is not new. According to Ecksel, books have explored this subject that date back to the early Thirties. Technological changes as well as upgrading machinery are important but they will fall short of the mark if not properly used with sound business judgement.

The vital link in selling the "steak" as well as the "steak", Ecksel noted, is to recognize the changing market environment and adopt innovative strategies to meet it.

Government indicators have confirmed the vigor of the recovery and the moderate pace of price increases, he said. With business conditions improving, orders for new machines are beginning to register steady gains. He noted that inventories have finally reached bottom and new orders for raw material assemblies, tooling, and supplies are growing steadily as production increases.

Jim Walters, president of Al Machinery Co., Inc. Detroit, Michigan, served as moderator during the discussion period following the keynote speeches. □

Non-Electrical Machinery Jobs Up

NEW YORK — The non-electrical machinery industries recorded one of their sharpest employment gains of the recovery in November, with payrolls rising 31,000 to 2.16-million, the Bureau of Labor Statistics reported.

The seasonally adjusted gain in this sector came as employment growth slowed in other metalwork-

ing industries. Metalworking employment totaled 9.5-million in November, a gain of 68,000 workers, or 0.7 percent, following an October gain of 1.4 percent.

The electrical equipment sector recorded a 1-percent gain and the transportation sector a 0.3-percent gain, both smaller increases than in the previous month. Employment

in the primary metals and instrumentation sectors was essentially unchanged. □

Some businessman! Just two years ago, my neighbor turned down an investment offer, saying, "Nobody in his right mind is gonna sit down and play with a cube!!"

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 FELLOWS Model 61A, 5 1/4" Riser Block, Change Gears, Rebuilt \$6,350
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 HANCHETT Model 221, 2-10 HP Motors \$12,350
 ROWLAND Model HDD, 20" Disc Grinder, Rotary Feed, Ferris Wheel, 2-15 HP Motors \$17,650
 STUDER Mdl. PSM 150, S/N 609, Exc. Cond. \$11,450
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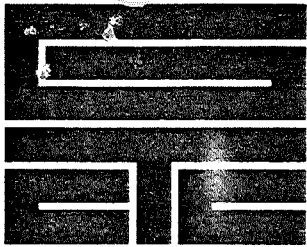
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Christy Young
Greater Topeka Chamber of Commerce

TESTIMONY BEFORE
HOUSE ASSESSMENT & TAXATION COMMITTEE
MARCH 13, 1984

Chairman Braden and members of the Committee:

The Greater Topeka Chamber of Commerce over the past few months has received many, many calls and comments concerning the use of trending factors in Shawnee County. We decided to take a look at what effect these trending factors have had.

	Unit 001 City of Topeka	
	<u>1982</u>	<u>1983</u>
Average Mill Levy	154.55	163.12
Assessed Valuation (Personal Property)	\$48,230,910	\$54,045,915
Tax	\$ 7,454,090	\$ 9,468,446
Increase in Taxes from 1982-1983	\$ 975,113 Trending Factor 461,290 Mill Levy Increase <u>688,316</u> Penalty for Late Filing	
	\$ 2,124,719	

46% of total increase in 1983 taxes is attributable to trending factors (based upon the 1982 mill levy).

22% of total increase in 1983 is attributable to mill levy increase (based on 1983 assessed valuation).

32% of total increase in 1983 taxes is attributable to penalty fee.

We realize we cannot determine how much of the 46% increase is because the

County Appraiser has asked for complete lists of property from these businesses

who had in the past been allowed to use federal depreciation schedules. However, we want you to realize the magnitude of increase in property taxes the Topeka business community is being asked to bear.

The Topeka Chamber does not oppose the use of guidelines to determine property taxes. However, we would like you to review the current trending factor formula and consider adjusting that formula to reflect a fair and reasonable assessed valuation of business personal property. The Greater Topeka Chamber of Commerce supports SB 467 and asks for your approval.

Walter Klein Hillmer
Testimony before the House Assessment & Taxation Committee
Tuesday, March 13, 1984

Chairman Braden and Honorable members of the House Committee:

My name is Walter Klein Hillmer, President and major stockholder of Hillmer Leather Shop, Inc., a four generation family owned, family operated, reputable luggage and leather goods retail store, at 115 SE 6th, in Downtown Topeka for 62 years, and still, gratefully, going strong!

In my 38 years in our enjoyable business in Kansas, a state I LOVE, it's just in the past two years that I've been surprised and somewhat chagrined by what I perceive to be a new and threatening attack by the State of Kansas on small business. Perhaps this assault was unwitting and unintentional, nevertheless, it affects, adversely, a sizeable segment of the lifeblood of our state's economy.

The Trending Factor is only one element in this onslaught, yet it is a significant factor. Since I appeared before the Interim Committee, in November, at which some of you here today were present, and you heard me complain of a 37% trending factor increase in the personal property valuation of our firm, a pleasant and welcome surprise has come my way, for which I'm very grateful. The assessed valuation, of our then grossly overvalued air conditioner, purchased in 1974, has been reduced from last year's 107% unconsciencable assessment, perhaps an error, to a credible 14%, now in line with its true market value. I deeply appreciate that substantive and honest correction, and thank those responsible for it -- a tax reduction of nearly \$200.00, very important to a small business.

My concern for the trending factor is that it often assigns unrealistic, high market values, as you have heard in numerous testimonies before your committee, and thus, results in excessive tax assessments on the implements necessary to

conduct a business. A retail business such as ours brings thousands of sales tax, wage withholding and unemployment compensation dollars to the state coffers at almost no expense to the State. Therefore, should be encouraged by the State, and not attacked. Market value is determined by what a buyer can and will pay for an item which a seller offers.

A retail store is normally not in the fixture selling business, so there is ordinarily not a ready sale for its fixtures. The day after we purchase display fixtures, such as counters, etc., and set them into place in the store, their resale value drops 10 to 20% automatically. Yet, display fixtures which we purchased in 1978 are carried on our 1983 trending factor valuation at 74% which would be almost their full market value to us if we were to try to sell them the very year we brought them in, the first year, instead of four years later.

This year we have purposely delayed the purchase of capital equipment, i.e. personal property subject to the trending factor valuation and subsequent tax assessment -- equipment which we will need to continue to update our lively business, because of our concern for trending factor taxes. "A small thing" you may say! Small things can be big factors in small business.

I agree with, and support Senator Thiessen's bill (SB 467), and respectfully suggest that these guidelines be established.

TESTIMONY BEFORE THE KANSAS HOUSE COMMITTEE
ON ASSESSMENT AND TAXATION
MARCH 13, 1984

James Braden, Chairman

Chairman Braden, members of the Committee, my name is Jack Carolan. I am Vice President of Security Benefit Life Insurance Company. I am primarily responsible for all real estate and mortgage lending activities of Security Benefit Life Insurance and the Security Benefit Group of Companies. In my position, I am sensitive to the needs and requirements of firms seeking to relocate or expand industrial and commercial facilities throughout the United States.

The efforts of the Greater Topeka Chamber of Commerce through their industrial development corporation are a fine example of the commitment being made by various Chambers of Commerce throughout this State to attract industry and jobs to Kansas. SBL has worked with the Chamber by providing mortgage financing on the Topeka Industrial Park. We are keenly aware of the problems encountered in attracting industry to both Kansas and Topeka.

Competition for new firms is very high. It has been calculated in studies by the Market Research Department of Upland Industries, the industrial development of the Union Pacific Railroad Company, that in a typical year 15,000 development firms are attempting to attract some of the 300-500 major companies which are seeking to relocate. This places the odds at between 30 to 1 and 50 to 1 of attracting a new business in a particular area. Kansas must further meet the stiff competition for industry and jobs offered by the Sunbelt States with their relative cost advantages for lower heating and warmer climates. Taxes are a critical factor in this billion dollar economic development equation. The trending factor method of computing the personal property taxes is insensitive to the issue of attracting industry and jobs to the State. It places an unrealistic high value upon personal property which goes beyond accepted norms of accounting practice, specifically by including the salvage factor. In the final analysis, any method of computing the property taxes which a business must pay that results in a higher tax will serve to discourage firms from remaining or relocating in the State.

The current trending factor has resulted in a dramatic increase for the taxes of Security Benefit Group. Taxes more than doubled in 1983, increasing from \$23,559 to \$48,891. If all firms incurred a similar or greater increase it would result in excessive revenues which county budgets could unnecessarily expand to absorb this additional revenue. All at the cost of driving present business, new industry and

Jack Carolan
Testimony

thousands of jobs to other areas of the country with more favorable tax structures. I strongly urge the adoption of Senator Theissen's bill (SB 467) which would develop guidelines in the development of trended factors.

JC/gt

GENERAL FOODS MANUFACTURING CORPORATION

TESTIMONY BEFORE THE KANSAS HOUSE
COMMITTEE ON ASSESSMENT AND TAXATION

MARCH 13, 1984

Chairman Braden, members of the Assessment and Taxation Committee, thank you for the opportunity to address you this morning.

I am Herman Simon, Plant Manager of General Foods Manufacturing Corporation's plant here in Topeka. The facility is one of two locations that manufacture dog food in the United States for the Gaines Pet Foods Division of General Foods.

Actually, we have two plants in Topeka. The first one began operation in 1971, while the second was commissioned in 1974. There are 245 people employed at the present time. As a site we spend in the order of \$60 million annually for materials, goods, energy, service, parts and payroll. Seventy-five percent of these expenditures are with firms in Kansas.

General Foods came to Topeka for a variety of reasons:

1. To be close to the source of raw materials.
2. Good transportation.
3. Favorable business conditions in terms of labor availability and cost of energy and utilities, and taxes.

The reasons for selecting Kansas are as valid today as when the decision was made to locate here more than a decade ago, except for one - taxes.

In 13 years our property taxes increased at a reasonable rate of about 7% a year until last year. IN 1983 GENERAL FOODS' TAXES WENT UP 40%! A tax increase of this magnitude in any single year indicated one of two things. If the tax law is fair, reasonable and equitable, then it is not being administered properly. If it is in fact being administered appropriately, then there is surely something fundamentally inequitable or arbitrary about the law.

I would like to make two points concerning the impact of taxes on General Foods' business. General Foods assigns production volume to the plant that produces and distributes its products at the lowest cost. The Topeka plant has an enviable record over the years of containing costs which it can control. Uncontrollable costs, of which taxes are a part, are another matter. As uncontrollable costs rise, the plant comes under heavy pressure to compete. Eventually, it can raise

costs to a level that causes production to be shifted elsewhere, a condition which might no longer enable us to gainfully employ all 245 individuals. The second point to be made is that when the time arrives to consider expansion, or locating another new facility, the tax structure will be one of the principal selection criteria. You can be assured that the present tax law and/or the way it is being administered will no longer be considered as favorable a factor as when General Foods selected Topeka, Kansas in 1969.

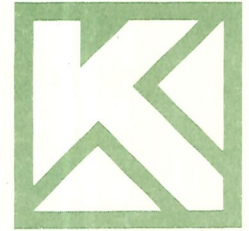
The current tax law has shifted a disproportionate share of the tax burden on business and industry. I have pointed out the inequity in the present law to firms doing business in the State of Kansas. Therefore, I ask that you enact SB 467, which provides guidelines in the development of trended cost factors.

Thank you.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

March 13, 1984

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

HOUSE ASSESSMENT AND TAXATION COMMITTEE

by

Ronald N. Gaches, General Counsel
and Director of Taxation, KCCI

Thank you Mr. Chairman for this opportunity to present the concerns of the Kansas Chamber of Commerce and Industry regarding the valuation of business personal property for property tax purposes.

KCCI members represent a broad cross-section of Kansas businesses; retailers, manufacturers, commercial and financial services, light and heavy industry. The overwhelming majority of our members are small businesses; 86% have 100 employees or less. Despite their broad diversity, they share many responsibilities and concerns.

One responsibility they share is to provide financial support for local government, primarily in the form of property taxes. One concern they share is that fairness and equity have been lost in the application of the property tax.

Note that I refer to the application of the property tax. KCCI has gone on record repeatedly in defense of our current property tax laws. The state constitutional mandate for a "uniform and equal rate of assessment and taxation," Article II, Section 1, and the statutory requirements for fair market valuation and assessment at 30% have been strongly defended by the business community. It is the enforcement of these laws, the current administration of the property tax, that discourages and disappoints the business community.

The wide disparity in assessment levels for various classes of property is well documented. In virtually every taxing jurisdiction in the state the highest assessment levels fall on business property. The solution to these inequities, and the inequities in valuation within classes, is well known. Statewide reappraisal is the essential first step to restoring fairness and equity to the property tax.

The Board of Tax Appeals Order mandating the use of the PVD valuation manuals that contain trending factors based on CPI multipliers has made a bad situation worse. Burdensome and severe property tax increases have been the result of compliance with the Board of Tax Appeals' Order. These tax increases are real. Taxpayer complaints should not be dismissed as the grumblings of a few who don't want to pay their fair share.

Those tax increases have resulted for several reasons, not all of which are directly the result of trending factors. In some instances the increase is due to returning property to the tax rolls that had previously been depreciated to zero. Property that is still in use belongs on the tax rolls and should be taxed. A much smaller portion of the increase is due to property being placed on the tax

rolls that had never been taxed. Another portion of the increase is due to higher values on property caused by use of the trending factors.

In some cases, the trended cost values may closely approximate fair market value of the property. But in many cases they do not.

During the Senate hearings on this issue the Department of Revenue gave three reasons for using trending factors. Let's examine each reason. First, "the Constitution requires that like property be appraised uniformly statewide." The valuation manuals result in uniformity, not the use of trending factors. Any valuation methodology incorporated in the manuals will result in a high degree of uniformity.

Second, "Kansas statutes require that all property subject to general taxation be valued at its fair market value in money." The Department has never demonstrated that the trending factors are a good estimate of fair market value. They assert that the income approach is not appropriate and that comparable sales are inadequate and then reach the conclusion that the only tool left is the trending values to estimate replacement cost. But this replacement cost analysis is flawed. Not all new equipment and machinery costs more than the property it replaces. Not all equipment and machinery has increased in cost at the same rate. Almost none of the replacement machinery and equipment on the market is directly comparable with the machinery and equipment that it replaces. Technologies are improved, productivity is increased, durability is enhanced, repair costs are down. Replacement costs are not a fair basis for determining the fair market value of used machinery and equipment. To the extent that replacement machinery and equipment is more productive, faster, quieter, less costly to maintain and update, the value of

older machinery and equipment is pushed down. Old machinery and equipment loses value in the market place as new, better replacements are available. Perhaps this is one reason why sales of used machinery and equipment are hard to find.

And the Department's third reason, "the statutes further require the Director to prescribe and furnish guides to be used for valuing property." The requirement to furnish guides in no way justifies the use of CPI multipliers to estimate fair market value. The guides could use historical costs less depreciation and the statutory requirement to furnish guides would still be met.

Also during the Senate hearings the Department quoted the Board of Tax Appeals Order in the Capitol City Rentals case and implied that the BTA Order mandated the use of trending factors to insure uniformity and equality. This is not an accurate interpretation of the Order. The BTA Order reads:

"The Board concludes that the method used by the Shawnee County Appraiser to trend or depreciate those original adjusted cost values to arrive at the proper appraised value of this property is patently improper. The Appraisal Guide issued by the Director of Property Valuation prescribes the method of trending or depreciating these original cost values. K.S.A. 79-1412a Seventh requires the local county appraiser to follow those Guides. This Board has repeatedly held that the only exception is where such adherence would result in a value other than fair market value, and then only where specifically documented. Such is not the case in this proceeding. Therefore the Shawnee County Appraiser's use of the trending factors other than those prescribed by the Director is arbitrary and contrary to the ad valorem tax statutes of this State. The purpose of the Guides prescribed by the Director is to insure uniformity and equality of assessment of personal property, irrespective of its physical location in this State. Disregard of these Guides destroys that goal."

There is no magic in a trending factor. The Appraiser's error was not in using trending factors other than the ones prescribed in the Guide. The error was in deviating from the Guide without specifically documenting a need for the deviation. As a practical matter, the local appraiser had developed trending factors he believed were more appropriate than those developed by PVD. I find it difficult to fault his intent.

No one can defend the use of IRS depreciation schedules to estimate fair market value or the removal of property from the tax rolls when it is still in use. Those practices are obviously in violation of the requirement of fair market valuation and PVD is correct in challenging them. Curiously, the Department has never challenged the statute that prevents real estate from being valued at its fair market value, nor has the Department challenged the practice of rolling back the value of new real estate to approximate comparable value at the time of the last county reappraisal.

It's obvious that conflicts in the law are to be overlooked when they benefit broad classes of voters. Compliance with the law is expected when the business community is to pick up the tab. The truth is that the taxation of business personal property will remain a problem even after the trending factors are changed to make them more acceptable because of the disparity in assessment levels between business personal property and real estate.

Businesses that are capital intensive, that pay high personal property taxes, are never going to think that a 5% assessment rate is fair for agricultural land while

they pay 30% on their personal property. Particularly when the low assessment rate on ag land is coupled with a farm machinery and equipment exemption. The same is true of low assessment rates for residential property, currently around 8%, statewide average.

The Department does not appear to be concerned about the growing disparity in the taxation of business property, particularly business personal property, and the rest of the tax base. But we as Kansans should be concerned.

Our property tax problems are a clear threat to the Kansas business climate. Capital intensive industry, including high-tech industry, watches trends in property taxation very closely. The de facto classification system we now have in place is one of the most burdensome of any state's. Most of the states that have legalized classified property tax systems don't place the heavy burden on business personal property we now have in Kansas. It's my understanding that jobs in the Wichita area and the southeast corner of the state have already been lost and others are threatened because of property tax increases.

KCCI urges you to give prompt and serious attention to the resolution of these growing property tax disparities. Delaying reappraisal and requiring the business community to further subsidize other taxpayers will cost Kansans jobs we should not have to lose. KCCI supports the proposed language in SB 467 that directs PVD in the preparation of the valuation guides. The bill provides no exemptions or reductions in the assessment level of business machinery and equipment. Nor does the bill cause machinery and equipment values to be rolled back to same prior year. The reform is modest and concerns itself only with the accurate preparation of the valuation guide. We urge your support for this effort.