

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by James Lowther, Vice-Chairman, at 9:00 a.m. on February 13, 1986, in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused): Rolfs

Committee staff present:

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

Representative Braden explained HB-2802, an act enacting the Kansas economic development and job creation act of 1986; exempting certain manufacturing real and personal property from ad valorem property taxation. He then proposed an amendment to the bill and answered questions from committee members. (Attachment 1)

Mr. Charles J. Schwartz spoke as a proponent of this bill, saying that its passage would enable Kansas to take advantage of its opportunities and react to changes in the economic development environment. (Attachment 2)

Mr. Bud Grant, Vice-President of the Kansas Chamber of Commerce and Industry, testified that he believes enactment of HB-2802 is timely and important to the economic growth of the state. (Attachment 3)

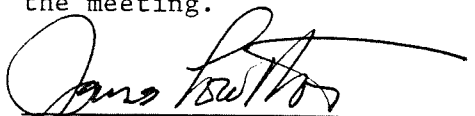
Mary Ellen Conlee, representing the Kansas Association for Small Business, favors HB-2802 but asked that it be amended to grant similar opportunities to established businesses which choose to expand. (Attachment 4)

Beverly Bradley, representing the Kansas Association of Counties, submitted written testimony to the committee. She said that her association has some concerns with the bill. They believe that exemption should not be given to new business which is in direct competition with existing business. They are also concerned about the "in lieu of taxes" portion in section 3. (Attachment 5)

Gerry Ray, Intergovernmental Coordinator for Johnson County Board of Commissioners, said their organization supports the concept and intent of the Kansas Economic Development Act of 1986, but must oppose the granting of a ten year property tax exemption to certain new businesses. (Attachment 6)

After the testimonies, there was further discussion with Representative Braden concerning abatement and exemption.

There being no further business, the vice-chairman adjourned the meeting.


James Lowther, Vice-Chairman

HOUSE BILL No. 2802

By Representatives Hayden, Braden, Chronister, Acheson, Apt, Aylward, Baker, Barr, Brown, Bryant, Buehler, Bunten, C. Campbell, Crowell, Crumbaker, Dyck, Eckert, Flottman, Foster, Fox, Freeman, Friedeman, Fuller, Graeber, Harper, Hassler, Hoy, King, Kline, Knopp, Littlejohn, Long, Lowther, D. Miller, R. D. Miller, Nichols, O'Neal, B. Ott, K. Ott, Polson, Pottorff, Ramirez, Roe, Rolfs, Sand, Sifers, Smith, Walker, and Williams

1-31

0024 AN ACT enacting the Kansas economic development and job
0025 creation act of 1986; exempting certain manufacturing real and
0026 personal property from ad valorem property taxation.

0027 *Be it enacted by the Legislature of the State of Kansas:*

0028 Section 1. It is the purpose of this act to promote, stimulate
0029 and develop the general welfare and economic prosperity of the
0030 state of Kansas through the promotion and advancement of in-
0031 dustrial and commercial development in the state; to encourage
0032 and assist in the location of new business and industry in this
0033 state; and to promote the economic stability of the state by
0034 providing greater employment opportunities, thus promoting the
0035 general welfare of the citizens of this state by providing an
0036 exemption from property or ad valorem tax for the property of
0037 new business concerns which locate in this state for the purpose
0038 of manufacturing, fabricating, assembling, processing or finish-
0039 ing articles of commerce in this state.

to encourage and assist in the expansion of existing business and industry

and existing business concerns which expand their operations

0040 Sec. 2. The following described property, to the extent
0041 herein specified, shall be and is hereby exempt from all property
0042 or ad valorem taxes levied under the laws of the state of Kansas:

First.

0043 All buildings, together with the land upon which such build-
0044 ings are located, and all tangible personal property associated
0045 therewith, actually and regularly used exclusively by a business
0046 commencing operations after the effective date of this act for the

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0047 purpose of manufacturing, fabricating, assembling, processing or
0048 finishing articles of commerce in this state, for a period of 10
0049 calendar years after the calendar year in which such business is
0050 commenced.

0051 The provisions of this section shall apply to all taxable years
0052 commencing after December 31, 1985.

0053 Sec. 3. The governing body of any city or county in which
0054 property exempted pursuant to section 2 is located may enter
0055 into contracts for the payment of service charges in lieu of taxes
0056 with the owner of such property in accordance with the provi-
0057 sions of K.S.A. 12-147 *et seq.*, and amendments thereto.

0058 Sec. 4. The provisions of this act shall be cited as the
0059 "Kansas economic development and jobs creation act of 1986".

0060 Sec. 5. This act shall take effect and be in force from and
0061 after its publication in the Kansas register.

Second. All buildings constructed after the effective date of this act, together with the land upon which such buildings are located, and all tangible personal property purchased after the effective date of this act, necessary to facilitate the expansion of an existing business and actually and regularly used exclusively by such business for the purpose of manufacturing, fabricating, assembling, processing or finishing articles of commerce in this state, for a period of 10 calendar years after the calendar year in which expansion of such business is completed.

against Kansas tax liability, and some limits can be imposed on the degree of liability offset.

5. Allow local taxing jurisdictions to give property tax abatements for new and expanding manufacturing facilities, research and development facilities, equipment and machinery, and for a limited scope of non-manufacturing facilities having a potential for job creation. The authority to grant the abatement should be detached from the issuance of industrial revenue bonds.

There are at least thirty-two states now providing a tax exemption or moratorium on one or more of the above types of property. Iowa currently offers property tax abatement on new research facilities and Missouri provides a twenty-five year property tax incentive for redevelopment of urban areas. Neither state ties the abatement of property taxes to IRBs. Kansas allows a moratorium on land and capital improvements and equipment only if purchased with industrial revenue bonds. The federal income tax exclusion on interest earnings from industrial revenue bonds is being phased out. Thus, the total quantity of industrial revenue bonds issued in Kansas will decline, thereby limiting local jurisdictions opportunities to offer tax abatements. The detachment of tax abatements for the described properties from the issuance of industrial revenue bonds will provide local communities with a continuing capacity to compete on an equal footing with other communities.

6. Support the 1986 constitutional amendment that would phase out the property tax on inventories.

Kansas is one of only eight states which does not exempt inventories from property tax. The tax is anomalous overall, and as well is a disincentive for certain types of industries to develop in Kansas.

Education, Research, and Technology Transfer

Kansas has an excellent higher education system, particularly in relation to competing states. The system overall, and especially the major universities, provide a strong foundation on which to build future progress, and needs to be 'harnessed' to the state economic development effort in two senses:

1. maintain the existing quality differential relative to competing states; and
2. link university research expertise in many fields, but particularly in science and technology, to Kansas business sectors.

The following recommendations are designed to strengthen the education, research, and technology foundation of Kansas and to systematically link them to the business sector. They recognize that technological innovation is the sustaining force behind the development

TESTIMONY BEFORE THE
HOUSE ASSESMENT AND TAXATION COMMITTEE

HB 2802

FEBRUARY 13, 1986

CHARLES J. SCHWARTZ, SECRETARY

KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

503 Kansas Avenue, Sixth Floor, Topeka, Kansas 66603

Phone (913) 296-3481



JOHN CARLIN
Governor

CHARLES J. "Jamie" SCHWARTZ
Secretary

Mr. Chairman and Members of the Committee,

Kansas is at a crossroads, if not a crisis economically. With a major depression in agriculture, more and more communities are expressing a need for greater economic diversity. We can see the changes taking place all around us as an opportunity to gain this diversity. To assure that Kansas is able to take advantage of it's opportunities, we need to react to changes in the economic development environment.

One of the leading incentives Kansas communities have available to them now is the ability to allow local taxing jurisdictions to provide property tax abatements for new and expanding businesses. This allows the local taxing authority to send the message that "We want you, and we're willing to be partners in your new venture. Our community wants your enterprise to become profitable and be a long term, tax paying citizen in our jurisdiction." The ability to provide this incentive is currently tied to the use of Industrial Revenue Bonds. As their use is limited and / or phased out, this will be an important incentive that will not be available to Kansas communities that is currently available to over two thirds of our competing states.

It is important that this proposal be approved. It is not a "wide open" door for tax avoidance. It applies only to manufacturing and only to new or expanded operations. It is the opinion of the Industrial Development community that with a city's ability to levy service charges

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KDED Report

unimpaired by the act, the community will be able to negotiate payments in lieu of taxes in exactly the same way that they do under the provisions of the Industrial Revenue Bond act.

This is your first chance to cast a vote directly on one of the recommendations of the Interim Report on the Kansas Economic Development Study. I urge your favorable consideration.

RECOMENDATION

5. Allow local taxing jurisdictions to give property tax abatements for new and expanding manufacturing facilities, research and development facilities, equipment and machinery, and for a limited scope of non-manufacturing facilities having a potential for job creation. The authority to grant the abatement should be detached from the issuance of industrial revenue bonds.

There are at least thirty-two states now providing a tax exemption or moratorium on one or more of the above types of property. Iowa currently offers property tax abatement on new research facilities and Missouri provides a twenty-five year property tax incentive for redevelopment of urban areas. Neither state ties the abatement of Property taxes to IRBS. Kansas allows a moratorium on land and capital improvements and equipment only if purchased with industrial revenue bonds. The federal income tax exclusion on interest earnings from industrial revenue bonds issued in Kansas will decline, thereby limiting local jurisdictions opportunities to offer tax abatements. The detachment of tax abatements for the described properties from the issuance of industrial revenue bonds will provide local communities with a continuing capacity to compete on an equal footing with other communities.

Sedgwick Side of Mulvane to Get Tax Break

By Susan Freinkel
Staff Writer

When they get their property tax bills this week, residents on the Sedgwick County side of Mulvane will find they owe about one-third less than Mulvane property owners who live to the south, across the Sumner County line.

That's because of a state law that requires that the money from the new 1 percent Sedgwick County sales tax be used to reduce city property taxes for residents on the Sedgwick side of town. The law states that when a city is split by a county line, and one of the counties passes a sales tax, the city can only use the sales tax to reduce property taxes, and only for the residents of that county.

Mulvane officials aren't pleased with the situation, but say they have no choice but to accept it. This year, at least.

"We are thinking about taking some other action, either through the State Legislature or through other avenues that are available to us," said City Administrator Ed Elam. He said one option would be for the city to try to assert home rule to get out from under the law.

The combined property tax rate for Mulvane residents on the Sedgwick County side of the line will be 109.798 mills, which translates

Mulvane

into about \$527 for the owner of a \$60,000 house assessed at 8 percent.

If that same house were situated in Sumner County, the owner would pay about \$235 more, or \$762. The property tax rate for Sumner County residents will be 158.819 mills. A mill equals \$1 per \$1,000 of assessed valuation.

About one third of Mulvane's 4,400 residents live in Sumner County.

The Mulvane City Council decided to use the approximately \$226,000 the town expects to receive from the sales tax in 1986 to cut the tax rate for Sedgwick County residents in half, to 29.130 mills. The city tax rate for Sumner County residents is 59.680 mills, which is about the rate all residents of the city would have been taxed if the sales tax law had not been passed.

The new tax rates are a turnaround for Sumner County residents who for years have paid lower taxes than their neighbors in Sedgwick County.

But residents on the south side

of the line say they are not too disturbed by the change.

"The taxes over here have been cheaper for years and years than

Sedgwick County was," said Walter Curry, who owns three properties in Sumner County. "I guess they're just catching up."

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FALL SPECIAL



ZETA EPSILON CRAFT FAIR

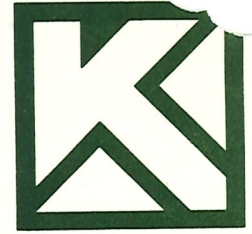
Saturday, November 9, 10:00 a.m. to 5:00 p.m.

Sunday, November 10, 12:00 p.m. to 5:00 p.m.

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

HB 2802

February 13, 1986

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Assessment and Taxation

by

Bud Grant
Vice President

Mr. Chairman, members of the committee. My name is Bud Grant and I am here in behalf of the Kansas Chamber of Commerce and Industry and appreciate the opportunity of appearing today in support of House Bill 2802.

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. KCCI receives no government funding.

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.

One of the recommendations contained in the Kansas economic development study prepared by the Institute for Public Policy and Business Research at the University of Kansas was a recommendation for local taxing jurisdictions to allow property tax

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abatements for new and expanding manufacturing facilities, with the authority to grant the abatement detached from the issuance of industrial revenue bonds. HB 2802, if amended to also authorize the exemption to expanding manufacturing facilities, would fulfill the recommendation. The amendment would recognize that approximately 80% of the state's employment growth will come from existing business and industry. This coupled with the uncertainties surrounding the future use of industrial revenue bonds makes HB 2802 both timely and important to the future economic growth of Kansas.

I appreciate the opportunity of appearing before the committee today Mr. Chairman and would urge that HB 2802 be reported favorably to the full House. I will be pleased to attempt to answer any questions.



KANSAS ASSOCIATION FOR SMALL BUSINESS

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TESTIMONY ON HB2802
PRESENTED TO THE
ASSESSMENT AND TAXATION COMMITTEE
FEBRUARY 13, 1986

BY
THE KANSAS ASSOCIATION
FOR SMALL BUSINESS

Chairman Rolfs, members, of the committee, I am Mary Ellen Conlee, representing the Kansas Association for Small Business. Our organization has a membership of over 140 small businesses - the majority employing 50 or less people. Currently, most of our businesses are manufacturers and suppliers to major manufacturers in Kansas and throughout the Mid West.

We are pleased with the major emphasis being placed on economic development by the legislature this year. We agree with the concept of the HB2802 which grants property tax abatements subject to local government approval in exchange for business expansion.

HB2802 speaks only to new business expansion. Please consider amending the bill to grant similar opportunities to established businesses which choose to expand. In the small business arena new businesses have a high failure rate. Established businesses can offer much greater statistical promise for sustained growth and job creation. In addition, our Board of Directors believes that the bill should offer similar property tax abatements to warehouse and distribution businesses.

Thank you for your time. I'd be happy to answer questions.

2-13-86

Attachment 4

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Kansas Association of Counties

Serving Kansas Counties

Suite D, 112 West Seventh Street, Topeka, Kansas 66603

Phone 913 233-2271

February 13, 1986

To: Representative Ed Rolfs

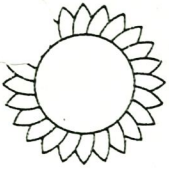
From: Beverly A. Bradley

The Kansas Association of Counties supports Economic Development in our state. We applaud the effort to create additional jobs for our citizens which in turn provides more sales tax, property tax on their homes and a healthy economy.

We do however have some concerns with HB 2802. We are concerned that the exemption not be given to new business which is in direct competition with existing business. It will not help if new business with a 10 year tax exemption drives out an established business that does not enjoy such a privilege.

We are concerned with Section 3, the "in lieu of taxes" portion. What if the incoming business chooses not to enter into such an agreement with the city or county? There appears to be no incentive for them to do so.

Thank you for the opportunity to express our position.



HOUSE ASSESSMENT AND TAXATION COMMITTEE

HEARING ON HOUSE BILL NO. 2802

FEBRUARY 13, 1986

TESTIMONY OF GERRY RAY, INTERGOVERNMENTAL COORDINATOR
JOHNSON COUNTY BOARD OF COMMISSIONERS

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS GERRY RAY, REPRESENTING THE JOHNSON COUNTY COMMISSIONERS. THANK YOU FOR THE OPPORTUNITY TO EXPRESS JOHNSON COUNTY'S CONCERNS ON HOUSE BILL 2802. WE SUPPORT THE CONCEPT AND INTENT OF THE KANSAS ECONOMIC DEVELOPMENT ACT OF 1986, BUT MUST OPPOSE THE GRANTING OF A TEN YEAR PROPERTY TAX EXEMPTION TO CERTAIN NEW BUSINESSES.

THERE ARE FEW AREAS AS CONSCIOUS OF ECONOMIC DEVELOPMENT AS JOHNSON COUNTY. FOR YEARS IT HAS BEEN A PRIORITY AND MOST WOULD AGREE WE HAVE HAD A FAIR MEASURE OF SUCCESS. WE APPLAUD THE LEGISLATURE'S COMMITMENT TO ENHANCE THE ECONOMIC CLIMATE IN KANSAS. COMMISSIONING THE KANSAS ECONOMIC DEVELOPMENT STUDY, BETTER KNOWN AS THE REDWOOD STUDY, WAS AN EXCELLENT STEP AND YOUR EFFORTS TO IMPLEMENT ITS RECOMMENDATIONS ARE COMMENDABLE.

SEVERAL SPONSORS OF HB 2802 HAVE INDICATED IT IS BASED ON RECOMMENDATION NO. FIVE OF THE REDWOOD STUDY, WHICH WOULD ALLOW LOCAL JURISDICTIONS TO GIVE PROPERTY TAX ABATEMENTS TO CERTAIN NEW AND EXPANDING BUSINESSES. THIS IS QUITE DIFFERENT THAN THE LANGUAGE IN THE BILL THAT MANDATES SUCH TAX EXEMPTIONS AND ALLOWS THE LOCAL UNITS TO ENTER INTO A CONTRACT FOR PAYMENT IN LIEU OF TAXES. IT IS COMPARED TO INDUSTRIAL REVENUE BONDS, BUT WE MUST REMEMBER WITH IRB'S THE LOCAL GOVERNMENTS DEALS FROM A POSITION OF STRENGTH, UNDER HB2802 THEY WILL HAVE NOTHING WITH WHICH TO NEGOTIATE. THE BOTTOM LINE IS, WHO WOULD CHOOSE TO ENTER AN AGREEMENT IN LIEU OF TAXES RATHER THAN TAKE ADVANTAGE OF A TEN YEAR TAX EXEMPTION.

AGAIN, JOHNSON COUNTY SUPPORTS IN PRINCIPLE, THE LEGISLATIVE INTENT AND COULD SUPPORT HB 2802 IF IT WERE AMENDED TO BE PERMISSIVE AND ALLOW THE LOCAL JURISDICTIONS TO GRANT THE EXEMPTIONS OR ABATEMENTS. YOU MIGHT ALSO CONSIDER ADDING A PROVISION TO MEASURE THE ECONOMIC IMPACT WHICH OCCURS AS A RESULT OF A NEW BUSINESS, AND PROVIDE A CORPORATE TAX CREDIT BASED ON THE NUMBER OF NEW JOBS CREATED. FOR EXAMPLE 3% CREDIT FOR 10 NEW JOBS, 10% CREDIT FOR 20 NEW JOBS AND ON A SLIDING SCALE UP TO 50% CREDIT. IN THIS WAS THE STATE AND LOCAL GOVERNMENTS WOULD SHARE THE COST OF ATTRACTING NEW BUSINESS WITH TAX INCENTIVES.

THE JOHNSON COUNTY COMMISSIONERS ASK THAT BEFORE TAKING ACTION ON HB 2802 YOU CAREFULLY CONSIDER THE DETRIMENTAL EFFECTS IT CAN HAVE ON THE LOCAL TAXING UNITS AND AMEND THE BILL TO MINIMIZE THOSE EFFECTS.