

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00, 12:30, 2:30
~~XXXXXXX~~ Thursday, February 21, 1985 in room 313-S of the Capitol.

All members were present ~~XXXXX~~
Senator ~~XXXXX~~

Committee staff present:

Tom Severn, Research Department
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:

William T. Abbott, Boeing
David S. Litwin, Kansas Chamber of Commerce and Industry
Chip Wheelen, Kansas Legislative Policy Group
Dee Likes, Kansas Livestock Association
Ron Gaches, United Telephone
Tom Evans, Salina Implement Company
Maynard Estes, Bucklin Tractor & Implement Co.
E. A. Mosher, League of Kansas Municipalities
Paul E. Fleener, Kansas Farm Bureau
Karen McClain, Kansas Association of Realtors
Barbara Kiortyohann, Hallmark Cards
Don Schnacke, Kansas Independent Oil & Gas Association
Thomas H. Ryder, Cessna
Janet Stubbs, Home Builders Association
Howard Tice, Kansas Association of Wheat Growers
Marian Warriner, League of Women Voters of Kansas

S.C.R. 1615 - Constitutional amendment; classification of property for purposes of taxation

S.C.R. 1616 - Constitutional amendment; classification of property for purposes of taxation

Written testimony of John W. Koepke, Kansas Association of School Boards, was distributed to the Committee (Attachment 1). His association supports a constitutional amendment providing for classification with assessment percentages specified in the amendment.

Bill Abbott read his statement (Attachment 2). He does not support either S.C.R. 1615 or S.C.R. 1616 but advocates immediate reappraisal before taking any classification action. Mr. Abbott supports elimination of the inventory tax. He said that if a classification resolution must be passed this year, Boeing would favor S.C.R. 1616. Chairman Kerr asked how school districts in Sedgwick County would be affected if the inventory tax were eliminated. Mr. Abbott said Boeing, in 1990, has property which will be going on the tax rolls which will total 130 million dollars more than the inventory exemption his company would receive.

David Litwin summarized his written testimony (Attachment 3). KCCI opposes both resolutions and supports the uniform and equal clause of the Constitution. Mr. Litwin said the state's current problems result from enforcement rather than the system. KCCI supports passage of a reappraisal bill before taking any further steps. Mr. Litwin said, if either S.C.R. 1615 or S.C.R. 1616 are passed, they prefer S.C.R. 1616. Answering a question from Chairman Kerr, Mr. Litwin said, on the whole, they do endorse the concept of exempting personal property, even though the slack would be picked up by other commercial and business interests. Chairman Kerr asked if, given the political climate, it becomes unavoidable to address classification simultaneously with reappraisal, would KCCI support S.C.R. 1616. Mr. Litwin replied, in that context, they would. Senator Hayden asked about the sales assessment ratio study. Mr. Litwin said he does not feel that it is accurate enough to base a classification scheme on it. Senator Allen asked if Mr. Litwin feels any

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
11:00, 12:30,
room 313-S Statehouse, at 2:30 a.m./p.m. on Thursday, February 21, 1985.

action in regard to classification could be delayed two more years. Mr. Litwin responded that he believes so. He does not feel that if reappraisal is instituted, there will be danger of the courts ordering a return to uniform and equal assessments.

Chip Wheelen read his testimony (Attachment 4). He urged that a classification amendment include a class for ag land appraised at market value so there would be an option for either market value or use value. He neither supports nor opposes either resolution. Responding to a question from Senator Thiessen about the added costs for dual appraisal of ag land, Mr. Wheelen said the county commissioners in his organization are willing to bear that additional expense to insure that farms are protected from inter-class shifts.

Dee Likes summarized his written testimony (Attachment 5). He talked about his association's support of use value appraisal of ag land. Mr. Likes stated that there are so many ways of appraising property used, it has the same effect as having different assessment rates. He discussed the exemption of farm machinery and advocated that livestock should also be exempt. He pointed out that personal property comprises a fairly large percent of the tax base in Kansas. He favor complete exemption for all personal property and is supportive of S.C.R. 1616.

The meeting was adjourned until 12:30 p.m.

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Ron Gaches read his testimony (Attachment 6). They support the proposal for a graduated residential exemption described by Dr. Glenn Fisher and also support implementing use value. He compared S.C.R. 1616 favorably to S.C.R. 1615. He suggested that exempt real estate pay an in lieu of tax. He said protection of homeowners and ag land is necessary and could be provided without classification. He reminded the Committee that the computer runs reflect shifts in the tax base, not necessarily the tax burden. Mr. Gaches commented that, after reappraisal, there will be a larger tax base. Answering a question from Chairman Kerr, Mr. Gaches said that tax liability for utilities is passed through to the rate payers and that there is about a one to two year lag between the time the utility pays the property tax and when it is reflected in the customers' bills. Mr. Gaches pointed out that not all property owned by utilities is state-assessed. Chairman Kerr advised that S.C.R. 1616 will need an amendment to clarify that the personal property of the utilities will still be assessed as it is at the present time.

Tom Evans read his testimony (Attachment 7). He discussed problems and inequities in the inventory tax. Mr. Evans said he feels a sales tax is the most fair tax. He emphasized that he cannot wait several years for relief. He agreed with Chairman Kerr that while he needs some immediate remedy, for the long term, he supports removing personal property tax, knowing that this will raise real estate taxes.

Maynard Estes read his statement (Attachment 8). He described the situation of his company and others in Ford County. He urged that reappraisal be implemented before any classification proposals are adopted. He said he cannot support either of the resolutions and requires immediate relief. He feels that a classification amendment would probably be passed by the voters once it has passed the Legislature. He agreed he would support the elimination of the personal property tax and having that amount picked up by other real estate.

Ernie Mosher read his written testimony (Attachment 9). He testified that the League reluctantly supports the concept of classification. He objected to exempting personal property and supported a constitutional amendment providing the Legislature with discretion as to a classification proposal. He does not feel exempting personal property would be acceptable to voters. Mr. Mosher raised concerns about local government entities not being able to survive without a fair property tax system. He emphasized the importance of reappraisal.

CONTINUATION SHEET

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Paul Fleener summarized his written testimony (Attachment 10). His organization feels reappraisal should be completed before the issue of classification is addressed -- that the two should be in tandem. They favor exempting personal property. They also favor a one cent increase in the sales tax to fund education. Mr. Fleener suggested the possibility that a reappraisal bill might become law without classification because, he said, the 1985 message from the Governor does not say he will veto the bill.

The meeting was adjourned until 2:30 p.m.

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Karen McClain read her testimony (Attachment 11). Her association opposes both resolutions, and she raised concerns about the taxation of vacant lots.

Barbara Kiortyohann read her statement (Attachment 12) in support of S.C.R. 1616. Answering a question from Senator Karr, Ms. Kiortyohann replied that, for Hallmark, a shift from personal property taxes to real property taxes would probably be a trade-off. She told the Committee that their preference would be for reappraisal first, and then for the data obtained to be used in making decisions about classification. She recommends that the classes be made a part of the state Constitution. Chip Moxley clarified Hallmark's position by stating that they urge reappraisal before classification but are endorsing S.C.R. 1616 over S.C.R. 1615.

Don Schnacke read his statement (Attachment 13). He supports reappraisal and a return to uniform and equal taxation. He went on to say that both S.C.R. 1615 and S.C.R. 1616 are a move in the direction of taxing oil and gas at the same rate as other commercial and industrial properties. Mr. Schnacke said while he does not endorse either resolution, S.C.R. 1615 treats his industry more favorably than S.C.R. 1616. He stated they are interested in broadening the tax base and do not favor exempting personal property.

Tom Ryder read his testimony (Attachment 14) in support of S.C.R. 1616. He discussed competitive advantages to attracting business, easier compliance and administration, fairness and equity and incentives under S.C.R. 1616. Answering a question from Senator Thiessen concerning new trending guides, Mr. Ryder said it is possible that their tax may be reduced, but the administrative time and expense will be just as cumbersome.

Janet Stubbs read her statement (Attachment 15). She supports reappraisal taking place prior to classification. She testified that S.C.R. 1616 is preferable to other classification proposals but mentioned concerns about the treatment of vacant lots.

Howard Tice read his statement (Attachment 16). He gave his reasons for supporting S.C.R. 1616 and opposing S.C.R. 1615: less tax shift from oil and gas to farm land, exemption of inventories and only two classes.

Marian Warriner reviewed her written testimony (Attachment 17). She urged that consideration be given to a graduated residential exemption proposal. They support reappraisal taking place first and do not either oppose or support S.C.R. 1615 or S.C.R. 1616.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/21/85	RON CALBERT	NEWTON	U.I.U.
"	Leroy Jones	Overland Park	B.L.E.
✓	BRYAN WHITEHEAD	KC K	BRAR
✓	Ivan W. Wyatt	McPherson	Ks Farmers Union
2/21/85	BRAD MEARS	TOPEKA	GOVERNOR'S OFFICE
"	Dee Lukes	"	KLA
"	Chip Wheelen	Leg. Policy Group	Topeka
"	Dave Litwin	Topeka	KCCD
"	Ed Mosher	Pop	head of the Kans. State Appraiser
"	Jeland Mauch	Clay Co.	Commissioner
"	Marvin Siebold	Clay Co.	Commissioner
"	Ben BRADLEY	LAWRENCE	KS. Assoc. Counties
	JOE DWIGANS	K. City	KCPL
	D. WAYNE ZIMMERMAN	TOPEKA	THE ELECTRIC CO'S ASSOC. OF KS.
	FERD MEYER	TOPEKA	KPL
	Ray D. Shenkel	Shawnee	KCPL
	JOHN W. BRAND, JR.	LAWRENCE	LAWRENCE APARTMENT ASSOCIATION
	Marvin Harrison	Lawrence	LWVK
	Phonda Pritchett	Shawnee Heights	Student
	Michele Peck	" "	"
	Lynette Farscale	" "	"
	Dana Jolley	" "	"
	Susan Creager	" "	"
	WANDA ESTES	BUCKLIN, KANS	HOUSEWIFE
	Maynard L. Estes	Bucklin Kansas	Bucklin tractor & Tractor Inc.
	TOM EVANS	SARINA, KS.	SARINA IMP. Co.
	Gene Sager	Harjo	Western Retail Assn.
	Bob John	KANSAS CITY	LUMBERMEN'S ASSN
"	Lisa Harrington	Topeka, KS.	Student

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/21/85	Mitch Backman	3000 SE Starlite Dr.	Student
2/21/85	Billy McNeely III	Topoka	Student
2/21/85	Judd Engle	Secumseh	student
2/21/85	Troy Olson	Topoka	student
2/21/85	David Palzio	Topoka	student
2/21/85	Christine Constantina	2319 SE Alexander Dr.	student
" "	Jennifer Vaughn	4371 " "	" "
	Tom Whitaker	Topoka	Ks Motor Carriers Assn.
	DAN MCGEE	GREAT BEND	CENTEL
2/21/85	Randy Barleson	Columbas	Empire District
✓	WALTER DANN	Topoka	EKOGFA
✓	JANET STUBBS	"	HB AK
✓	Donald McNew	"	Thorn Petrol
✓	Jim McBride	Topoka	United Way
✓	Joyce Hendrix	Ottawa	EKOGFA
✓	Mary E. Worthington	Topoka	Kansas Motor Carriers Assn - MEMBER OF COMMERCE
✓	Taylor D. Belt	WICHITA	
✓	Rebecca Crenshaw	Topoka	Committee of Farm Org.
✓	William Lemars	Topoka	Ks Fuel Assn
✓	Richard D. Kready	"	KPL / Gas Service Co.
✓	Pat Spencer	Lakin	Lakin High School
✓	Heighon J. Miller	Ulysses	Lakin High School
✓	Edward Cramer	Lakin	Lakin High School
✓	Stacy Prieszen	Lakin	Lakin High School
✓	Kilany Thomas	Lakin	Lakin High School
✓	Suzanne Cramer	Lakin	Lakin High
✓	Rauna Roberts	Lakin	Lakin High School
	Bill Anderson	Missoua	Water Dist #1 JoCo
2-21-85	Cathy Wasinger	Topoka	Ht. Gov. Office

KANSAS
ASSOCIATIONOF
SCHOOL
BOARDS5401 S. W. 7th Avenue Topeka, Kansas 66606
913-273-3600

Testimony on SCR 1615 and SCR 1616
before the
Senate Assessment and Taxation Committee
by
John W. Koepke, Executive Director
Kansas Association of School Boards
February 21, 1985

Mr. Chairman and members of the Committee, we want to express our appreciation for the opportunity to present the views of the school boards of Kansas on this topic of vital interest to the financing of public education. As you know, nearly half the cost of elementary and secondary education in Kansas is borne by local property taxes levied by the 304 unified school district boards of education. Any action which affects that property tax base has grave implications for public school financing.

With that in mind, our members have expressed deep concern over the property tax shifts which have been projected to occur between classes of property if reappraisal of property in Kansas were to be imposed, either by a court order or through legislative action. We are also dismayed by the results of studies undertaken by the Property Valuation Department which show wide disparities in assessment within property classes in the same taxing jurisdiction. The disparities demonstrate the need for some remedial action.

As a result of their study of these factors, our members have reached the same conclusion as the 1981 Interim Committee which studied the subject. Our Delegate Assembly has overwhelmingly adopted a policy statement endorsing the concept of a

constitutional amendment which would provide for the classification of property in Kansas with assessment percentages for each class specified in the amendment. This would be designed to prevent annual legislative battles over which classes of property should be assessed at what level.

The Committee should also be aware that enactment of any such amendment needs to take into consideration the changes in district wealth in the school finance formula that would occur as a result of any classification amendment, so that adjustments can be made to allow for those shifts. We believe that the correlation between a classification amendment and the school finance formula has not received the attention it deserves to this point.

A classification amendment also offers the opportunity for the legislature to deal in a comprehensive manner with the proposed and existing tax exemptions such as livestock, farm machinery and merchants and manufacturers inventories and to resolve those issues in a conclusive fashion.

If Kansas schools are to continue to be supported in any major portion by the property tax, then the concerns which are mounting regarding that tax base must be addressed. We believe that the resolutions before you offer the best vehicle to begin addressing those concerns. We believe that they should be addressed by legislative action rather than court fiat. We thank you for the opportunity to address our concerns, and I will be happy to answer any questions.

TESTIMONY OF WILLIAM T. ABBOTT
PUBLIC AFFAIRS MANAGER
BOEING MILITARY AIRPLANE COMPANY

SCR 1615 AND 1616

SENATE ASSESSMENT & TAXATION COMMITTEE
February 20, 1985

The Boeing Military Airplane Company is located in Wichita. We are an airplane and aerospace engineering and manufacturing firm and our current employment is approximately 17,500.

Mr. Chairman, The Boeing Company has a keen interest in the current and future tax policies of the state of Kansas. We do feel the administration of the tax policies of the state should be enforced or changed. I cannot specifically endorse SCR 1615 or SCR 1616 today, but I appreciate the opportunity to share with the committee some of our thoughts and concerns.

We believe the first order of business on taxes is to reappraise. As you know each time a new "list" is prepared to see what the impact is on a given proposal, be it SCR 1615, SCR 1616 or any other there is always a qualification that the numbers are the "best we have." It seems almost too easy to reappraise, see what the real numbers are then take whatever action is appropriate to insure the best tax policy for the state of Kansas.

Whatever proposal is considered by the committee The Boeing Company supports the complete elimination of inventories from the tax base in Kansas.

Ad valorem tax assessment of manufacturers' inventory should be eliminated because of serious defects as a tax base.

1. Manufacturing inventory is not uniformly assessed. In the case of CY 1983, for Sedgwick County, Boeing employed 30% of the manufacturing work force, and was assessed 49% of the total manufacturers' inventory base. In the same year, Boeing employed 9% of the total Kansas manufacturing work force, but was assessed 22% of the total manufacturers' inventory base for the State.
2. Manufacturing inventory is not a stable tax base. Boeing's ad valorem assessment is approximately 70% of the Derby School District's total ad valorem tax base. From 1982 to 1983, the Boeing manufacturer's inventory assessment increased 26%; from 1983 to 1984, it decreased 10%. Those are serious fluctuations to a bedroom community. Those fluctuations in inventory are a function of world wide business conditions.
3. Manufacturers' inventory is assessed differently from other property classes, e.g. Residential at 8% statewide averages and manufacturing inventory at 30%. Inventories are treated differently between manufacturers, merchants and livestock. Uniformity and equality is not achieved.

4. Boeing pays inventory taxes on some inventory three times. Due to the flow time from buying material until final delivery of a build order, some inventory will be assessed for taxes in three different calendar years.

5. Under Department of Defense accounting rules, inventory taxes cannot be passed through as a cost of performing work. Boeing had to absorb out of earnings in the past two years, \$9.7 million of manufacturers' inventory taxes.

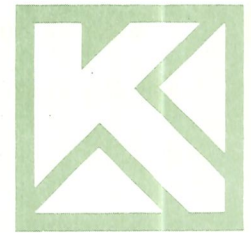
If the committee in your deliberations determines it must pass a classification proposal this year, before reappraisal numbers are known, a bill such as SCR 1616 is closer to the language we would support than SCR 1615. It comes nearer to the uniform and equal approach to taxation with special treatment for residential and farmland and it addresses our problems with inventories.

Mr. Chairman, we at Boeing are not looking for a tax break, but we do feel some adjustments in our tax laws are necessary. I would respectfully urge the committee to give consideration to the problems I have outlined.

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

SCR 1615 & 1616

February 20, 1985

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

SENATE ASSESSMENT AND TAXATION COMMITTEE

by

David S. Litwin
Director of Taxation

Mr. Chairman and members of the Committee, my name is David Litwin. I am director of taxation of the Kansas Chamber of Commerce and Industry. On behalf of both KCCI and myself, thank you very much for the opportunity to present our views today on SCR 1615 and SCR 1616.

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

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees.

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

On the whole, we are opposed to adoption of either resolution, although I hope you'll find our opposition to be of the constructive kind. While I would concede that both plans have advantages over the classification proposals of recent years, KCCI has supported, and continues to support, the present and historic uniform and equal taxation mandate of our state Constitution. Thus, before commenting specifically on the two proposals, I would like to set forth the reasons for our position on uniform and equal.

First, during proceedings of the Kansas Tax Review Commission, which culminated in SCR 1615, Lt. Governor Tom Docking stated very clearly that uniform and equal has some notable advantages. He conceded that it is fair; it is widely perceived as fair; it is simple in concept and administration; and the taxpayer can readily comprehend it, resulting in a higher quality of citizen awareness and participation in property tax matters. Mr. Docking went on to opt for a classification scheme due to other considerations he deemed controlling, but he did make these acknowledgements, and I would suggest that virtually everyone familiar with the issue would agree with him.

Next, KCCI agrees fully with the broad consensus that the present property tax system paralysis is indefensible and an embarrassment to the state. The problem can only get worse until firm action is taken. In such a morass, it is easy to vaguely associate uniform and equal with this bad situation. Thus it is important to note: the present situation did not arise due to any defect in uniform and equal. Quite the contrary -- it arose precisely because the uniform and equal standard was not enforced. If the legislature had given the Division of Property Valuation the hard enforcement machinery it perhaps lacks, and if the Division had consistently supervised the county appraisal apparatus, then we would not be debating these resolutions today. Conversely, there is absolutely nothing in the classification

approach that makes it any more or less likely that such a system would be enforced and not break down into its own type of paralysis. No -- the problem is not uniform and equal -- it is entirely in enforcement.

In addition to the advantages of uniform and equal noted by Mr. Docking, I submit that it is a significantly more rational basis for property taxation than is classification. The property tax is just that -- a tax on the ownership of property, not on income. In that light, it makes much more sense to presume that those with property of comparable values are equally capable of paying for the support of government and the services it provides than it does to assume their ability to pay differs.

Obviously there are homeowners who cannot afford to pay their present tax levels. But there are many who can afford to pay such taxes, and indeed many could pay far more without feeling much of a pinch. Conversely, while there are many businesses which can comfortably pay present property taxes, at any point in time there are also thousands of struggling enterprises, both large and small, that cannot do so or can do so only at great sacrifice. Yet classification proposals have their very foundation in a hazy belief that there is consistent and meaningful correlation between types of property and their owners' ability to pay.

As a result, when a classification plan is adopted, some taxpayers are severely hurt by their tax levels, while others receive unconscionable bargains. Does it really make sense to assess the property of all homeowners at a special level in order to help the relatively few who really do have a sound claim on assistance? Is there justice in a system wherein the owner of a \$300,000 home is given the same tax break as the owner of a \$30,000 home? Does the facile assumption hold water that businesses, being profit-seeking, can therefore afford higher assessment levels when

there are large numbers of perpetually struggling enterprises? I suggest that the conceptual foundations of classification are wobbly at best. Not only is classification not a cure for inequity, it is indeed a source of inequity.

On the other hand, proponents of uniform and equal recognize that this standard is not sacrosanct, and that people who have a genuine need for help should receive it. But instead of relying on the hazy assumptions underlying classification, we say, let's identify those citizens who require subsidy, and let's help them by the most direct and cost-effective methods available. In the process of doing so, let's not heap windfalls of unneeded subsidies on those who have no claim for it.

Thus, while we advocate enforcement of Kansas' historic requirement that taxes be assessed uniformly and equally, we also support aiding those who need it, especially homeowners. This can be achieved by a carefully drawn system of tax credits, exemption, "circuit breaker" schemes, and so forth. Such a system can be designed to be as specific and selective as we wish. Dr. Fisher touched on this approach in his testimony Tuesday concerning a proposed graduated residential exemption.

Unfortunately, the press of events is such that there has not yet been time to adequately explore these avenues, as the legislative session moves along.

This brings me to our next major point. The legislature could enact one of the pending bills authorizing a statewide reappraisal. This Committee could recommend such a bill. That would take a few years to complete, and a secondary but major benefit would be to allow the legislature time to carefully examine the possible approaches, instead of rushing to selecting among only the pending proposals. An interim study might be appropriate.

On the other hand, turning to the two proposed resolutions, we are stuck by their failure to require reappraisal before drawing class lines. The fact is that nobody knows with any reasonable degree of accuracy what the various classes and subclasses of property in the numerous political subdivisions are worth. Current figures are based on extrapolations from assessment/sales ratio studies, except for the relatively small percentage of properties on which improvements have been constructed or which have changed hands in recent years. It would not be surprising to find widespread errors on the order of 20 or 30 percent or more.

Thus, we sincerely urge this Committee to recommend passage of one of the reappraisal bills as a first step, whether uniform and equal or classification is the path you recommend. I suggest it makes no sense to plunge into the unknown consequences of a classification scheme when we can only guess at the property inventory that's being divided up.

Turning to the two pending proposed resolutions, if this Committee concludes that it is appropriate to abandon uniform and equal and adopt a classification system, and to do so now, then we would ask that our views be considered. On the whole, we find SCR 1616 superior to SCR 1615.

The reasons are as follows:

First, it contains only 2 classes, as opposed to 3 (or, if agricultural use valuation is counted, 3 instead of 4). Thus it is that much closer to uniform and equal, and that much more easily administered, understood, fair, and neutral.

Second, the range of disparate treatment is slightly narrower, with SCR 1615 having a range of assessment from 10% for residences to 30% for state-assessed properties, whereas SCR 1616's range is between 12% and 30%.

Finally, SCR 1616 would boldly and courageously exempt personal property. We have made our views known about inventory taxation -- it is unsound, unfair, impossible to administer, and a significant detriment to economic development -- so in the interest of brevity I won't discuss them here unless the Committee wishes me to do so. There have also been chronic problems with administration of the tax on business and agricultural equipment and machinery. Thus, this part of SCR 1616 would help offset what we feel are its disadvantages, and would send a clear signal to business both here and in other states and countries that Kansas wants to retain and improve a positive business climate.

It should be noted that the lost personal property tax revenue would largely continue to be shouldered by business, but on commercial and industrial real property.

Finally, a word about use valuation of agricultural land, contemplated by both proposals. We are not opposed to this in principle. However, since it could have a huge impact on tax revenues as well as on whether others perceive the system as fair, we urge that the Committee recommend that the selection of capitalization rates of income and other factors that determine actual tax levels under use valuation be scrutinized very carefully, with the proponents of such use value having the burden of proving how big a break farm owners need. We don't think it is at all obvious that the present extremely low level of farmland taxation should be perpetuated.

In conclusion, then, we support uniform and equal and ask that it be implemented, the first step being statewide reappraisal followed by a gradual phase-in of current values to minimize the impact of tax shifts. We favor the adoption of cost-effective and efficient relief to homeowners and farmers who need assistance, while we oppose broad schemes that would give needless windfalls to the wealthy. We do not support either classification proposal, but if the committee determines that we need to embark

in that direction, we believe SCR 1616 is substantially better than SCR 1615. However, the first step under any classification proposal as well should be reappraisal, completed before the assessment levels of the classes are finally determined.

Finally, it is vital that all of the participants in this process be mindful that it is the state Constitution that we are dealing with. Flimsy or faddish reforms with inadequate demonstrable basis should be avoided, since all Kansans will benefit only from a carefully considered and soundly based plan that will help assure a future environment in which all will flourish.

Thank you again for the opportunity to present these views. If there are any questions, I will be happy to answer them.



Kansas Legislative Policy Group

200 Jayhawk Tower, 700 Jackson, Topeka, Kansas 66603, 913-233-2227

February 20, 1985

TESTIMONY TO
SENATE ASSESSMENT AND
TAXATION COMMITTEE

CONSTITUTIONAL AMENDMENT FOR
CLASSIFICATION OF PROPERTY AND ASSESSMENT

Mr. Chairman and members of the Committee, I am Chip Wheelen of Pete McGill and Associates. We represent the Kansas Legislative Policy Group. The KLPGE is an organization of County Commissioners from primarily rural areas of the State. The members originally formed this association because of mutual concerns pertaining to erosion of the local property tax base.

For quite some time, our members have supported the concept of statewide reappraisal of real estate in conjunction with amendment of the Kansas Constitution for purposes of assessing different classes of property at rates that would minimize shifting of tax burdens among owners of different types of property. Our recently updated policy resolution on this subject is attached.

We appear today neither as a proponent nor an opponent of the two concurrent resolutions. We commend this Committee and the Tax Review Commission for undertaking the complex and difficult task of developing a classification amendment that contains the quality of fairness that will be acceptable to the voters.

Before proceeding, I should explain that among most of our member counties, the assessed valuations are attributable to two

principal types of property - agricultural real estate and minerals. Consequently, if either of those two types of property is appraised or assessed in a manner that results in a change in the relative proportion of total valuation, there is necessarily a converse change in the share of assessed valuation of the other type of property. This is not intended to imply that there exists a dollar for dollar relationship between assessed valuations attributable to farmland and minerals. As a matter of fact, each county is unique in terms of the relative mix of assessed valuations. Nonetheless, based on the available research by the Department of Revenue and the Legislative Research Department, it appears that both of the resolutions before you would cause shifts in proportionate shares of assessed valuations from mineral properties to farmland in many counties. In some counties, this shift would be dramatic and could result in a devastating blow to the agricultural community.

For this reason, we respectfully request that you consider and endorse a separate class for agricultural real estate appraised based on its market value. This would retain the existing constitutional provision which allows the Legislature to statutorily opt for either use-value appraisal or market value appraisal of farmland.

We have often heard the argument that until such time that reappraisal is conducted, the Legislature would not have the data necessary for well informed decisions pertaining to classification. In response, we have argued that measures extracted from the annual "Real Estate Assessment/Sales Ratio Study" are reasonably accurate for purposes of projecting market values. But to the best of our knowledge, there has never been a comprehensive study of the inherent income

producing capabilities of the various types of agricultural lands in Kansas.

With all due respect to those who are convinced that farmland should be appraised based on income capability, we firmly believe that a classification amendment should retain the legislative option between use-value appraisal and market value appraisal of farmland. Furthermore, we respectfully suggest that the assessment rate on agricultural real estate appraised at market value should be set at a percentage that would protect farmers from interclass shifts in proportionate share of assessed valuation.

We believe that we have identified for you a way of improving both SCR 1615 and 1616. We sincerely doubt that the Kansas Legislature would intentionally shift additional property tax liability to owners of farmland.

Lastly, we must state that the KLPG is opposed to any further erosion of the property tax base. Obviously, this means that we cannot endorse any new property tax exemptions. We recognize, however, that exemption of certain types of personal property may be a necessary ingredient if we are to obtain the required two-thirds majority votes. In this regard, we come to you with a spirit of compromise.

We have one final request - that you and the various interest groups adopt this same spirit of compromise in order to present the voters with the classification question. We are confident that the Kansas Legislature will not yield to special interests and instead, will do what is best for our citizens.



Kansas Legislative Policy Group

200 Jayhawk Tower, 700 Jackson, Topeka, Kansas 66603, 913-233-2227

January 25, 1985

WHEREAS: The Kansas Constitution authorizes the levy of ad valorem property taxes for purposes of financing costs of government and public services provided thereby; and

WHEREAS: Revenues derived from ad valorem property taxes are the principal source of funding local governments and essential services to protect the public safety, health, and welfare; and

WHEREAS: In order to assure fair and equitable administration of property taxation it is necessary to periodically reappraise property values; and

WHEREAS: For lack of periodic reappraisal of property values, certain inequities have evolved during an extensive period of time; and

WHEREAS: The immediate use of reappraised values would cause an undue assumption of property tax burdens among owners of certain types of property.

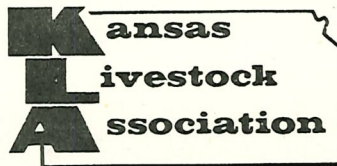
THEREFORE BE IT RESOLVED: The Kansas Legislative Policy Group supports and endorses amendment of Kansas Constitution for purposes of establishing different classes of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the establishment of specific rates of assessment of different classes of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the establishment of assessment rates that would minimize shifting of property tax burdens among owners of different types of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses statewide reappraisal of property values only if the voters are allowed to determine whether the Constitution should be amended for purposes of classifying property and establishing specific assessment rates; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the involvement of county officials in an advisory capacity to the Department of Revenue and the Division of Property Valuation for purposes of reappraisal and particularly computerization of property values.



2044 Fillmore • Topeka, Kansas 66604 • Telephone: 913/232-9358
Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

Statement of the
KANSAS LIVESTOCK ASSOCIATION
to the
Senate Committee on Assessment & Taxation
Sen. Fred Kerr, Chairman
with respect to
Property Tax Classification
presented by
Dee Likes
Executive Vice President
February 21, 1985

Mr. Chairman and members of the committee, the Kansas Livestock Association is a statewide voluntary association of livestock producers. Our association represents the entire spectrum of beef cattle production including cow-calf operators, stocker operators and feeders. In addition, KLA also represents swine and sheep producers. A large percentage of our membership is also engaged in farming and crop production activities. For many, many years our association has actively participated in the legislative process to represent the best interests of Kansas agriculture generally and the livestock producing segment specifically. We appreciate this chance to appear before your committee to share with you some of our views and experiences relative to ad valorem property taxation in Kansas.

It's only natural that members of the Kansas Livestock Association have a high interest in the method of appraisal used to value agricultural land for tax purposes since land is a basic resource in animal agriculture.

I believe all of you recognize KLA's continuing interest in this matter. Because we have appeared before this committee on several previous occasions to discuss classification I will try to not repeat each and every detail relative to this issue. KLA has been supportive of certain types of classification proposals. In a nutshell, the reasons are because: a) we prefer to adopt a specific solution to guard against an increase in agricultural taxes in case of reappraisal and to constitutionally exempt or phase out taxation on livestock; and b) it appears to us that Kansas already has a de facto classification system.

We currently classify different types of property by statute and practice in order to determine its value. As long as we continue this practice, Kansas will have inequities in the property tax system. Generally, those who support our current constitutional language as interpreted by the courts to mean uniform assessment and equal taxation are those who enjoy an extremely advantageous classified appraisal method. If it's acceptable to classify the appraisal method, which is the first factor of the property tax formula, why is it not just as acceptable to classify the assessment rate, which is the second factor in the property tax formula?

Admittedly, there are several alternatives on how to resolve the effects or the tax shifts which would result under reappraisal. These alternatives are: 1) appraise or value all property on the same basis or, to put it another way, find a common denominator such as a capitalized income stream on which to value all property; 2) adopt use-value appraisal for agricultural land and adopt a classification system which puts into the constitution specific classes and rates such as these two proposals.

KLA could support any of these alternatives or a combination of two or more, depending on the specifics. The problem is that both alternatives have been around for several years but as yet have not been able to sprout wings.

Therefore, we are resolved to work for an equitable classification amendment to the constitution or possibly a combination of classification and other factors.

Let's discuss why KLA supports use-value appraisal of agricultural land:

Although sale value may be a good measure of the value of many classes of property, special problems arise when it's used to value agricultural land. The people buying this land today are not doing so strictly for its modest ability to produce income. Land, unlike fast food franchises, condominiums or any number of alternative investments, is truly and continually in a very limited supply. Land makes an attractive investment for an increasingly large number of people in our society.

The effect of this demand for a limited supply of land is to inflate its sale value. A more accurate value for agricultural land -- what it's really worth to a farmer or rancher as he or she attempts to produce food and fiber at a profit -- is the income producing potential of the property. For this reason we have said that agricultural land really has "two values". Its first value is the amount it is worth to a farmer or rancher to produce food and fiber at a profit. The second value is the sale price of the land which, even under the declining agricultural land prices of today, is considerably more than its first value.

Let's examine briefly the causes for that second value. We have a constant -- or even shrinking -- availability of private land and a growing, affluent population that seeks their piece of that supply. These people would like to have a place in the country or a piece of land as a hedge against long term inflation. Another factor is that the agricultural economy has forced farmers and ranchers from the land and when one leaves the land, the holdings are sometimes purchased by another existing farmer or rancher. This expanding farmer is generally willing to pay more than the land is worth for food production because: ... it may join the existing

property; it may never again be for sale during their lifetime; and they can spread the fixed cost over the land presently owned. By expanding they hope to become more efficient in the total operation.

This tendency, along with past economic conditions in the country, has resulted in highly inflated sales prices which cannot be supported from a business point of view.

Let's examine this problem in relation to the Kansas tax structure. Kansas recognized this problem when it passed KSA 79-503 in the early to mid 1960's. That law contains several factors, including productivity and earning capacity. Those factors were not included by accident. My predecessors at KLA and many others who took part in the enactment of that statute thought they were enacting a use-value appraisal type law as many other states have done. The problem is that these factors are not weighted and the appraisers can use any of the factors they choose. By the same token, they can exclude any factors. This, coupled with a reluctance on the part of state property tax officials to enforce a utilization of all the factors in the law, has resulted in the current situation where sales price, being common knowledge and the easiest to obtain, has received the greatest emphasis. This, coupled with the fact that the assessment sales ratio study measures the job of the appraiser by only one factor -- sales -- tends to force the county official to put the greatest emphasis on that one factor of sales price. It appears that over the years both the spirit and the letter of the law as expressed in KSA 79-503 has been literally ignored.

Today's fear and discontent is not one of current valuations but the specter of reappraisal under current law with its historical interpretation. A reappraisal under that interpretation would result in the doubling and tripling of many valuations if the current "sales approach" to appraisal is used.

Additionally, the fair market value approach to appraisal no longer fits the unique class of property known as agricultural land. Under today's conditions, one could not find more than a handful of people that fit the "willing buyer/willing seller" concept. Experts in the appraisal field tell us that to meet that test the sale should fit the following criteria:

- 1) The sale should be a complete unit for the seller and the buyer;
- 2) Both the seller and the buyer should have other options;
- 3) It should be on the market for a reasonable period of time; and
- 4) The property should be capable of selling at the same price in repeat sales.

It would be extremely difficult to find an agricultural land sale in this state which would fit all those criteria. Therefore, through the changes in our country and the economy, agricultural land is today a unique commodity -- a commodity which does not logically fit under our general taxing method. Remember, I'm speaking today about the method of valuation only.

The last reappraisal in Kansas began in 1961 and for the most part was completed by 1971. It was an expensive ten year experience for Kansas. Most of the valuations of the many thousands of parcels have not been changed since that last reappraisal. During the same period, inflation has been

at record levels. The result is that on a statewide basis, rural land is estimated to have a sales assessment ratio of approximately 5% with urban property at approximately 12%. This causes some of our friends who serve in the Kansas legislature great consternation.

Our association thinks the solution to guard against those valuation increases for agricultural property is either administering KSA 79-503 as it was intended; or the adoption of a use-value appraisal methodology for agricultural land which was made permissible by the Kansas voters during the constitutional amendment of 1976 within a constitutional amendment to classify property tax assessment rates.

Use-value appraisal is not a new idea. Back in 1976 the original use value amendment to the Kansas constitution was passed by both Houses of the legislature by a two-thirds vote and was overwhelmingly approved by the voters. If we look at what other states are doing, we find that 45 of the 50 states employ a use-value appraisal or some type of differential tax treatment of agricultural land. Obviously, there are a great many people in this state and throughout the country who believe use-value appraisal is an equitable and a desirable way to value agricultural land.

Use-value appraisal of agricultural land is not strictly a rural issue. It's not uncommon at all for farmers on the fringes of urban areas to find they must eventually sell out because taxes on land have risen dramatically as a result of that land being valued based on its speculative sales value to a real estate developer. Many states have implemented use value laws for the express purpose of providing aesthetically pleasing green belt areas on the outskirts of urban areas and to control urban sprawl. Use-value appraisal is not a tax break for the farm and ranch community. In fact, use-value appraisal of agricultural land is likely to raise valuations from what they currently are in many instances. The reason that our association favors use-value appraisal is because land would be appraised on a more mathematically certain basis and, more importantly, on a more logical and equitable basis that has some relationship to the income that farmers and ranchers are capable of earning from it. Additionally, use-value appraisal would value agricultural investment land more like other business property is valued. It's commonly said around the legislative halls in Topeka and elsewhere that utilities and state assessed property are the only real property that is really being assessed at 30%. We ask, but 30% of what? In virtually every instance utilities and state assessed properties are valued on a capitalized income stream approach ... in other words, a property's "use value". That's all the agricultural community asks! We believe it's infinitely more logical to tax agricultural land on the basis of its income productivity rather than its speculative sales price.

So far, my comments have been directed completely toward the first part of the property tax formula, i.e. appraisal. The second part of the formula is the assessment rate as determined by Kansas statute and the third is the mill levy which is established by the county. Let me now address the second part of the property tax formula, the assessment rate.

Reference has already been made to the current property tax mess in Kansas being caused by 15-20 year old appraisals while the inflation rate was high during many of those years. But let's talk about another problem that impacts on current property tax inequities in Kansas. That problem

is Kansas' present classification system. Today, Kansas clearly has classification in its property tax system. We classify different kinds of property by statute and by practice to determine its value or appraisal ... which is the first factor in the property tax formula. As long as we continue this practice, Kansas will have inequities in the property tax system. Generally, those who support our current constitutional language as interpreted by the courts to mean uniform assessment and equal taxation, are those who enjoy an extremely advantageous classified appraisal method. These interests advance lofty rhetoric which laud the merits of "uniform and equal" and "fairness and equity" where all taxpayers are given the same treatment with no one or two classes treated in a preferential manner. It sounds pretty good. It's difficult to argue until you realize that many of those who argue for reappraisal under current law, i.e. "uniform and equal" are already being valued by an appraisal system which is different than the appraisal systems for other classes of property. In their words, we have in Kansas already a de facto classification system. True, it doesn't classify the assessment rate ... it classifies instead the appraisal. I ask you, if it's acceptable to classify the appraisal method, the first factor of the property tax formula, why is it not just as acceptable to classify the assessment rate, which is the second factor in the property tax formula?

Therefore, the Kansas Livestock Association for several years has supported several of the various suggested constitutional amendments to classify property tax assessment rates. Frankly, it appears that classification is the only politically practical way to resolve the current impasse. To those who continue the lofty rhetoric of uniform and equal -- usually because their taxes go down and everyone else's would increase -- I say, "Do you really believe that this or any other Kansas legislature will reappraise all property in Kansas under current law and allow farms and homes to experience tremendous increases in valuations and taxes?" When this question is asked, hardly anyone answers in the affirmative. If one does not believe that situation will occur, then they must believe that some form of classification will be adopted. Given those assumptions, it would behoove all interests to attempt to work out a mutually agreeable system of property classification. Frankly, classification may be the only politically practical way to resolve the current impasse. Furthermore, the relative tax burdens that have evolved over the past 15-20 years would appear in most cases to be publicly acceptable. If they weren't, there would not have been the political pressure for legislators to refrain from reappraisal.

As I continue to address the topic of classification, allow me now to begin to bring in the personal property aspects of this discussion.

Farm Machinery

Most of you are knowledgeable about the multitude of past problems associated with the assessment and taxation of farm machinery. I don't intend to go into great detail about the background leading up to the farm machinery tax exemption but I do think there are several points worth mentioning.

It's no secret that prior to their repeal, farm machinery taxes had been one of the biggest tax problems for the preceding five or six years. Those of you who live in rural areas are probably very, very familiar with the unrest that increasing farm machinery valuations caused for farmers, county officials and state legislators. There are numerous examples of older machinery which was rapidly wearing out receiving large valuation increases. The Property Valuation Division, state legislature, agricultural organizations and others all tried various solutions to alleviate the problem. Their remedies,

however, were always either vetoed or struck down by the courts. Finally, the legislature exercised the only option it had left ... total exemption. We believe the legislature did the right thing.

I also want to emphasize that farm machinery and equipment had never been given the same type of treatment as other business machinery and equipment. Nearly every other type of business equipment was valued on some type of depreciation schedule. In fact, farm machinery was really being assessed at 30% of its full market value. Many individuals even contend it was being assessed at 30% of an appraised value which was higher than its actual market value. My point is that the impact of the farm machinery exemption would have been much, much smaller if farm machinery valuations and farm machinery taxes had not been allowed to increase to levels which were inequitably high in comparison to other property. Frankly, the amount of tax burden reallocation which did occur in some counties simply served to point out how unfair and how excessive farm machinery taxes had been in the past.

The problem addressed by the farm machinery tax exemption is only part of a larger issue concerning taxation of personal property in this state. In 1979, personal property comprised 36% of the property tax base in Kansas, second only to West Virginia where personal property was 40% of the tax base. The national average in 1979 was only 11.7%. Past memorandums released by the Legislative Research Department pointed out that historically and currently, Kansas has seen a shift of the general property tax burden from real estate to personal property. Our industry seriously questions the desirability of such a trend. Those of us who participate in the Tax Committee of the Kansas Livestock Association believe we should move away from using personal property as a major tax base to fund local units of government. Our Tax Committee has studied this issue for years and, from time to time, has tried to develop an equitable approach to the entire area of personal property taxation. Each time, we came up with the same conclusion: that personal property tax defies equity. Incidentally, various legislative committees have studied the same issue and arrived at the same conclusions. Personal property is simply not a good tax base because it's not a good measure of wealth or of the ability of the taxpayer to pay. Personal property taxes are difficult to administer and they are basically inequitable. More appropriate sources of revenue are a combination of income and sales taxes along with real property which is a more reliable indicator of wealth.

The mention of reliable indicators of wealth brings me to what I believe is a very, very important point with respect to property tax exemptions in Kansas. It seems that some people have forgotten that the property tax exemption on farm machinery was due in large part to a trade off in the political process for repealing the tax on intangibles. Supporters of the intangibles tax considered it a fair bargain when they needed agricultural support for their exemption proposal. It's ironic that we continue to hear grumbling about the farm machinery tax exemption without mention of the millions of dollars of tax revenue which is lost by virtue of the intangibles tax exemption. State laws require the appraisal of all taxable property at its "fair market value in money", then the legislature exempts "money" from property tax. It seems that we are suggesting that if you invest "money" in property or productive equipment you should be taxed ... but "money" held for interest only should not be subject to taxation. Does this seem fair? "Money" is the most perfect measure of wealth ... yet it's exempt. Agricultural people believe that if the property tax is eliminated on "money" (intangibles) which is owned mainly by

those living in cities and towns, then isn't it only fair to give some long overdue tax relief to agriculture? It just simply does not make sense to eliminate the property tax on "money" and then continue to tax the items you buy with "money".

Judging by some of the conversation we've heard about the farm machinery tax exemption you'd think it was the only property exempted from the Kansas tax roles. Actually, the legislature has seen fit to exempt many, many other types of property from taxation. Household furnishings were exempted in 1963. The "freeport law" which exempts certain inventories being warehoused in the state was also passed during the early 1960's. Merchants are granted a 40% reduction in the cost of their goods in the determination of the taxable value of inventories. Intangibles were granted a statewide exemption and local units must reimpose the tax if they want to retain it. Additionally, there are a number of port authority properties as well as religious, educational, hospital and health related exemptions. Property built with and equipment purchased with industrial revenue bond money is exempt from paying property taxes for 10 years. Even though "in lieu of" payments are sometimes negotiated, these amounts rarely, if ever, approximate the revenues which would have been collected if the property had not received favorable tax treatment.

It seems a little ironic to us that many of the same county officials who were and are still in some cases jealously complaining of the property tax exemption on farm machinery consistently, in meeting after meeting, year after year, grant property tax reductions to IRB property.

It is our belief that when the property tax exemption for farm machinery was enacted the legislature recognized that Kansas' No. 1 industry -- agriculture -- is in a full blown depression. The legislature discussed numerous alternatives to help alleviate that problem. The enactment of meaningful property tax relief such as the farm machinery tax exemption to help the farm economy and inject more equity into our tax system at the same time was very possibly the best solution. Twenty six other states have exempted farm machinery from taxation and another seven tax it at a reduced rate. I think it would do well for everyone in Kansas to remember that the Kansas economy is built on a foundation of agriculture and what's good for agriculture is good for Kansas.

I also want to emphasize to you that there's another nagging personal property tax problem that's in need of solution ... merchants', manufacturers' and livestock taxation. Again, this is a problem that the legislature has attempted to solve on several occasions by suggesting a phase out of the tax. Unfortunately, it appears such an approach would meet with problems because of our Supreme Court's interpretation of the "uniform and equal" clause of the constitution. Both the Supreme Court and the Attorney General have said that "partial exemptions" are unconstitutional. We do know, however, that a total exemption of livestock taxes would involve a revenue loss to counties of approximately a range of \$12 to \$15 million on a statewide basis and that such a complete exemption is unquestionably constitutional. I want to emphasize so that you develop a clear understanding of the arguments about why livestock taxes are undesirable: It's a tax on honesty; it's impossible to count inventory; it becomes a negotiated tax between the assessor and the assessed; and there are wide differences of value within a class of livestock. However, I want to give you an appreciation for another very important problem that affects one

of the major industries in this state ... the feedlot industry. Feedlots deal with a transient product -- feeder cattle -- and, all other things being equal, those cattle will usually go wherever the cost of gain is cheapest. If the tax is higher in county A than county B, the cattle could have a tendency to go to the feedlot with the lower tax.

More importantly, however, Kansas custom feedlots are rapidly being put into a situation of being at a competitive disadvantage with the other 36 states that have exempted livestock taxes. Even though Kansas has a viable cattle feeding industry that has a huge economic impact on all the citizens of the state because of the tremendous quantities of feed grains it consumes and the high number of workers it employs, Kansas should not take that industry for granted. During the past ten years or so the nation's cowherd has been reduced because of significant losses to cow-calf producers. Therefore, with less feeder cattle available and less cattle being fed over the past several years, Kansas feedlots must compete with those located in Texas, Oklahoma, Nebraska, Colorado, Iowa, Arizona and California. Four of those states, Texas, Oklahoma, Nebraska and Colorado, are the closest competition from a custom feeding standpoint. Neither Texas nor Oklahoma nor Nebraska nor Colorado levies a livestock tax.

Imagine a cattleman who looks at professional, superbly managed feedyards in several states where gain costs and markets are comparable and then considers the bottom line and realizes his cattle in Kansas will have an additional tax ranging from \$1 to \$5 per head, depending on the type of animal, the county mill levy and other local factors. If that cattleman feeds just 2,000 head of cattle annually, that \$2,000 to \$10,000 cost difference will definitely influence his decision on where to feed them ... especially in view of an industry where losses occur frequently. And believe me, it makes a very irritating difference to cattle feeders. The average feedlot steer incurs expenses of \$250 to \$300 per head during the feeding period. If economists are correct in calculating that the multiplier effect of the beef industry is somewhere between 5 and 7 to 1 (\$5 of economic activity generated for every \$1 spent), it's easy to see that the property tax on cattle is a losing proposition if it causes just a fairly small diversion of cattle to other states.

The livestock tax also has an impact on the cow-calf business, an industry which is cyclical in nature and which is subject to extended periods of net losses. At the present time, while those in the cow-calf business are experiencing losses, our Tax Committee chairman has calculated that the property tax levied on a mother cow unit in Lane county for example, raises the break even price on the calf she weans by \$1.50/cwt. Wouldn't it be more equitable to tax a person when they're making money than when they're struggling to survive?

Keep in mind that cows, feedlot cattle, a sow herd and a ewe flock are the only agricultural production that are subject to personal property taxes in Kansas.

Now let's discuss specifically classification again for a moment. I said earlier that KLA was supportive of certain kinds of classification. What we consider to be the bare minimum in a classification proposal is: 1) That we have assessment rates on the ag land valued by use-value appraisal and on the other agricultural land (valued at fair market value

if use-value appraisal is not adopted) which doesn't place agricultural land taxes at burdensome levels. 2) The tax on livestock should either be exempted outright or phased out such as the five year plan to exempt merchants', manufacturers' and livestock which had been contained in many classification proposals. 3) We also believe that farm machinery should remain exempt.

For these reasons we believe SCR 1616 is the preferable form of property classification to consider. I would admit to you that the decrease in the percent of the total borne by oil and gas property is of some concern but the agricultural community is willing to accept some increase in the amount of the total assessed valuation borne by agricultural land because we feel so strongly that all personal property should -- once and for all -- be constitutionally exempt.

When that happens, the county tax officials can concentrate on doing a good job of administering the tax on real property which is a better indicator of wealth. Hopefully, we won't again find ourselves in such a mess with ad valorem taxation in Kansas. We believe that exempting all personal property is a bold, responsible and logical decision for the long term.

Frankly, classification may be the only politically practical way to solve the current property tax dilemma. We believe the classification of assessment rates is really no different than classification for appraisal. From a taxpayers' point of view, it's the bottom line that really counts. Additionally, we think it would be a grave mistake to adopt a classification proposal and not solve the personal property tax problem at the same time.

KLA doesn't pretend to have all the answers and we certainly don't want to suggest that we're experts, but we support working toward a solution during the coming legislative sessions and we will certainly attempt to cooperate with this committee in order to find a solution that is acceptable and saleable in Kansas. Thank you very much for the opportunity to present our views.

SENATE COMMITTEE ON
ASSESSMENT AND TAXATION

SCR 1615 AND SCR 1616
FEBRUARY 20, 1985

THANK YOU MR. CHAIRMAN FOR THIS OPPORTUNITY TO EXPRESS THE CONCERNS OF UNITED TELEPHONE COMPANY REGARDING SCR 1615 AND SCR 1616, TWO PROPOSALS TO CLASSIFY OUR KANSAS PROPERTY TAX SYSTEM. I AM RON GACHES, GOVERNMENTAL AFFAIRS MANAGER FOR UNITED TELEPHONE OF KANSAS.

UNITED TELEPHONE COMPANY IS A STATE REGULATED LOCAL EXCHANGE TELEPHONE SYSTEM. OUR SYSTEM IS REAPPRAISED ANNUALLY BY THE KANSAS DIVISION OF PROPERTY VALUATION AND ASSESSED AT 30%. ALL PROPERTY TAX PAYMENTS ARE REGARDED AS LEGITIMATE BUSINESS EXPENSES BY THE KANSAS CORPORATION COMMISSION - MEANING THAT WE HAVE AN OPPORTUNITY TO RECOVER ALL OF OUR PROPERTY TAX LIABILITY FROM OUR CUSTOMERS.

UNITED TELEPHONE STRONGLY ENDORSES THE CURRENT UNIFORM AND EQUAL MANDATE OF OUR STATE CONSTITUTION. WE BELIEVE SUCH A SYSTEM PROVIDES THE MOST EQUITABLE TREATMENT FOR ALL TAXPAYERS. HOWEVER, IN LIGHT OF OUR CURRENT NON-COMPLIANCE WITH THE "UNIFORM AND EQUAL" MANDATE, WE RECOGNIZE THE NECESSITY TO PROVIDE SOME MEASURE OF PROTECTION FOR HOMEOWNERS AND FARMLAND OWNERS. WE ALSO BELIEVE IT IS IN THE BEST INTEREST OF ALL TAXPAYERS TO ADDRESS THIS ISSUE AS SOON AS POSSIBLE AND NOT FURTHER DELAY THE STATE-WIDE REAPPRAISAL NECESSARY TO RESTORE EQUITY TO OUR PROPERTY TAX SYSTEM.

TO PROVIDE HOMEOWNERS WITH PROTECTION FROM TAX INCREASES, WE URGE THE ADOPTION OF THE GRADUATED RESIDENTIAL EXEMPTION (GRE) DESCRIBED BY DR. GLEN FISHER DURING HIS TUESDAY TESTIMONY. SETTING THE GRE AT AN AMOUNT EQUAL TO 60% OF THE ASSESSED VALUE, WITH A MAXIMUM EXEMPTION NO GREATER THAN THE AVERAGE ASSESSED VALUE FOR EACH COUNTY, WILL HAVE THE SAME EFFECT AS ASSESSING HOMES AT 12% UP TO THE AVERAGE COUNTY VALUE AND AT 30% ABOVE THE AVERAGE.

TO PROVIDE FARMLAND OWNERS WITH PROTECTION, WE URGE THE IMPLEMENTATION OF USE-VALUE APPRAISAL. USE-VALUE SHOULD BE DETERMINED IN A WAY TO ACCURATELY REFLECT THE CURRENT INCOME PRODUCING ABILITY OF THE LAND.

SCR 1616 APPEARS TO HAVE SEVERAL SIGNIFICANT STRENGTHS WHEN COMPARED TO SCR 1615. FIRST, ALL INCOME PRODUCING PROPERTY IS TRULY TREATED EQUALLY. SECOND, THERE ARE FEWER CLASSES - REDUCING THE ADMINISTRATIVE COMPLEXITY. THIRD, CUSTOMERS OF STATE ASSESSED UTILITIES ARE NOT TAXED IN A SEPARATE CLASS. FOURTH, THE RANGE FROM THE HIGHEST TO THE LOWEST ASSESSMENT LEVELS IS SMALLER. AND FIFTH, SCR 1616 ADDRESSES THE TREATMENT OF PERSONAL PROPERTY - WHICH APPEARS ESSENTIAL TO AN ACCEPTABLE COMPROMISE.

IN ADDITION, WE WOULD LIKE TO RECOMMEND THAT ALL CONSTITUTIONAL AND STATUTORY EXEMPT REAL ESTATE BE REQUIRED TO MAKE A PAYMENT IN LIEU OF TAXES IN SUPPORT OF LOCAL SERVICES. WE SUGGEST THAT PAYMENT BE AN AMOUNT EQUAL TO THE LOCAL MILL LEVIES IMPOSED, EXCEPT FOR THE LEVIES IN SUPPORT OF PUBLIC EDUCATION.

THE OPPORTUNITY TO DRAMATICALLY UPGRADE THE EQUITY AND EFFICIENCY OF A MAJOR TAX DOES NOT COME ALONG VERY OFTEN. WE URGE THE COMMITTEE TO ADDRESS REAPPRAISAL AND THE TAX SHIFT PROBLEM THIS YEAR. LET'S PUT INTO PLACE A TAX SYSTEM THAT MEETS THE NEEDS OF ALL KANSANS.

THANK YOU FOR THE OPPORTUNITY TO ADDRESS YOU TODAY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.

SALINA IMPLEMENT COMPANY
3637 South Ninth
Salina, Kansas 67401
Ph. 913-825-6252



21 February 1985

Ladies and gentlemen of the committee, I am Tom Evans, one of the owners, and manager of Salina Implement Company, a John Deere Dealership located in Salina, Kansas. We employ seventeen people and service the farmers in Saline and Ottawa counties.

I appreciate the opportunity today to share with you my views of the current inventory tax and how they affect me, other farm equipment dealers, and all small businesses across Kansas.

I believe the current inventory tax to be un-constitutional because it is no longer "fair and equitable". In 1968 when the standards were set for example, land that was worth \$1000.00 per acre and a plow worth \$1000.00 were valued the same, today however, the land is still valued at \$1000.00 per acre but, the plow, through inflation, is now valued at \$8000.00 or eight times what it was valued in 1968.

Other problems exist in addition to value, that virtually give me no control over my inventory. In good times for example, when I may be able to pay the tax, my inventories are low; but in bad times, when I am struggling to survive, my inventories are high and there is little I can do about it. Although I am in possession of my inventory, the parent company virtually has control, for if I am asked to transfer a machine to another dealer and refuse, I can be forced to transfer the machine through what is called reacquisition. Most times I am happy to help another dealer by transferring a machine but, there is no way for me to recover the inventory tax that I have paid. This may be two or three years' worth on the same machine. This may not seem unjust but for example, last year I transferred two (2) combines to dealers, that I had paid taxes on in 1983 and 1984 at approximately \$1400.00 per year per machine. This is a loss of \$5600.00 that I can not recover. I have three (3) remaining combines in inventory that I will pay on for the third year. Some of you in this room may be farmers, and I seriously doubt that you would be willing to pay me an additional \$4200.00 for a three year old "New Combine" so that I can recover my inventory tax.

In 1984 the Western Retailers Association conducted a survey and found that in just the last three years (1980 - 1983) inventory taxes are up an average of 114% while profits among those dealers were down 96%. As you can see, the problem is critical.

I do not propose to tell you how to solve the problem, however, I do feel that a sales tax is the most fair and equitable. If you buy a dollar's worth of goods you pay one dollar three cents or maybe a dollar four cents but you also have the goods. Right now, businessmen across this state are paying but we do not have anything to show for it.

I would like to support Bill 1616, however there is no way I can wait until 1989 for re-appraisal. A phase-out has also been proposed, but once again, the relief will be too late for many of us.

I am not trying to avoid paying my share of taxes, but I do not want to pay more than my fair share either.

I have paid my inventory tax according to the law, yet because there is no way to police this tax, many have paid only a fraction of what they owed. This problem must also be addressed.

In 1984, Salina Implement Company operated at a loss, yet we will pay in excess of \$25,000.00 in inventory tax. The inventory tax has become "Unfair" and "Unequitable" and is breaking the backs of small businesses throughout Kansas. It is deterring new business from coming to Kansas, which threatens our future.

The farm economy and all Agri-business has been, and remains, under extreme pressure. Help on this issue two or three years from now will be of no help to many of us. So, I urge you to give this your utmost attention in this session, and sincerely hope that you can find a "Fair and Equitable" solution to our problem in 1985.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Thomas J. Evans". The signature is written in black ink and has a long, sweeping underline that extends to the right.

Thomas J. Evans, President
Salina Implement Company

February 21, 1985

TO: The Senate Committee on Assessment and Taxation

Presented by Maynard Estes, Bucklin Tractor & Implement Co., Bucklin, Kansas:

Subject: Inventory Tax

I am Maynard Estes, President of Bucklin Tractor & Implement Company, Bucklin, Kansas. The purpose of my testimony this morning is to give you an inside view of a business in the State of Kansas today, trying to deal honestly with our archaic, unrealistic and unjust system of taxation on property.

The Constitution of Kansas calls for equal taxation for real and personal property. If that were upheld today there would be no need for this hearing. On the contrary, what the legislature has done with statutes, supposedly to bring this about, is unreal. What the Property Valuation Department has directed to be done with respect to enforcing these statutes is beyond comprehension. How the officials of our 105 Counties have applied the equal taxation laws varies so greatly it has brought us to our present chaotic mess in our property tax process, especially as applied to personal property.

This situation as it affects merchant's inventories (the same applies to manufacturing and livestock) brings me to describe to you Bucklin Tractor's experience, which is paralleled by many implement dealers and other businesses across the state.

When real property was last reappraised in the mid-sixties, real and personal property were theoretically carrying an equal share of the property tax load. Since that time Bucklin Tractor's inventory has been reappraised every year at escalating values because of inflation. For example, a 100 horsepower tractor in the mid-sixties sold for approximately 8000 dollars. The comparable 100 horsepower tractor today sells for 40,000 to 50,000 dollars. This reflects an increase in price of at least 5 times; consequently, an increase in appraised value of 5 times. Since real estate is still appraised at values



League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL / 112 WEST SEVENTH ST., TOPEKA, KANSAS 66603 / AREA 913-354-9565

Statement on SCR 1615 and 1616--Property Classification
To Senate Committee on Assessment and Taxation
By E.A. Mosher, Executive Director
February 21, 1985

The League's convention-adopted Statement of Municipal Policy provision on the classification of property for tax purposes, provides in part: "With reluctance, we support a departure from the traditional uniform and equal clause, provided that the constitutionally authorized number of classes are minimal, and the maximum permitted assessment ratio variation to market value is kept within a reasonable range, such as one to three." The 30-20-10 approach of SCR 1615, and the 30-12 approach of SCR 1616, both fall within what we consider to be a maximum range. I note the obvious, however, that a 10 to 30 range really means that certain property is assessed at three times as much as other property in relation to its market value.

Our principal objections are to the provisions of SCR 1616 which would constitutionally exempt all tangible personal property. We simply, flatly oppose such a constitutionally granted exemption. We are well aware of the widespread opposition to the personal property tax, which may well be due to the under-assessment of other property rather than the inequitable assessment of personal property. But we do acknowledge the problem. And while we would strongly oppose a constitutional exemption, we think it would be a reasonable public policy for the constitutional amendment proposal to provide the legislature with discretion as to the classification, method and manner by which personal property may be taxed.

The League has long advocated that if a property tax exemption is of sufficient importance to be granted by the state, the state, "calling the tune", also ought to help "pay the piper", and to provide for replacement of the lost local revenue from nonproperty-state-levied sources. Frankly, we think there would be little opportunity to obtain replacement revenue if the exemption of personal property is constitutionally mandated, rather than legislatively granted.

Finally, I would again note the obvious. The mission is to prepare an amendment which will do something more than receive a two-thirds vote in both houses. The ultimate objective is to prepare something that is acceptable to the voters. A compromise of the diverse economic interest groups concerned about property classification may not be sufficient to the majority of the voters. I suggest to you that an amendment proposal to constitutionally eliminate personal property taxes has a built-in, automatic massive shift of the tax burden which the voters, exercising their enlightened self-interest, will find unacceptable.

Attachment 9

Statement to:
SENATE COMMITTEE ON ASSESSMENT AND TAXATION

RE: S.C.R. 1615 and S.C.R. 1616 - Proposals to Amend the
Constitution to Require Classification of Property
February 21, 1985
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and members of the Committee:

We appreciate the opportunity to speak on behalf of the farmers and ranchers who are members of Farm Bureau in Kansas. Thank you for the chance to address the two resolutions before your committee today which propose to amend the Constitution to provide for a system of classification of property for ad valorem taxation purposes.

You indicated at the outset of testimony yest. that conferees would be permitted to address both S.C.R. 1615 and S.C.R. 1616. There are portions of both to which we will address ourselves. We applaud the efforts of the Tax Review Commission and the study that has gone into the property tax structure by that Commission. We express our appreciation to the members of this Committee who have devoted countless hours to the study of property taxation, reappraisal and classification over the course of several years. We have appeared before this Committee and the House Committee on Assessment and Taxation on numerous occasions to express the views of our members regarding the topic before you today. The policy position of our organization on this matter was refined a

bit at the most recent annual meeting of our organization, December 2-4, 1984. That policy and one other relating to farm machinery appear below:

Appraisal, Assessment and Taxation of Real and Personal Property

We believe Kansas should begin the process of reappraisal, and we further believe the new values determined by the reappraisal process should be implemented in all 105 Kansas counties at the same time. Reappraisal procedures should contain provisions for frequent updating of values.

Procedures should be developed to insure against an unfair shift of taxes to agricultural and residential property. We believe that this shift of taxes can be best addressed by classification. The classification issue should not be addressed until reappraisal is completed in all counties.

In 1976, voters approved an amendment to the Kansas Constitution to allow the Legislature to develop use-value appraisal of agricultural land. For eight years we have attempted to enact a use-value appraisal statute. We believe this Constitutional provision should be implemented.

We firmly believe that the income capitalization approach to value is sound and is an equitable method of appraising real property for tax purposes. Statutory or constitutional language should require that all properties valued under use-value, (the income capitalization approach), should have a common capitalization rate based on economic, interest rate and money market factors.

We believe livestock should be exempt from property taxation in Kansas. There are 36 states that presently exempt livestock. Kansas should be added to this list of states so that we can maintain the leadership position in livestock production.

Farm Machinery Tax Exemption

We believe the exemption of farm machinery recognizes the importance of agriculture to the Kansas economy, is in keeping with similar actions in 27 other states and the trend nationally exempting farm machinery from property taxation, and should be defended vigorously.

The farmers and ranchers who were delegates at our annual meeting reiterated the belief that a reappraisal procedure should begin soon. So, while we are talking classification amendment proposals we would want you to know at the same time that we are supportive of reappraisal of property so that you and all of us will know what the true and actual values of properties in Kansas are today . . . or at the conclusion of the reappraisal which we hope will be forthcoming.

Our delegates reiterated the belief that "procedures should be developed to insure against an unfair shift of taxes to agricultural and residential property." This year they stressed the belief that this "shift of taxes" would best be addressed by a classification procedure. They went ahead to say: "The classification issue should not be addressed until reappraisal is completed in all counties."

Our reading of both of these proposals indicates that the new values found by a reappraisal procedure would be utilized and assessed at either a 30, 20, 10 procedure or a 30, 12 procedure beginning January 1, 1989 and each year thereafter.

Mr. Chairman, and members of the Committee, there are ingredients in both of these concurrent resolutions which we appreciate and which we ask you to examine as you develop the resolution you want to go before the voters of this state. S.C.R. 1615 clearly identifies use value appraisal of agricultural land. That is one of the top priorities of our members. Has been for a number of years. The constitutional amendment approved by the

voters of this state in 1976 gave this Legislature permission to value agricultural land according to its income producing capability or its productivity. To date there has been no implementation of use value appraisal. We express our appreciation to those of you who have developed these measures that use value appraisal is incorporated.

S.C.R. 1615 does not address the issue of an exemption for livestock. The Lt. Governor told you yesterday that the Commission believes that those present constitutional exemptions for governmental, educational, religious and charitable purposes should be maintained. Then, speaking for himself . . . not for the Commission . . . the Lt. Governor suggested that present statutory exemptions might well be sunsetted or, in the alternative, the state might develop a system of revenue sharing with local units of government who have suffered a loss of revenue because of statutory exemptions.

S.C.R. 1616, to the extent that it does deal with an exemption for livestock . . . an exemption favored by our members . . . is more appropriate in that area. We also believe the complete elimination of taxation of personal property is appropriate. You have just begun to hear of the problems that exist in the taxation of inventories, principally those inventories of farm machinery and equipment dealers. This is a totally unfair tax in the method used for administration of this tax today. For that reason we support the provisions of S.C.R. 1616 to provide elimination of inventory taxes and taxation of

livestock.

We shared with you the policy position of our members concerning the farm machinery tax exemption. It is very straight forward. It recognizes that this exemption is granted in 27 other states, with yet other states that provide a reduced tax or appraisal on farm machinery. Our people want this farm machinery to remain exempt from property taxation and they want us to defend it vigorously. They likewise want you to defend it vigorously. For that reason again we believe the recommendation of S.C.R. 1616 to totally exempt personal property would put to rest the temptation that comes from time to time to put farm machinery back on the tax rolls.

Thank you very much for the opportunity to make a brief statement on these two constitutional amendments. We want to see one of these go before the people of this state. If, in the wisdom of the committee you would want to speed up the process, you might amend whichever one of these you recommend favorably for adoption by specifying a special election in 1985 . . . while you are still in session . . . so that you will know the will of the people and could take that into account as you shape other proposals.

In conclusion Mr. Chairman we would submit to this committee, as we have testified to the Education Committees of House and Senate, the matter of property taxation cannot be viewed in isolation. It must be viewed as we look at funding our elementary and secondary schools in this state. The property tax makes up 55 percent of the funding for elementary and secondary schools. We

need a modern, up-to-date, non-property tax funded school finance formula.

Thank you again for the chance you have given us to share the views of farmers and ranchers from throughout Kansas.

TESTIMONY BEFORE
THE SENATE ASSESSMENT AND TAXATION COMMITTEE

BY

KAREN MCCLAIN

KANSAS ASSOCIATION OF REALTORS®

MR. CHAIRMAN, AND MEMBERS OF THE COMMITTEE, I AM THE DIRECTOR OF GOVERNMENTAL AFFAIRS FOR THE KANSAS ASSOCIATION OF REALTORS®.

I AM HERE TODAY TO SPEAK TO YOU IN OPPOSITION TO BOTH SCR 1616 AND SCR 1615.

THE KANSAS ASSOCIATION OF REALTORS® HAS A VERY CLEAR POLICY IN THE AREA OF TAXATION. THAT POLICY IS AS FOLLOWS:

"REAL ESTATE IS BURDENED WITH AN EXCESSIVE SHARE OF THE CONSTANTLY INCREASING COST OF STATE AND LOCAL GOVERNMENT. WE BELIEVE REAL ESTATE TAXES SHOULD BE USED ONLY TO PAY FOR STATE AND LOCAL GOVERNMENTAL SERVICES WHICH ARE RENDERED TO REAL ESTATE. PEOPLE RELATED SERVICES AND PROGRAMS SUCH AS EDUCATION, HEALTH, WELFARE, AND PUBLIC TRANSPORTATION SHOULD BE PAID FOR BY OTHER TYPES OF TAXATION SUCH AS USER, SALES, UTILITY, PAYROLL, OR INCOME TAXES. WE ADVOCATE THE RESTRUCTURING OF STATE AND LOCAL TAXATION SOURCES FOR THE FUNDING OF NON-PROPERTY RELATED SERVICES. WE URGE THE STATE TO WORK FOR THE RESTRUCTURING OF TAXES TO RELIEVE THE INEQUITABLE REAL PROPERTY TAX BURDEN, BUT ALSO NOT TO UNFAIRLY SHIFT THE TAX BURDEN TO ANY TAX PAYING ENTITY"

BASED UPON THE POSITION THAT WE DO NOT WANT ANY ONE TAX PAYING ENTITY TO BEAR THE BRUNT OF REAPPRAISAL AND RESTRUCTURING, NEITHER OF THE TWO PROPOSALS BEING DISCUSSED AT THIS POINT ARE ACCEPTABLE TO OUR ASSOCIATION.

THE TEMPTATION HERE, IS TO FORCE COMMERCIAL AND INDUSTRIAL PROPERTY TO PAY A LARGER TICKET, BECAUSE, SEEMINGLY, THEY HAVE THE MONEY TO PAY FOR IT. THERE ARE TWO ERRORS HERE. FIRST, COMMERCE AND INDUSTRY HAVE A VERY EASY WAY OF NOT PAYING THE COST--THEY SIMPLY PASS THE COST ON TO PEOPLE LIKE EVERYONE IN THIS ROOM, THE CONSUMERS IN THIS STATE. SECOND, IN THESE TIMES WHEN WE ARE PUSHING TO ENCOURAGE BUSINESSES TO ESTABLISH THEMSELVES IN THE STATE OF KANSAS, IT SEEMS ALMOST IRONIC THAT WE MIGHT CONSIDER A PLAN WHICH WOULD IN FACT, PENALIZE A BUSINESS FOR ESTABLISHING THEMSELVES HERE.

ONE VERY STRONG INCONSISTENCY IN BOTH PROPOSALS IS THE TREATMENT OF VACANT LOTS AS INCOME PRODUCING PROPERTY. NOW, HOW DOES A VACANT LOT, WHICH SITS THERE, AS A VACANT LOT, PRODUCE ANY INCOME, FOR ANYONE? IT DOESN'T UNLESS THE STATE DECIDES TO MAKE SOME TAX REVENUE OFF OF IT LIKE IS PROPOSED HERE. SUCH A POLICY ONLY ENCOURAGES SOMEONE HOLDING A VACANT LOT TO SELL IT OFF AT A HIGH PRICE, NOT ONLY TO BE ABLE TO RECOUP THE MONEY PAID OUT FOR HIGH TAXES, BUT ALSO TO GET RID OF A TAX ALBATROSS AROUND A DEVELOPER'S NECK. ONCE AGAIN, AT A TIME WHEN THE STATE IS ENCOURAGING GROWTH AND DEVELOPMENT, IT SEEMS FOOLISH TO TAX A VACANT LOT, WHICH IS NOT PRODUCING INCOME, THE SAME AS YOU TAX A PROPERTY CREATING COMMERCIAL OR INDUSTRIAL REVENUES.

I HOPE THE COMMITTEE WILL TAKE NOTE OF THE QUESTIONS I HAVE RAISED HERE AND EXAMINE CLOSELY THE PLACEMENT OF PROPERTY WITHIN CATEGORIES AND THE IMPACT WHICH THAT PLACEMENT HAS. I CHALLENGE THE COMMITTEE TO FULLY EXAMINE "THE BIG PICTURE" WITHOUT LOSING SIGHT OF THE INDIVIDUALS STANDING IN THAT PICTURE.
THANK YOU.

Testimony - SCR 1615, 1616
Senate Assessment and Taxation Committee
February 21, 1985

Mr. Chairman, members of the committee, I am Barbara Koirtyohann, Manager of State and Local Public Affairs for Hallmark Cards. I am accompanied by Chip Moxley, our Tax Manager. Hallmark employs over 5,000 residents of the State of Kansas, and has five plants in Kansas: one here in Topeka, Osage City, Lawrence, and two in Leavenworth.

We are not here to oppose classification of property. We share your concern for all property owners in Kansas. Our employees own homes just as Hallmark owns plant, property and equipment.

In this interest, over the past several years we have monitored developments in the state legislature related to statewide reappraisal and classification of property. In addition, we have been through the continuing experience of statewide reappraisal and classification in Missouri.

With this background in mind, and after evaluating the various proposals being considered by this committee, we support Senate Concurrent Resolution 1616.

First, SCR 1616 avoids a major shift in the tax burden on the residential class, and second by eliminating the inventory and other personal property taxes relative to business property, it is more likely to encourage economic growth and business development in the state.

Or stated another way, in total, under SCR 1616 the various classes of property are treated equitably in terms of distribution of the tax burden. It also eliminates the problems inherent with the inventory and business personal property tax, especially as it has penalized the honest taxpayer. Because Missouri and many other states have exempted inventory from taxation, for Kansas to do otherwise could close the door to many business development opportunities.

In summary, we chose to locate in Kansas with our first jobs over 40 years ago. Our employees like it here and so do we. We hope that by continuing to work together, Kansas will continue to grow, prosper and be a quality state in which to live, work, and do business.

Mr. Chairman, thank you for this opportunity to testify. If you have questions we'll be happy to try to answer them for you.



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

February 21, 1985

TO: Senate Committee on
Assessment & Taxation

RE: Reappraisal & Classification
SCR 1615 & SCR 1616

KIOGA has long supported the concept of reappraisal and the enforcement of uniform and equal taxation of all property. This position has been reaffirmed year after year by formal resolutions at our Annual Conventions.

The reason for that position is that our producing properties are classed as personal property and therefore under the annual jurisdiction of the Director of Property Valuation. An Oil and Gas Valuation Guide is issued annually. Appraisers in the producing counties make certain that all properties are properly appraised at full market value and taxed at 30% as Kansas law provides.

When I first started representing KIOGA, I found that in 1973 the tax collections statewide were \$17 million. That figure has risen each year, and in 1984 I believe the tax collections will be reported at \$126.5 million. This is an increase of \$1.5 million over 1983, despite a drop of valuation of \$123 million, indicating how the counties are able to adjust to valuation drops.

During this 12-year period, we don't need to remind this committee how the appraisers and the PVD, the administrations of both parties, and increasing complexities, have permitted the slide downward of most all major classes of property - reflecting the wealth of the state - homes and farms, commercial and industrial properties, not being annually supervised like oil and gas and others that are reappraised annually.

We have always felt the uniform and equal treatment was designed to protect minority taxpayers who have little political clout - few in number - and vulnerable to the whims of the majority. We saw this happen when the majority picked out our industry to impose a gross production tax - the only one of its kind on any industry in Kansas, despite the fact our industry was paying taxes not being paid in other states, such as the property tax in Oklahoma and the income tax in Texas.

We opposed HCR 5004 last year (recently re-introduced in the House) and objected on the basis that oil and gas would arbitrarily remain at 30% while most all other commercial and industrial properties would be classed at 15%. We complained that this was not fair and we took the position that we did not advocate the percentage - but only the concept of equal treatment. We asked, "Please, give us only that which you plan to give General Motors!" That is still our position!

We have attended most of the Kansas Tax Review Commission meetings over the past many months, and have watched the evolution of that plan, now found in SCR 1615. We have watched the developments in your Committee and the introduction of SCR 1616.

We are not proponents of either bill. We still support reappraisal and the return to uniform and equal taxation. They have accomplished this in Arkansas and we think it could be done in Kansas.

However, our position has been slightly modified. If, in the event this legislature begins to move toward a classification plan, we believe both SCR 1615 and SCR 1616 are moving in the direction we desire. We believe all commercial and industrial property should be put together and both bills address that subject.

We support Dr. Glen Fisher's observations that the less number of classes and no more than a 2 to 1 range is the best plan. We agree that there needs to be hard discipline built into the reappraisal procedure. We think penalties restricting the flow of state funds collected by the State would keep the counties honest in this regard. Without good administration the plan won't work. We do not support broad exemptions of property - when farm machinery was exempted, the shift was, in part, to oil and gas properties.

We know that the press and some might not understand what SCR 1615 does to oil and gas properties. Therefore we asked the Kingman County Commissioners to cooperate with us in making an in-depth study of the shifts among the many taxing units found in that county. Kingman County has about 60 taxing units and relies heavily on oil and gas for about 43% of its total base. It has little commercial and industrial base. I believe you have seen this study. Oil and gas does drop. It would be even less of a drop in counties where the commercial and industrial base is greater or where the reliance on oil and gas is less. You are welcome to this study on Kingman County, reflecting one test of that proposed under SCR 1615. You will recall Lt. Gov. Docking indicated that although some counties with oil and gas would drop, farmland is virtually unchanged statewide under his plan.

We consider this effort of yours very serious and very important to our industry. It's perhaps our last chance to develop fairness and equity and parity with all other commercial and industrial properties in Kansas.

The Kansas oil and gas industry is not as large or as important as you find in other states. It's an industry that is sensitive to price, costs, taxes and economic trends. We are paying all known taxes conceived for our industry nationwide - some of which are not being paid in other major producing states. We are now taxed at the highest rate for natural gas production in America - a fact that does not encourage economic development or our industry in Kansas.

Dr. Fisher perhaps was making a small joke, but when he referred to retroactive taxation for those that has been undervalued and undertaxed, he was hitting close to the oil and gas industry. Oil and gas has long been overtaxed as compared to most all other commercial and industrial properties. We don't ask for retroactive treatment. All we ask today is your serious consideration to give us the same treatment you will give all other commercial and industrial properties in Kansas. We can't ask for more - but we do believe that we are entitled to that.

Donald P. Schnacke



Thomas H. Ryder

2/21/85

TESTIMONY BEFORE THE KANSAS
STATE SENATE COMMITTEE ON
ASSESSMENT AND TAXATION
30-12 CLASSIFICATION PROPOSAL

The Cessna aircraft Company appreciates this opportunity to discuss the significant issues facing the Kansas legislature and electorate concerning property tax reappraisal and reclassification. My name is Thomas H. Ryder, Director of Tax of Cessna. I have been with Cessna for about six months, but have been involved with multi-state tax matters for twelve years. Cessna is very enthusiastic about the 30-12 classification proposal. Specifically, we feel that the elimination of ad valorem tax on personal property will improve the state's ability to compete for out of state business expansion and relocation, ease of the compliance and administrative burden in-state taxpayers, ensure a fair and equitable method of assessing tax on overall Kansas business and provide incentives for one of the largest industries in the state.

I. COMPETITIVE ADVANTAGE TO ATTRACTING BUSINESS

During my career as a corporate tax professional, I have been involved in many decisions concerning the location or relocation of business assets. One major corporation for which I have worked moved its headquarters and staff from Wisconsin to New Hampshire. A number of site alternatives were researched based on many criteria including taxes, "quality of life", local labor supply and business environment. The most important criteria was the overall tax effect. (For your information New Hampshire is the only state other than Alaska with no individual income or sales tax.) I have been involved in numerous other relocation decisions some of which were made strictly based on favorable tax consequences and some of which were made with the tax consequences merely one of several criteria. I can guarantee you that I have never recommended that a business requiring a great deal of inventory or machinery and equipment be located in a state with a general personal property tax on these assets. This would hold true even if the combined real estate and personal property tax were less than the potential real estate tax levied in a competing state. The mere fact that a state attempted to tax personal property was an indication of that states attempt to hinder local business growth and foster an attitude that was definitely against business expansion. As an aside I will say that we never evaluated a states liquor laws or multi bank holding company rules in determining business location.

This is all a way of pointing out that if Kansas is serious about attracting new and relocating sophisticated businesses it would be greatly advantageous to eliminate the ad valorem tax on personal property.

Obviously offsetting the proposed elimination of the personal property tax would be an increase in real estate tax caused by state wide re-appraisal of business property. My cursory review of the 30-12 proposal has satisfied me that the possible tax on commercial real estate as proposed would fall well within the rule of thumb guidelines which I have traditionally used. That is, that the tax to full value ratio will fall within a 2½% to 3½% range, certainly what I would consider a fair assessment for commercial property.

Business analyzes the difference between real estate and personal property taxes this way. When relocation is contemplated, business is optimistic about its future and will acquire or lease real property sufficient for its future expansion, knowing that excess real property taxes will result in the short run. It does not appreciate or desire additional ad valorem tax if the venture proves successful and additional machinery, equipment, furniture and fixtures are purchased or as additional inventory is required due to business expansion. This initial expansion takes place within the confines of the originally acquired or leased real estate. If expansion requires added real property, the resulting real estate tax is accepted as an additional cost.

That is what business wants. Fortunately, there are enough states which recognize this desire that business can select one of these. Kansas should be on this list.

Lastly, my experience shows that states that assess ad valorem taxes on personal property have an anti-business attitude in general. If the state is not willing to provide an attractive business climate for its existing business, why should out of state business relocate there? Sooner or later every new or relocated business becomes just another in state-business subject to the onerous and out of date laws concerning taxation of personal property.

II. COMPLIANCE AND ADMINISTRATION

As I am just beginning to find out, ad valorem taxes on personal property provide an onerous record keeping requirement for taxpayers. Machinery, equipment, furniture and fixture lists applying the state's trending factors require voluminous documentation (some of which I have brought with me). Cessna consumed tremendous amounts of computer programming time and effort in complying with these new rules. I would like to compliment Sedgwick county for their help and understanding that it is extremely difficult for a large, complex industrial firm to provide all of the required information on a timely basis. I would only point out that these reporting requirements are annual and are in addition to and different from property listings required for state and federal income tax laws and normal management and public reporting purposes.

The cost of this administrative burden must be passed on to us by our vendors, a great deal of whom are located in Kansas and must be passed on by us to our customers in form of higher prices. This administrative cost would be eliminated entirely by merely transferring the assessment of the tax to real property which is much easier for a taxpayer to administer.

III. FAIRNESS AND EQUITY

Coincidental with easing the administrative burden of assessing ad valorem taxes on personal property is the overall fairness and equity implicit in the external appraisal of real property versus the burden of self assessing tax on personal property such as inventory. State wide reappraisal of real property provides equity among and between all commercial real estate taxpayers. It is impossible to ensure the same uniformity of assessment when dealing with annual inventory increases and decreases and the determination of their values and the determination of state wide trending factors on an annual basis.

Certain personal property, such as agricultural machinery and business aircraft, are currently exempt. Some taxpayers are able to exempt personal property for a period of time by buying this property with industrial development bond proceeds, while others rely on interstate commerce provisions for not paying tax on portions of their inventory. These special provisions benefit certain assets and certain taxpayers, but are not widespread thus creating inequity in the tax system. The legislature recently

passed a statute exempting aircraft used exclusively in business, but I think that the assessing officers will find that the term "exclusive" use will prove very elusive when applying to specific factual situations.

Rather than allowing a hodge-podge of exclusions, exceptions, exemptions and special treatment, it would be more equitable to exempt all personal property. This opportunity has arisen here and you would be wise to accept it.

IV. INCENTIVE FOR AIRCRAFT MANUFACTURERS

I understand that aircraft manufacturing is the second or third largest industry in Kansas. It should be, it has its roots here. I mentioned a while ago that when evaluating relocation sites, it is always good to assess how a state treats its most important industries. For example, when the largest industrial employer in the state of Maine contemplated expansion into Boston, the state and the city of Portland provided \$30 million of resources to convince the major shipbuilder to expand in Portland instead. The state of Michigan has publicly announced that it will beat any other state's incentives in order to keep General Motor's Saturn expansion within the state of Michigan.

My analyses indicates that this proposal will reduce Cessna's ad valorem tax liability in the long run. There should be no question that this is the reason I am here testifying today. There should also be no question that, also in the long run, that is beneficial for the state of Kansas. Helping in-state businesses achieve growth and expansion is a duty of quality state government. Full employment of an increasing population is the reward which results from business expansion and development. The aircraft industry has been in a prolonged slump which we are just now anticipating coming to an end. I encourage you to fuel that expansion, not only for my industry but for all of Kansas business, by eliminating this unwise tax on personal property.

TESTIMONY BEFORE
COMMITTEE ON ASSESSMENT AND TAXATION
FEBRUARY 20, 1985
BY
JANET STUBBS
HOME BUILDERS ASSOCIATION OF KANSAS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS JANET STUBBS, EXECUTIVE DIRECTOR OF THE HOME BUILDERS ASSOCIATION OF KANSAS.

THE HBAK HAS A POLICY STATEMENT SUPPORTING REAPPRAISAL OF PROPERTY AS A METHOD OF DATA GATHERING PRIOR TO MAKING A DECISION ON CLASSIFICATION. THAT HAS NOT CHANGED.

IN OUR OPINION, THE ACCURACY OF THE DATA BEING USED TO MAKE PROJECTIONS FOR CLASSIFICATION PROPOSALS IS SUSPECT. WE QUESTION THE WISDOM OF USING THIS TO MAKE DECISIONS FORMULATING THE TAX POLICIES OF KANSAS BECAUSE IT IS POLITICALLY EXPEDIENT.

WE AGREE WITH DR. FISHER THAT ALL PERSONAL PROPERTY SHOULD BE TREATED THE SAME.

IT WOULD APPEAR THAT SCR 1616 IS PREFERABLE TO ANY CLASSIFICATION PROPOSAL WE HAVE SEEN IN THAT IT IS A 2 CLASS APPROACH, THUS MAINTAINING A MORE UNIFORM AND EQUAL METHOD OF TAXATION.

ALTHOUGH MANY OF THE MEMBERS OF HBAK DO NOT HAVE A MERCHANTS OR MANUFACTURERS INVENTORY IN THE USUAL SENSE OF THE TERM, THEY ARE WILLING TO BEAR SOME EXTRA TAX BURDEN TO MAKE KANSAS MORE COMPETITIVE IN THEIR ATTEMPT TO ATTRACT NEW INDUSTRY TO THE STATE.

HOWEVER, FROM A SPECIAL INTEREST STANDPOINT, THERE ARE PROBLEMS WITH BOTH SCR 1615 AND 1616 IN THE WAY VACANT LOTS ARE TREATED. KEEP IN MIND THAT VACANT LOTS ARE INVENTORY TO SOME OF MY MEMBERS AND SPECULATIVE NEW HOMES ARE ALSO INVENTORY, PRIOR TO THEIR SALE.

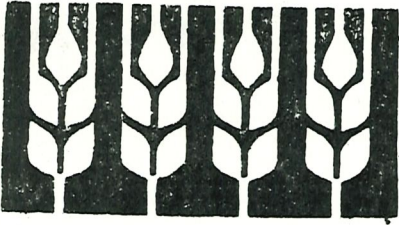
IF SCR 1616 IS ADOPTED, AND PERSONAL PROPERTY BECOMES EXEMPT, OUR COMPETITOR, THE MOBILE HOME MANUFACTURER, WILL PRESUMABLY HAVE HIS MANUFACTURING MACHINERY IN THE FACTORY EXEMPT, AS WELL AS THE INVENTORY OF FINISHED UNITS ON THE LOT FOR SALE.

WHAT IS A VACANT LOT? IF IT IS PLATTED LAND, DOES IT MATTER IF IT IS STILL BEING FARMED? WHY SHOULD THIS "INVENTORY" BE TAXED BECAUSE IT IS "INCOME PRODUCING" WHEN IT IS FELT THE FARM IMPLEMENT DEALER SHOULD NOT PAY ON HIS INVENTORY OF MACHINERY FOR SALE. BOTH WOULD HAVE THE ABILITY TO PASS IT ON TO A CUSTOMER.

IF VACANT LOTS DO NOT COMPRISE 7.4% OF THE TOTAL TAX BASE AS THE PRINT OUT INDICATES, WHERE ARE OTHER ERRORS?

KANSAS ASSOCIATION
OF WHEAT GROWERS

Attach #16



TESTIMONY

SENATE COMMITTEE ON ASSESSMENT & TAXATION

Thursday, February 21, 1985

SCR 1615 AND SCR 1616

My name is Howard Tice. I am Executive Director of the Kansas Association of Wheat Growers. I appreciate this opportunity to offer testimony today on these two resolutions.

At the outset, I would like to commend this committee, and the Lt. Governor's commission for the honest attempt to find a solution to our current inequitable ad valorem tax situation.

Of the two resolutions before this committee, we feel that SCR 1616 is the most acceptable proposal. SCR 1615 would lower the tax rate for oil and gas production, and would therefore cause a large shift in many western Kansas counties over to farm land.

SCR 1615 would reduce, but not exempt the tax on inventories, and Lt. Governor Docking said the door would be open to sunset provisions on certain exemptions. This means the controversy over farm machinery and inventory taxation would continue, and efforts to restore them to the tax roles would surface year after year.

SCR 1616 would exempt farm machinery and inventories. SCR 1616 would also bring about a fairer distribution of the tax burden. SCR 1616 is also simpler, due to the two class system, compared to the 30-20-10, three class system in SCR 1615.

I would agree with other conferees, that statewide reappraisal would be desirable before classification is instituted, but reappraisal under the current system which is supposed to be "uniform and equal" would bring about massive shifts in the tax burden in a short time according to most people who are knowledgeable in this area. It is also a good idea to have a basic structure prepared and ready to go when reappraisal is finally finished, so the transition can be orderly.

In addition, enactment of a classification system at this time would address the political reality which threatens any reappraisal bill which might be passed without classification.

For these reasons, plus the fact that we feel the state needs to act before the courts order reappraisal, we support SCR 1616 as a realistic, equitable, and administratively sound approach. We therefore oppose SCR 1615.

In conclusion, we feel the legislature, and the people of this state have been debating this issue long enough. The time for debate is past, and it is time for positive action.

LEAGUE OF WOMEN VOTERS OF KANSAS
L W V K

909 Topeka Boulevard-Annex

913 354-7478

Topeka, Kansas 66612

February 21, 1985

STATEMENT TO THE SENATE ASSESSMENT AND TAXATION COMMITTEE ON
CLASSIFICATION OF PROPERTY - SCR 1615 AND SCR 1616.

Mr. Chairman and members of the Committee:

I am Marian Warriner speaking on behalf of the League of Women
Voters of Kansas.

The League of Women Voters of Kansas has no position on classification.
However, we can support a "graduated residential exemption" such as
Dr. Glenn Fisher mentioned Tuesday.

1. We urge the Committee to immediately ask for data that would
provide a picture of this feature in a property system to use
as a comparison with that of the other proposals.
2. If I could extrapolate from our position that reappraisal is
the first step, and that the data necessary to develop a
satisfactory classification system, then I may say that SCR
1615, the "30-20-10" plan, is better. Having the accurate detailed
data beforehand is not so critical.
3. Please give adequate attention to the effects of any system
on school finance equalization.

Thank you.

Marian Warriner

Marian Warriner
League of Women Voters of Kansas