Approved On: ________________

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 19, 1985 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research
Melinda Hanson, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Mr. David Monical presented testimony concerning HB-2310 which relates to the mill levy limitation fot capital outlay. He outlined the capital requirements for Washburn University and an analysis of the university's projected needs until 1994. (Attachment 1)

Richard M. Smith, Linn County Attorney, urged the adoption of HB-2265 which relates to certificates of value issued upon transfers of real estate. (Attachment 2).

Mr. Gray Wimmer, of Jayhawk Unified School District #346, Mound City, submitted figures showing assessed and adjusted valuation of rural real estate. (Attachment 3)

Mr. Michael McAdam, general counsel for Linn County Lakes, spoke on behalf of lake development.

Representative Homer Jarchow testified as a sponsor of HB-2198, an act concerning state and local retailers' sales and use taxes whick increases the sales tax 1% and exempts food. (Attachment 4)

Marian Warriner, League of Women Voters of Kansas, spoke in support of HB-2198. (Attachment 5)

Frances Kastner, director of governmental affairs for Kansas Food Dealers' Association, appeared in opposition to HB-2198. (Attachment 6)

The minutes of the meeting of February 15, 1985 were distributed. There being no corrections, the chairman declared them approved as written.

There being no further business to come before the committee, the meeting was adjourned.

E. C. Rolfs, Chairman

Testimony presented b[y]
Washburn University before
House Committee on Assessment and Taxation, February 19, 1985.

CAPITAL REQUIREMENTS FOR WASHBURN UNIVERSITY

BACKGROUND:

Washburn University, which was founded in 1865, was struck by a devastating tornado in 1966, that literally demolished most of the facilities on the Washburn campus. Through a program of insurance recoveries and generous giving on the part of the alumni and the Topeka community, the campus was restored with new and/or renovated facilities.

But the tornado devastation took place almost twenty years ago, and since that time the buildings are beginning to require significant "repair and special maintenance" (i.e., new roofs, mechanical system replacements, etc.). Furthermore, the square footage at Washburn has grown from 444,161 square feet in 1958-59 to 983,786 square feet currently (more than double in size). Washburn does not have access to adequate capital funding to assist it in paying for the cumulative cost of repair and special maintenance of physical plant, which is valued at $56.4 million (replacement value).

Funds available for repair and special maintenance would normally come from the Debt Retirement and Construction Fund which has had a 1.25 mill levy ceiling since 1954 (31 years). It should be obvious that with the additional square footage added to the Washburn campus, the mill levy should have been more than doubled by now, not taking into consideration inflation and cost increases.

ATTACHMENT 1 2/19/85

Washburn also has a need for funds to pay for major renovation of older facilities, as well as funds to assist in the payment of construction costs for new facilities. Washburn has had a longstanding practice of raising funds for most of its new construction costs, but even with the successful fundraising, there is usually a need for some additional funding to complete the dollar requirements for a new facility.

DEBT RETIREMENT AND CONSTRUCTION FUND

Historically, the amount of the mill levy limits and the actual mill levy levied is shown in Exhibit A. As can be seen from this Exhibit, Washburn has had the current mill levy of 1.25 for debt retirement and construction for the last 31 years. It can also be noted from this Exhibit that the University is at its limit in terms of the actual amount it can levy.

The use of the funds from the mill levy since its inception in 1941, are shown in Exhibit B. It can be noted from this Exhibit that the only outstanding debt of the University at the present time is the bond issue for the Petro Allied Health Center. The Petro Allied Health Center was constructed primarily from gifts and internal funding with less than one-third of the cost funded from a bond issue. The annual debt service for this outstanding bond issue is about

$340,000 per year and the 1.25 mill levy generates around $400,000 each year. The unused portion of the mill levy, along with any other income to the fund, (such as idle fund income), is used to finance repair and special maintenance items. The other income to the fund is approximately $410,000, and when this is added to the $60,000 residue from the mill levy, the total funds available are $470,000 annually for repairs and special maintenance, as well as new construction and major renovation. This $470,000 is grossly inadequate to meet the University's needs, which are shown in Exhibit C, and average around $900,000 per year, excluding new construction and major renovation.

Currently there is a statutory limit on the amount of indebtedness that Washburn can incur at any one time. This amounts to two percent of the assessed valuation of the taxing district, which in Washburn's case is approximately $7 million, exclusive of motor vehicle assessments. The second restriction is the current statutory cap on the mill levy for debt retirement and construction of 1.25 mills.

CAPITAL NEEDS OF WASHBURN

A listing of all of the major buildings at Washburn University is shown in Exhibit C. These buildings are listed from the oldest building on campus to the newest facility. The Exhibit also shows under the Date of Construction column, any major renovation and/or addition to the facility. For example, under Item 5, the Petro Allied Health Center, the date of construction is shown as 1928, (Whiting Field House) and the second date in this column is the date that the Petro Allied Health Center was completed and added to the existing structure (Whiting Field House).

Exhibit C also shows the gross square feet, the book value of the building, and the replacement cost of the buildings based upon the figures that are provided to our insuror.

Using this listing as a reference, Exhibit C goes on to show a summary of the repair and special maintenance requirements for each of the buildings, broken down into two different five-year periods (1985-90 and 1991-95). The funding for the first five-year period is $4.8 million, and for the second five-year period $4.4 million. These estimates of cost are conservative in the sense that cost escalation has not been included.

Exhibit C excludes any cost estimates which may be required for debt service to fund new construction or major renovation of existing facilities. The Debt Retirement and Construction Fund has been, and can be, used for purchase of capital equipment. Included in Exhibit C is approximately $ 1 million for currently identifiable capital equipment over the ten-year period.

Ad Valorem Tax Levy Limits and Mills Levied by Washburn University for Debt Retirement and Construction Fund

For Fiscal Year	Mill Levy Limits	Mill Actual Levy
1941-42	.25	.20
1942-43	.25	.25
1943-44	.25	.25
1944-45	.25	.25
1945-46	.25	.25
1946-47	.25	.25
1947-48	.50 (1)	.50
1948-49	.50	.50
1949-50	.50	.50
1950-51	.50	.50
1951-52	1.00 (1)	.50
1952-53	1.00	.47
1953-54	1.25 (1)	.50
1954-55	1.25	1.00
1955-56	1.25	1.00
1956-57	1.25	1.00
1957-58	1.25	1.25
1958-59	1.25	1.25
1959-60	1.25	1.25
1960-61	1.25	1.25
1961-62	1.25	1.25
1962-63	1.25	1.25
1963-64	1.25	1.25
1964-65	1.25	1.25
1965-66	1.25	1.25
1966-67	1.25	1.25
1967-68	1.25	1.215
1968-69	1.25	1.25
1969-70	1.25	1.25
1970-71	1.25	1.25
1971-72	1.25	.938
1972-73	1.25	1.124
1973-74	1.25	1.120
1974-75	1.25	1.120
1975-76	1.25	1.150
1976-77	1.25	1.162
1977-78 thru 1984-85	1.25	1.25

(1) The State Legislature authorized the mill levy increase.

History of Bonded Indebtedness

1. Refunding Bond Series A 1941
   Refunding Bond
   To pay off Washburn College Debt

Amount of Issue:	$200,000
Date of Issue:	June 26, 1941
Maturity:	August 1, 1958

2. Refunding Bond Series B 1942
   Refunding Bond
   To pay off Washburn College Debt

Amount of Issue:	$70,000
Date of Issue:	February 2, 1942
Maturity:	February 2, 1949

3. Series A 1957
   Building Construction and Equipping
   To provide partial funding for
   Stoffer, Carruth and Married Housing

Amount of Issue:	$1,250,000
Date of Issue:	August 1, 1957
Maturity:	August 1, 1972

4. Series A 1966 Issue
   Fine Arts Building and Addition to Student Union

Amount of Issue:	$2,000,000
Date of Issue:	May 1, 1966
Maturity:	November 1, 1982

5. Building Construction and Equipping
   Allied Health Center, 1982

Amount of Issue:	$2,300,000
Date of Issue:	March 1, 1982
Maturity:	March 1, 1994

Exhibit C

Washburn University of Topeka
Analysis of Capital Fund Needs
January 31, 1985

	Building	Date of Construction	Gross Square Feet	Book Value	Replacement Cost/ Insurance	Estimated Needs 1985-90	Estimated Needs 1991-95
1.	Carnegie	1903/1966/1984	17,573	$ 191,547	$ 982,000	$ 89,000	$ 74,000
2.	Heating Plant	1903/1950/1959/1970	6,134	362,501	981,000	466,000	411,000
3.	Benton Hall	1923/1969	39,160	436,571	2,143,000	528,000	73,000
4.	Garvey Fine Arts Center	1924/1968	131,344	3,218,062	8,191,000	491,418	311,445
5.	Petro Allied Health Center	1928/1984	190,700	*481,619	*2,663,000	112,000	425,000
	(including Whiting)			8,115,073	7,500,000		
6.	Moore Bowl	1928/1966/1982	4,894	255,050	605,000	56,000	150,000
7.	Caretaker's Residence	1930	1,770	1,000	44,000	15,000	---
8.	International Center	1931	4,926	52,214	208,000	13,000	50,000
9.	President's Residence	1935	7,108	110,668	270,000	38,000	15,000
10.	Physical Plant Building	1949/1966/1967	5,661	84,656	234,000	38,000	---
11.	Memorial Union	1950/1966/1983	69,869	1,464,657	4,428,000	146,000	73,000
12.	KTWU Transmittal Building (plus land, road, parking, etc.)	1954/1967	4,483	202,392	N/A	---	53,000
13.	Morgan Hall	1955/1967/1978	112,668	2,118,881	6,668,000	495,000	400,000
14.	Washburn Terrace Apts. (48)	1958	31,248	384,543	1,177,000	79,000	64,000
15.	Carruth Hall	1959	17,902	288,803	1,100,000	126,000	38,000
16.	Stoffer Science Hall	1960	59,949	1,222,945	4,323,000	275,000	176,000
17.	Washburn Arms Apts.	1965	9,721	250,078	200,000	---	78,000
18.	Physical Plant Storage Buildings (3)	1966	30,097	175,798	607,000	21,000	12,000
18.	Relocatable Temporary Buildings (8)	1966	8,800	142,397	194,000	---	600,000
18.	KTWU Temporary Buildings (3)	1966	3,200	---	---	---	220,000
19.	Law School and Clinic	1969/1977	59,985	2,098,264	4,275,000	205,000	255,000
20.	Henderson Learning Resource Center	1971	101,982	2,822,469	6,410,000	242,000	346,000
21.	Mabee Library	1977	52,465	1,624,868	2,687,000	159,000	100,000
22.	Kuehne Residence Hall	1980	8,754	395,334	460,000	54,000	2,000
23.	New Residence Hall (1985)	1985	8,754	N/A	N/A	---	54,000
24.	Campus (Grounds, etc.)					1,135,000	375,000
	TOTALS		989,147	$26,500,390	$56,350,000	$4,783,418	$4,355,445

* This is Whiting only.

Exhibit C

2

TESTIMONY OF RICHARD M. SMITH, LINN COUNTY ATTORNEY

BEFORE THE ASSESSMENT AND TAXATION COMMITTEE,
KANSAS HOUSE OF REPRESENTATIVES

RE: HOUSE BILL NO. 2265

FEBRUARY 19, 1985

I am Richard M. Smith, County Attorney of Linn County, Kansas. At the outset, let me thank this Honorable Committee for allowing me the opportunity to testify on a matter of pressing concern.

Linn County is blessed with some of the most beautiful real estate in Kansas. Its sharp rocky hills covered with indigenous maple and oak trees make for an area not dissimilar to the Ozarks of southern Missouri and northern Arkansas.

Like the Ozarks and the areas surrounding Grand Lake in Oklahoma, during the last few years Linn County has seen the advent of large scale promotional land offerings. These are commonly referred to as lake lot developments.

These developments are a highly specialized and highly regulated industry. In the normal situation, potential purchasers are shown tracts of ground suitable for purposes ranging from building permanent homesites to simply parking overnight campers. The purchase of a lot usually entitles the landowner to join a property owners association similar to those formed under the principles of condominium law. Membership in the homeowners association normally entitles persons to share in the use of such facilities as golf courses, private lakes, and clubhouses.

Because of the potential for misrepresentation as to the amenities which are not yet present on the development as well as the fact that these lots are normally located a great deal of distance from the potential purchaser's permanent residence, the Conference of Commissioners on Uniform State Laws drafted a codification of rules and regulations commonly referred to as the Uniform Land Sales Practices Act. This was adopted by the Kansas Legislature and can be found at K.S.A. 58-3301, *et seq.*

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The purpose of the Uniform Land Sales Practices Act is set out in Attorney General Opinion No. 84-98. The general principles contained in those statutes attempt to afford full and fair disclosure to perspective buyers, ensures that the seller conveys unemcumbered legal title to purchasers, and attempts to assure sufficient safeguards such that the seller will complete the promised off-site improvements on the development.

It can be generally concluded that land sales which are subject to the Uniform Land Sales Practices Act are a highly specialized and unique transfer. Not only is the purchaser buying a tract of real estate, but normally the purchaser is also purchasing what amounts to a country club membership. Specifically relating this situation to Linn County, Kansas, purchasers of property at Linn Valley Lakes, a development currently in operation in Linn County, will be entitled to the use of a golf course, a large private lake, several private fishing ponds and lakes, a $250,000.00 clubhouse, public restroom and bathing facilities, swimming pools, a stocked riding stable supervised by a cowboy, and other amenities.

The problem about which I wish to testify today relates to the value of this property as is required on the certificate of value and the assessment of these lake lots for property tax purposes. Current law provides for the filing of a certificate of value stating the amount of money paid for lots sold at developments such as Linn Valley Lakes. Obviously, as outlined above, the purchase price paid for these lake lots include significant amounts of other personal property and real estate besides the real estate represented by the deed to the lot which is being purchased.

The impact of this is felt in many areas, not the least of which is the Kansas Sales-Assessment Ratio Study. This study evaluates a county's assessment and appraisal of real estate for <u>ad valorem</u> tax purposes, and also determines the amount of State school aid provided the school districts located within the county.

According to the 1983 ratio study there were 1,249 total real estate sales in Linn County, Kansas. 1,167 of these sales were lake development sales. In other words, 93%

of all sales in Linn County, Kansas, are lake lot development sales. For this reason, lake lot sales practically determine, singlehandedly, the median ratio of rural sales in Linn County and greatly effects the total ratio of all sales analyzed in the Sales-Assessment Ratio Study.

The Sales-Assessment Ratio Study exempts from consideration certain real estate transactions because of their unique character. Previously recorded long-term contracts, sales which include other personal property such as farm machinery, sales which contain real estate not reflected in the actual deed being recorded, and highly regulated unique transfers such as cemetery lots are all exempt from consideration. These exemptions are based upon both statutory considerations and rules and regulations promulgated by the Director of Property Valuation.

Speaking on behalf of the Board of County Commissioners and myself, it is our belief that sales under the Uniform Land Sales Practices Act should also be statutorily exempt. To accomplish this exemption we would respectfully suggest that K.S.A. 58-2223(c) be amended to include an additional category of exempting sales under the Kansas Uniform Land Sales Practices Act. This statute sets out those transfers considered to be so unique that the sales price does not necessarily represent the value of the land being transfered hence, no certificate of value is required.

Because of the inclusion of lake lot development sales in the 1984 ratio study two school districts located in Linn County, Kansas, stand to lose a total of over $350,000.00 in State school aid even though the lake lot development which is precipitating this problem is not even located within these taxing jurisdictions. The school district in which Linn Valley Lakes is located will lose approximately $100,000.00.

This loss in school aid is a direct result of the Sales-Assessment Ratio Study and current Kansas statutory law regarding the assessed value of real estate. This real estate is classified as a rural vacant lot. Linn County, through its tax assessor, has already assessed the value of these lake lots at a higher assessed value than any other property within that subclassification or within the classification of rural property. The Kansas Constitution requires that property be assessed equally. K.S.A. 79-501 states that the real estate shall be appraised at its fair market value. K.S.A. 79-503(a) specifically states that fair market value shall not be based on the sales price alone. Obviously, we cannot raise the assessed valuation of these lake lots based on sales alone, or just to increase the amount of State school aid which are county receives. Still further, the implications of discrimination and possible illegal assessment arise when any county attempts to raise the assessed valuation of an individual's property when that individual's property is already assessed at a higher value than other property within that subclassification or classification. As a result, Linn County is in a box. This box is formed by the use of the certificate of value on a real estate transaction when there is more than simple real estate involved, the use of that figure in the Sales Assessment Ratio Study, the use of the Sales Assessment Ratio Study in the State school aid formula, and finally, the questionable legality of being able to re-assess property under the facts and circumstances that I have outlined above. Because of their unique character we believe sales under the Uniform Land Sales Practices Act justify exclusion from the requirement of filing a certificate of value. This is why we urge the adoption of House Bill No. 2265. Thank you for your consideration.

Respectfully submitted,

RICHARD M. SMITH
Linn County Attorney

Jayhawk Unified School District #346
Mound City, Kansas

Gary Zimmer

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Year	Linn County Assessed Valuation Rural Real Estate		Sales Ratio		Linn County Adjusted Valuaiton Rural Real Estate
1982	$6,271,330	X	30/7.35	=	$25,597,265
1983	$6,271,330	X	30/5.00	=	$37,627,980
1984	$6,310,675	X	30/3.44	=	$55,034,956

Year	Bourbon County Assessed Valuation Rural Real Estate	Sales Ratio	Bourbon County Adjusted Valuation Rural Real Estate
1982	$734,200	30/6.97	$3,160,115
1983	$734,200	30/7.03	$3,133,144
1984	$734,200	30/7.03	$3,133,144

Year	Combined Counties Assessed Valuation Rural Real Estate	Combined Counties Adjusted Valuation Rural Real Estate
1982	$7,005,530	$28,757,380
1983	$7,005,530	$40,761,124
1984	$7,044,875	$58,168,100

Year	Combined Counties Adjusted Valuation Other Property	Combined Counties Adjusted Valuation GRAND TOTAL
1982	$8,826,588	$37,583,968
1983	$8,804,590	$49,565,714
1984	$8,551,054	$66,719,154

Year	Adjusted Valuation +	Taxable Income	= DISTRICT WEALTH
1982	$37,583,968	$8,114,915	$45,698,883
1983	$49,565,714	$8,114,915	$57,680,629
1984	$66,719,154	$8,114,915	$74,834,069

Year	District Wealth X	Local Effort Rate =	Ad Valorem Property Tax
1982	$45,698,883	.013938802	$636,988
1983	$57,680,629	.013938802	$803,999
1984	$74,834,069	.013938802	$1,043,097

Year	Property Tax /	District Valuation =	General Fund Est. Mill Rate	State Aid Est. To District
1982	$636,988	$13,039,059	48.85	$969,379
1983	$803,999	$13,426,289	59.88	$802,368
1984	$1,043,097	$13,426,289	77.69	$563,270

District property tax would increase $406,109 (29 mills) during the three years. State aid would decrease $406,109 (42%) when the district's adjusted valuation increased $29,522,416 (65%). The district's valuation went up 3% between 1982 and 1983.

ATTACHMENT 3 2/19/85

STATE OF KANSAS

HOMER E. JARCHOW
REPRESENTATIVE, NINETY-FIFTH DISTRICT
SEDGWICK COUNTY
2121 WEST DOUGLAS
WICHITA, KANSAS 67213

COMMITTEE ASSIGNMENTS
MEMBER: ASSESSMENT AND TAXATION
COMMERCIAL AND FINANCIAL INSTITUTIONS

TOPEKA

HOUSE OF REPRESENTATIVES

4

MR. CHAIRMAN - MEMBERS OF THE COMMITTEE FEBRUARY 19, 1985

SALES TAX MODIFICATION BILL - HOUSE BILL NO. 2198

THE PURPOSE OF MY PROPOSED BILL IS TO 1) INCREASE THE KANSAS SALES TAX BY 1 PERCENT, 2) EXEMPT SALES OF FOOD PRODUCTS FOR HUMAN CONSUMPTION AT THE RETAILERS COUNTER AND 3) TO REPEAL THE $20.00 REBATE CURRENTLY IN EFFECT AS AN "IN LIEU" OF FOOD EXEMPTION FOR SELECTED INDIVIDUALS.

THE BILL ALSO PROPOSES THAT CITIES AND COUNTIES CAN EXEMPT LOCAL SALES TAX ON FOOD IF THEY ENACT OR ADOPT AN ORDINANCE OR RESOLUTION SO PROVIDING BEFORE JULY 1, 1985 THE EFFECTIVE DATE OF THE EXEMPTION OF FOOD PRODUCTS.

WHY AN EXEMPTION

IN MY OPINION, THE MOST ODIOUS TAX THE STATE OF KANSAS IMPOSES IS A SALES TAX ON FOOD PRODUCTS. SOME STATES HAVE NEVER IMPOSED SUCH A REGRESSIVE TAX -- MANY HAVE EXEMPTED THE FOOD TAX REALIZING IT IS A VERY REGRESSIVE TAX. THERE ARE, IN TOTAL, OVER THIRTY STATES THAT DO NOT IMPOSE THE TAX. WHETHER YOUR INCOME IS A MILLION DOLLARS OR 10 THOUSAND A YEAR YOU PAY THE SAME PRICE FOR A LOAF OF BREAD AND YOU PAY THE SAME SALES TAX. I WOULD HOPE AND PRAY THAT THE LEGISLATURE WOULD HAVE THE INITIATIVE AND COMPASSION TO ELIMINATE THIS REGRESSIVE TAX. <u>I CANNOT, IN GOOD CONSCIENCE, SUPPORT A SALES TAX INCREASE WITHOUT THE FOOD EXEMPTION.</u>

THE LATEST ESTIMATE BY LEGISLATIVE RESEARCH REFLECTS A $92.0 ANNUALIZED MILLION DOLLAR INCREASE FOR FY 1986 WHEN YOU INCREASE SALES AND USE TAXES FROM 3 TO 4 PERCENT, EXEMPT FOOD, AND REPEAL THE FOOD SALES TAX REFUND. WHY DO WE NEED SUCH AN INCREASE IN DOLLARS? I WILL GIVE YOU MY THOUGHTS ON A MAJOR IF NOT THE MAJOR NEED.

1. IN THE LAST COUPLE OF YEARS WE HAVE BEEN CONCERNED WITH "EXCELLENCE

ATTACHMENT 4

IN EDUCATION". I WAS CONCERNED BECAUSE YOU DON'T GET THAT " EXCELLENCE" UNLESS YOU PAY FOR IT. LAST YEAR WE MADE A START. NOW WITH A SMALLER "STATE BALANCE" THERE ARE SOME WHO SEEM TO HAVE FORGOTTEN THAT WE MADE A COMMITMENT. I BELIEVE WE MADE A COMMITMENT AND SHOULD KEEP IT.

2. DURING MY 33 YEARS IN BOEING FINANCE MANAGEMENT I HIRED AND/OR RECOMMENDED FOR HIRE MANY TEACHERS WITH YEARS OF EXPERIENCE AND TOOK THEM AWAY FROM THEIR TEACHING PROFESSION. WHY WAS I ABLE TO OBTAIN THIS TALENT? BECAUSE THEY COULD GO TO WORK IN THE FINANCE DEPARTMENT AT BOEING IN BEGINNING OR SLIGHTLY HIGHER GRADES FOR A SUBSTANTIAL AMOUNT MORE THAN THEY WERE GETTING AFTER MANY YEARS OF TEACHING. THIS IS JUST ONE OF MANY EXAMPLES.

3. YOU HAVE TO PAY FOR EXCELLENCE. WERE WE KIDDING OURSELVES WITH THE EXCELLENCE JARGON OR DID WE MEAN IT? THIS SALES TAX INCREASE COUPLED WITH A FOOD EXEMPTION IS ONE WAY TOWARD ACCOMPLISHING THE COMMITMENT GOAL.

4. I CONDUCTED AN INFORMAL POLL IN MY DISTRICT IN DECEMBER. ABOUT 2 TO 1 WOULD RATHER PAY A 4% SALES TAX AND EXEMPT FOOD THAN PAY A 3½% SALES TAX WITHOUT THE EXEMPTION.

SECTION 6 OF THE PROPOSED BILL WOULD REPEAL THE $20.00 REBATE CURRENTLY IN EFFECT AS AN "IN LIEU" OF FOOD EXEMPTION FOR SELECTED INDIVIDUALS. THIS $20.00 REBATE WILL PAY THE SALES TAX FOR ONLY $13.00 OF GROCERIES A WEEK. I WONDER HOW MANY GET BY WITH $13.00 A WEEK FOR GROCERIES.

THE REBATE OF $20.00 IS ONLY ASKED FOR BY APPROXIMATELY 3 OUT OF 5 THAT ARE ENTITLED TO THE REBATE. WHY -- MANY ELDERLY ARE NOT CAPABLE OF FILLING OUT THE REQUEST AND FEAR THE COST OF SOMEONE FILLING THE FORM OUT FOR THEM. A REBATE SIMILAR TO THIS ONE IS BARELY ADEQUATE WHEN THE LAW IS PASSED - YEARS LATER IT MIGHT GET A LITTLE BOOST. ITS A TYPICAL APPROACH TO DISCOURAGE THE TAXPAYER AND SPEND MORE MONEY AT THE STATE LEVEL.

WHY DO OUR CITIZENS HAVE TO SPEND THEIR HARD EARNED MONEY IN THE FIRST PLACE?

Homer E Jarchow

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LEAGUE OF WOMEN VOTERS OF KANSAS

February 19, 1985

STATE TO THE HOUSE ASSESSMENT AND TAXATION COMMITTEE

in support of HB 2198

Mr. Chairman and Members of the Committee:

I am Marian Warriner speaking for the League of Women Voters of Kansas in support of HB 2198. This bill involves two issues:

1. The need for increased state revenue.
2. The source of that revenue and its base.

The motto, "Return federal programs to the local governments. They can administer them more effectively and efficiently," is no longer just a motto. The federal government is now abandoning programs and the states are free to pick them up as they wish. The federal government has also instituted substantial tax reduction, which has in turn reduced Kansas revenue. Kansas has acted to maintain programs for the most vulnerable while making cuts in eligibility, types and levels of service. It has not tapped the revenue sources vacated by the federal government.

I want to stress the need for additional revenue to fund cost effective programs --the programs that will avoid higher costs down the road. These programs designed for those who cannot afford them themselves include:

a. Health programs that keep people in fit physical condition to work and to avoid health deterioration and long term costs.
b. Assistance that helps a person stay on the job, e.g., day care for children.
c. Maternal health care and child nutrition programs

Education is an investment in the future. A well educated and highly trained work force will pay for itself. Pre-school for handicapped children is another area where early investment will reduce subsequent training costs and expensive care in the future.

Environmental protection is an area where successful programs initiated now can avoid more severe problems later. Water quality is one under consideration this session, as is the Superfund.

Programs that assist the under-privileged, the less fortunate, and those that address the general welfare of the state are sufficient reason to look for additional revenue.

ATTACHMENT 5 2/19/85

Sources of additional revenue, in order of choice and possibility

1. Income tax. In our judgment the progressive income tax is the fairest tax.
2. Sales tax with food exempt.
3. Repeal of some exemptions.

The League of Women Voters will address the income tax and repeal of exemptions when appropriate bills are before you. One comment only on exemptions. An exemption or a credit is as sure an expenditure, decreasing the revenue in the State General Fund, as is an appropriation duly processed through the legislative process. These "tax expenditures" should have the same scrutiny that is given bills before the Ways and Means Committee. They are also rightfully before you for they require increased taxes from the remaining base and taxpayers.

Our endorsement of increased sales taxes is a compromise and is qualified by the requirement that food be exempt. We endorse HB 2198 because it not only brings in additional revenue; it relieves somewhat the regressivity of the tax. With food exempt, the effective tax rate drops faster for low income than for high income families. Low income families are more adversely affected by sales taxes than is apparent. A manufacturer passes on his sales taxes to the consumer. This, for low income families, raises the effective rate well above the statutory rate; the rate for high income families remains below the 3%.

We do not endorse the credit or rebate plan of decreasing the regressivity of the sales tax. Only one-third of those eligible for the food and homestead refunds actually apply and receive benefits. The other 67% remain without help.

We recognize that the sales tax on food is the most stable source of revenue and is therefore reliable in times of economic stress. But we do not think that in any way should the solvency of the state be laid on the shoulders of the low income people.

The break that high income families unjustifiably would receive can be regained through our progressive income tax system. This suggests that an increase in the income tax could also logically be used to finance the exemption of food.

Although we prefer a more progressive tax source, we will support an increase in the sales tax with food exempt. And we believe the state needs the revenue.

Thank you. We will appreciate your consideration of this issue as you address alternatives this session.

Marian Warriner

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LEAGUE OF WOMEN VOTERS OF KANSAS

February 19, 1985

Data relative to HB 2198, exempting food from sales taxes.

Food costs,* Family of four consisting of two adults and two children, under 12.

	Thrifty Plan	Low Cost Plan	Moderate Cost Plan	Liberal Plan
Food Cost	$3,167	$4,032	$5,028	$6,029
Sales Tax, 3%	95	121	151	175
Sales Tax 3½%	111	141	175	211

Comparison with the Governor's proposed rebate, family of four

Income Level	$0-$4,999	$5,000-$9,999	$10,000-13,000
Proposed rebate	$90	$70	$50

*U.S. Department of Agriculture
Human Nutrition Information Service
Nutrition Education Division

Kansas Food Dealers' Association, Inc.
2809 WEST 47th STREET SHAWNEE MISSION, KANSAS 66205
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February 20, 1985

HOUSE ASSESSMENT & TAX COMMITTEE

OPPOSING HB 2198

Thank you for the opportunity to appear before you today in OPPOSITION to HB 2198.

The Kansas Food Dealers Association has always been in favor of providing TRUE TAX RELIEF TO THOSE WHO NEED IT.

Most of this Committee has heard me say over the years, that exempting food at the point of purchase will not save money for those we all want to help---- the elderly, the handicapped, and those on a low income.

The cost to separate taxable from non-taxable items at the checkstand would be passed on in the price of ALL items sold in a grocery store. Therefore the price paid for FOOD items could exceed the 3% sales tax exemption outlined in this bill.

Time studies have indicated that even in stores where there are scanners and electronic cash registers there needs to be several totals figured in order to get the final amount due.

For example: If this bill passed, grocers would be sorting (either by hand or keeping a total on the electronic machines) the NON-FOOD items which would still be subject to the state and local tax rates. Then you would need to figure the LOCAL sales tax on the FOOD items (since food is not exempt from local sales tax) and add the totals for the non-food items to the food items with the local tax applied.

Right now the checker rings up the purchase, and figures the 4% rate of tax, or whatever it is, and the total is one figure, without a chance of human or machine error in adding two totals together.

ATTACHMENT 6 2/19/85

I have attached an article from the March 1983 issue of our monthly magazine, The KFDA BULLETIN, which explains in detail the few facts I will be giving you. We compared several stores to give a clear idea of extra time involved to exempt food from the sales tax at the checkstand.

We compare the typical small town grocer paying an average of $4. an hour with the metropolitan grocer paying $6 an hour. In both instances an ADDITIONAL 36 cents PER DOLLAR had to be figured for fringe benefits.

The small town store figured an additional $3,178 in EXTRA wages even though it only took TEN SECONDS LONGER per order to tax only non-food items and in the larger stores they figured between $16,500 and $17,000 annually. Again, they had to apply the fringe benefits of 36% to get the total EXTRA cost involved. The figures are in the article I have attached.

There is no way that a grocer can absorb that cost of doing business. The COST has to be passed on to the consumer or the business closes up.

There appears to be no "standard mix" of sales in any of the stores we interviewed. The amount varied from as low as 45% of orders being in the food classification to as high as 78.2% -- depending upon the location and the size of the store.

Since the usual "mix" referred to by the state research department is 15 to 20% of sales being NON FOOD, we can envision our grocers being subjected to having to prove with various auditing methods that they actually exceeded that 15 or 20% when they send in tax on 12% of their sales as the one store above with 78.2% of sales in food items would do if this bill passed.

Right now we have a total amount of sales that we figure the state and local sales tax on, transmit that figure to the State and no audits are required. Grocers, as well as other merchants feel they are doing a tremendous service for the state FREE OF CHARGE since not even a postage stamp is furnished any longer to transmit the sales tax collected. Most of you have heard me speak IN FAVOR of allowing some collection costs even as low as $100 per month, or maximum of $1,000 a year for anyone collecting sales tax, but in this time of economic problems, we have not even asked for such a bill to be introduced.

If indeed this legislature is serious about providing TRUE TAX RELIEF to the ones who we agree do need it --- the elderly, handicapped or those on low income, it is quite easy for you to adjust the amount of relief they receive since the $20 CREDIT/REFUND method is already in place. Simply increase that $20 to $50, or raise the limit on income to cover more of the needy. DON'T INCREASE THE COST OF ITEMS PURCHASED IN GROCERY STORES, plus increase the rate on ALL other items purchased that are NOT food regardless of where those purchases are made.

We respectfully request you to NOT report HB 2198 out of Committee. I will be happy to answer any questions you may have.

Frances Kastner, Director
Governmental Affairs for KFDA

ATTACHMENT 6

Kansas Food Dealers' Association, Inc.

JAMES G. SHEEHAN, EXECUTIVE DIRECTOR
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Exempting Food From The State Sales Tax May Really Cost Your Customers More Than The 3% Tax!!

by Frances Kastner, Director
Governmental Affairs, KFDA

This winter the KFDA conducted a survey to determine what the cost would be to separate non-taxable food items from taxable items when the order consisted of the usual mixture of items that would be found in a weekly shopping trip.

We found that it would be difficult to set a definite percentage that would cover the entire state. At various times the Department of Revenue or the Research Department has mentioned the figures of 15 to 20% of the sales in a grocery store would still be taxed if food items were exempt, using the same definition as that for food stampable items.

In the metropolitan areas, we show that some orders in large supermarkets have only 45% of their orders in the food classification and therefore exempt from the sales tax. At the other end of the scale, a comparable sized store in the same city reported most of their sales were in the food items—in fact they figured it was 78.2% of their sales when they conducted their study.

DETAILED TIME STUDIES WERE CONDUCTED

All the studies made indicated that there would be no way for the stores to absorb the cost involved in separating taxable from non-taxable food purchases UNLESS an increase for ALL items in their store went into effect. This would make the net cost to their customers MORE than the 3% savings they would realize by the state sales tax being exempt from food products. When the store was located in an area that had city or county sales tax, their cost was even higher since the local sales tax would have to be figured and applied to the entire purchase.

One of the tests conducted in the eastern part of the state used actual orders. Eleven orders were checked out as they do now, applying the sales tax at the end of the total, figured by the register, and the total time for checking out 11 orders was 19 minutes, for a total of $605.62

The next eleven orders were separated as they would have to be if food items were exempt from the state sales tax. A total of 30 minutes and 39 seconds were involved in sales totalling $679.66. No local sales tax was figured. Only taxable items, subtotalled with the tax applied, then non-taxable items subtotalled and the two added together.

That particular store determined that the 22 orders were really not representative of their "average" order since orders ranged from a low of $21.69 to a high of $129.02. Their actual AVERAGE ORDER figures out to $12.25 with the estimated weekly customer count of 5,000. It appeared that it would take about TEN SECONDS longer to separate each order. Then they took 10 seconds times 5,000, divided that by 60 to get the minutes, divided that figure by 60 to get the hours used per week, times their hourly wage of $4.40 for a checker, times 52 weeks and arrived of $3,178 ADDITIONAL COST.

In a similar sized community, the store tested an order of 25 items which had 10 non-food items, and 15 food items totalling just under $50.

The first time the order was rung up for one total, and the cash register could automatically compute the sales tax. It took 80 seconds.

The next time, the checker rang up the same order, subtotalled taxable items and the sales tax. Then food items were added, and the subtotal added to the taxable in 125 seconds.

The store owner figured that 56% more time was required in the second transaction, increasing the checker's time by 112 hours per week. With an average of $4 per hour, which translates into $448 a week, and $23,296 annual extra costs. He further believes that because of the high degree of error when adding totals together he would instruct his cashiers to actually take the money from the customer for the first sub-total, and make the change as figured by the machine, and then do the same for the second part of that same order which exempted food even though it would increase the time involved by 94%. That store estimates that 70% of their sales are food items.

METROPOLITAN AREA STUDIES

In two metropolitan tests, conducted in similar sized stores each with about 9,000 customers a week, the increased cost for each of the stores was between $16,500 and $17,500 annually. This did NOT take into consideration that for each dollar paid in wages you need to add another 36 cents in benefits, which adds another $6,000 or more to each of the above figures. Those stores reported between 45% and 65% of their sales coming from food items. Each owner figured it would cost him between $24,000 and $25,000 annually to exempt food from the sales tax at the checkstand.

Stores with scanning equipment reported that they could not determine that it would cost them any more to check out orders where food is exempt.

HOWEVER, the most recent figures one local grocer obtained for the scanning equipment for his six checkstands would be $72,262 which did not include the installation or modifications necessary to accommodate the scanning equipment.

A sampling of small convenience stores throughout the state was done, and the best figure we can give you is that about 30% more time is required in separating taxable from non-taxable items in those stores. No concensus could be reached as to the additional cost because of the wide range of salaries paid throughout Kansas.

No matter how you figure it, the cost of doing business would increase substantially, and that cost would be passed on to the customers. We truly wonder if trying to save Kansans the 3% sales tax on food would not end up costing them MORE than the 3% on ALL items they purchase in a grocery store.

Surely, it would be better to expand the credit or refund method already in place to cover all Kansans, if the state can afford to do so. We have consistently endorsed that method of providing sales tax relief rather than adding another burden on the grocers, adding to their operating costs, and in turn increasing prices to all Kansans.