Approved Feb. 12, 1987
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation.

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

11:00 a.m./p.m. on February 11, 1987 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Senator Hoferer
Senator Dave Kerr
Dr. Chuck Krider, Kansas University
Bud Grant, Kansas Chamber of Commerce & Industry
Larry Danielson, Kansas Industrial Developers Assoc.
Christy Young, Topeka Chamber of Commerce
Mary Ellen Conlee, Kansas Assoc. for Small Businesses
Dennis Shockley, City of Kansas City, Kansas
Terry Humphrey, Kansas Manufactured Housing Institute
Mark Burghart, Kansas Dept. of Revenue Legal Services
Jerry Mallott, Wichita Chamber of Commerce
Ron Gashes, Boeing Corp.
John Blythe, Kansas Farm Bureau

Chairman Kerr called the meeting to order and introduced Senator Jeanne Hoferer for the purpose of requesting a bill introduction.

Senator Hoferer (Attachments 1 & 2) requested a bill introduction exempting all property or ad valorem taxes levied by the state of Kansas to all real property and tangible personal property owned and regularly used by any Young Men's Christian Association or Young Women's Christian Association.

Senator Allen made a motion to introduce the bill. Senator Mulich seconded. Motion carried.

Chairman Kerr then announced that the agenda for the day would be hearings on Senate Bill 65 and 71.

SENATE BILLS 65 and 71

Senator Dave Kerr testified in support of S.B. 65 and 71. (Attachments 3 & 4) He stated that after hearing testimony from businesses and meeting with the Capital Markets and Taxation Task Force, the conclusion is that the ability of the state to appear competitive in its tax structure seems to be in question. Some corporations have recently chosen not to locate in Kansas after analyzing the tax structure of bordering states. He stated there were at least three major areas in which we are not competitive:

1. Kansas' 6.75% rate does not compare favorably with the 5% rate in bordering states.
2. Kansas is one of 37 states that does not allow federal taxes paid as a deduction.
3. The corporate income tax rate structure for multi-state corporations results in higher taxes paid by those corporations in Kansas than in most other states.
4. Kansas still has sales tax on manufacturing machinery and equipment (except under enterprize zone conditions) while most states are exempting such equipment.

Senator Kerr stated that he felt Kansas is especially non-competitive

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.

regionally because of the tax on business machinery and equipment. He urged passage of both S.B. 65 and S.B. 71.

Dr. Chuck Krider testified in support of S.B. 65 and S.B. 71. (Attachment 5) He stated the purpose of this legislation is to improve the state's economic development efforts by making Kansas more competitive on taxes in comparison to other states. S.B. 71 will phase out the state sales tax on manufacturing machinery and equipment over a four-year period. Senate Bill 65 would diminish the job expansion income tax credit allowed in Kansas. He said that the recommendation to pass S.B. 65 is made for two reasons;

1. To lower the total fiscal note to the state which would otherwise be caused by the removal of business machinery and equipment from the sales tax.
2. He feels the job expansion credit is not as cost effective as the sales tax emption.

He said that as a package the two bills will improve the tax competitiveness of Kansas relative to the surrounding states.

He said that the current sales tax on machinery and equipment unnecessarily signals to the business community that Kansas has a less favorable business climate than our bordering states. He said S.B. 71 would encourage economic development throughout the state by reducing the cost of capital investments for all firms.

Bud Grant testified in support of S.B. 71. (Attachment 6)

Larry Danielson testified in support of S.B. 71. He stated that by adopting this bill we are extending an incentive to all manufacturers throughout the state - if they are not in an enterprise zone.

Mr. Danielson testified in opposition to S.B. 65. (Attachment 7) He stated that he felt we do not need to eliminate an incentive that we have to provide tax credits to companies that are expanding.

Christy Young testified in favor of S.B. 71 and opposed to S.B. 65. (Attachment 8)

Dave Shockley, (Attachments 9 & 10) testified in favor of S.B. 71 and opposed to S.B. 65. He stated that he felt the original intention of S.B. 71 was being badly disrupted by S.B. 65.

Mary Conlee (Attachment 11) testified in favor of S.B. 65 and 71.

Terry Humphrey asked committee members to consider an amendment to S.B 71 to provide an additional sales tax exemption for the sale of mobile homes. (Attachment 12)

Mark Burghart explained the Fiscal Notes on S.B. 65 and 71. (Attachments 13 & 14)

Jerry Mallott testified in favor of S.B. 71. He expressed opposition to S.B. 65 saying that he felt the removal of the extra job expansion credit would be detrimental toward efforts in Wichita to attract business expansions.

Ron Gashes stated that he felt there were some misunderstandings regarding the sales tax exemption which is currently in place in enterprise zones. He said that the exemption currently applies only to sales of tangible personal property. One of the difficulties that small businesses have is when they try to renovate to become competitive they do not fall under the exemption.

John Blythe stated that if S.B. 71 is to pass that he feels that new farm machinery, which currently is subject to sales tax, should be included in the exemption.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/11	Charles Krider	Lawrence	KU
2/11	Shirley Sicilian	IPPBR KU Lawrence, Ks	KU - IPPBR
2/11	TREVA POTTER	TOPEKA	PEOPLES NAT. GAS
2/11	Vilma Barnett	Coldwater, Ks	Co. Treas - Farmers Ranch
2/11	Coleen Brown	Ashland, Ks	Co. Treas.
2/11	Leah Ann Anderson	Lindsborg, Ks.	McPherson County
2/11	ANN Gottberg	LINdsborg, Ks	McPherson County
2/11	Dean Stubbs	McPherson Ks.	McPherson Co.
2/11	Richard R. Cobb	Galva, Ks.	McPherson Co.
2/11	Christy Young	Topeka	Greater Top Chamber of C
2/11	DENNIS SHOCKLEY	KCK	City of KCK
2/11	RON GACHES	WICHITA	BMAC
2/11	Alvie Price	Topeka	KBA
2/11	Larry Danielson	Wichita	Ks. Industrial Developers Assn.
2/11	BUD GRANT	TOPEKA	KCCI
2/11	Jerry Mallot	Wichita	the Chamber
2/11	Jon Josserand	Wichita	Wichita Chamber
	Terry Humphrey	Topeka	KMHI
2/11	Karen Hastings	Wichita	KIDA
2/11	Mary Harper	Healy	ACM
2/11	Kevin Arnel	Wichita	Ks Assn. for Small Business
2/11	Keith Coon	Goodland	Sherman County
2/11	Floyd OWENS	–	–
2/11	JAMES PICKETT	GOODLAND	SHERMAN COUNTY
2/11	William W. "Bill" Leach	Cheyenne Co. Bird City	Commissioners
2/11	Rosalie Seemann	The Colby	Sherman County
2/11	Janet L. Rumpel	Sherman Co. Goodland, Ks	Sherman Co.
2/11	Cheryl Wedeski	~~Sherm~~ Rawlins Co. Atwood, Ks	Rawlins County
2/11	Shirley Miller	Goodland, Ks	Sherman Co.
2/11	[illegible]	Topeka	KCCI

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/11	Tom Taylor	Topeka	KPL Gas Service
	Joe McClure	Wabaunsee	Co.

7 RS 0548

SENATE BILL NO. ________

By

AN ACT relating to property taxation; exempting certain property therefrom.

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

Section 1. The following described property, to the extent herein specified, shall be exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

All real property and tangible personal property owned and actually and regularly used by any Young Men's Christian Association or Young Women's Christian Association for any and all of the purposes for which any such association was organized, if such association is exempt from federal income taxation pursuant to the provisions of section 501 of the internal revenue code. This exemption shall not be deemed inapplicable to property which would otherwise be exempt pursuant to this section because any such association: (a) Is reimbursed for the provision of services accomplishing the purposes enumerated in this section or K.S.A. 79-201, Second, and amendments thereto, based upon the ability to pay by the recipient of such services; or (b) is reimbursed for the actual expense of using such property for the purposes enumerated in this section or K.S.A. 79-201, Second, and amendments thereto; or (c) uses such property for a nonexempt purpose which is minimal in scope and insubstantial in nature if such use is incidental to the exempt purposes of this section or K.S.A. 79-201, Second, and amendments thereto.

The provisions of this section shall apply to all taxable years commencing after December 31, 1978.

Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.

Commission of Revenue and Taxation, 156 K. 538, 541, 134 P. 2d 672.

38. Masonic order property not exempt from taxation as charitable institution. Clements v. Ljungdahl, 161 K. 274, 277, 167 P. 2d 603.

39. Right to tax lands owned by federal reconstruction finance corporation discussed. Boeing Airplane Co. v. Board of County Comm'rs, 164 K. 149, 155, 156, 188 P. 2d 429.

40. Hospital association property exempt from taxation under Kansas constitution (Art. XI, § 1). A. T. & S. F. Hospital Ass'n v. State Commission of Revenue & Taxation, 173 K. 312, 317, 246 P. 2d 299.

41. Mentioned; tax situs of tangible personal property is place where property located. Ray v. Board of County Comm'rs, 173 K. 859, 863, 252 P. 2d 899.

42. Building not exclusively used for religious purposes not exempt from taxation. Defenders of the Christian Faith, Inc., v. Horn, 174 K. 40, 42, 44, 51, 52, 254 P. 2d 830.

43. Mentioned in holding charitable institutions are not exempt from tort liability. Noel v. Menninger Foundation, 175 K. 751, 763, 267 P. 2d 751.

44. Mentioned; duty of stockholder to list capital stock, when. Runbeck v. Peterson, 177 K. 314, 318, 279 P. 2d 233.

45. Mandamus to compel assessment; city owned property used exclusively to convey water to city held exempt. State, *ex rel.*, v. Hedrick, 178 K. 135, 136, 138, 140, 141, 283 P. 2d 437.

46. Women's club realty not exempt, when; procedure for relief discussed. State, *ex rel.*, v. Lawrence Woman's Club, 178 K. 308, 309, 312, 285 P. 2d 770.

47. Mortgage on church property not exempt from registration fee. Assembly of God v. Sangster, 178 K. 678, 680, 290 P. 2d 1057.

48. Property of religious organization not exempt, when. Sunday School Board of the Southern Baptist Convention v. McCue, 179 K. 1, 4, 6, 293 P. 2d 234.

49. Evidence insufficient to show property used directly, immediately, solely and exclusively for educational purposes; property taxable; cases reviewed. Kansas State Teachers Ass'n v. Cushman, 186 K. 489, 491, 495, 496, 499, 501, 502, 351 P. 2d 19.

50. Mentioned; cemetery corporation held liable for special assessment for street paving. Mount Hope Cemetery Co. v. City of Topeka, 190 K. 702, 706, 378 P. 2d 30.

51. Realty acquired by wholly-owned subsidiary of Reconstruction Finance Corporation held taxable, when; waiver. Board of County Comm'rs v. United States, 105 F. Supp. 995, 997, 998, 999, 1000.

79-202. Veterans clubhouse and property, memorial hall or park; exception. All real estate not exceeding one and one-half acres in extent, owned and used, and all such real estate leased where the buildings and improvements situate thereon are owned by any organization of honorably discharged soldiers, sailors and marines of the United States army or navy, or auxiliary of any such organization, as a clubhouse, a place of meeting or a memorial hall or for more than one of said purposes, and all books, papers, furniture, apparatus, instruments and other personal property belonging to any such organization or to any auxiliary of any such organization shall be exempt from taxation: *Provided,* That if any of such property or buildings or parts thereof are leased or subleased to any person, firm or corporation for use in any trade or business for profit or for any form of gainful occupation or activity, such portion or portions so leased or subleased shall not be exempt from taxation for and during the term or terms thereof: *Provided further,* That any memorial park not exceeding twenty acres in extent owned by any such organization which is made available to the public as a place of recreation and the buildings thereon shall also be exempt from taxation as herein provided, if not leased or otherwise used with a view to profit. The exemptions provided by this section shall commence with and include the calendar year 1947. [L. 1921, ch. 258, § 1; R. S. 1923, 79-202; L. 1937, ch. 355, § 1; L. 1947, ch. 441, § 1; April 4.]

Source or prior law: L. 1895, ch. 157, § 1.

Research and Practice Aids:

Taxation⚷219.
Hatcher's Digest, Taxes §§ 64 to 66, 71.
C. J. S. Taxation § 240 et seq.

Judicial Council Bulletin References:

Quoted in part in article on tax exemptions, Peter F. Caldwell, 1958 J. C. B. 69, 72.

CASE ANNOTATIONS

1. Question whether property is exempt from taxation is judicial one. State, *ex rel.*, v. Davis, 144 K. 708, 62 P. 2d 893.

79-203. [L. 1905, ch. 501, § 1; R. S. 1923, 79-203; Repealed, L. 1935, ch. 298, § 1; March 19.]

CASE ANNOTATIONS

1. Building used by students as literary hall and dormitory exempt. Kappa Kappa Gamma v. Pearcy, 92 K. 1020, 1023, 142 P. 294.

2. Use, not ownership governs; immaterial where legal title placed. Kappa Kappa Gamma v. Pearcy, 92 K. 1020, 1023, 142 P. 294.

3. Section held unconstitutional and void. Alpha Tau Omega v. Douglas County Comm'rs, 136 K. 675, 679, 684, 18 P. 2d 573.

79-204. Property of Christian associations, Boy Scouts, Girl Scouts and Camp Fire Girls. The real and personal property belonging to or leased by [any] Young Men's Christian Association or Young Women's Christian Association, or the Boy Scouts of America or the Girl Scouts of America or the Camp Fire Girls, which is used exclusively for the moral, physical, intellectual and religious improvement of men or women or for religious, Bible tract, missionary, hospital, dormitory, and

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recreative purposes as aids to moral and mental improvement, shall be exempt from taxation: *Provided,* That neither the real nor personal property of any such association shall be exempt from taxation if any officer, member or employee thereof shall receive or may be lawfully entitled to receive any pecuniary profit from the operation thereof, except reasonable compensation for services in effecting one or more of such purposes: *Provided further,* That the exemption herein stated shall apply only to the premises used as the home or headquarters of such association, or to real estate used exclusively as a camp or recreation grounds of such association; nor shall any real property of such association be exempt from taxation if rented for business purposes. [L. 1909, ch. 253, § 1; R. S. 1923, 79-204; L. 1929, ch. 284, § 1; L. 1953, ch. 419, § 1; June 30.]

Research and Practice Aids:

Taxation⚿241(3).
Hatcher's Digest, Taxes, §§ 64 to 66, 71.
C. J. S. Taxation §§ 294, 295.

Judicial Council Bulletin References:

Quoted in part in article on tax exemptions, Peter F. Caldwell, 1958 J. C. B. 69, 72.

79-205. Waterworks plants at Kansas City exempted from taxation. Laws 1921, chapter 304, included by reference. [Exempts from taxation of any kind the portion of the waterworks plant of the municipality of Kansas City, Missouri, located in this state; also grants the right of eminent domain to the state of Missouri and this state for the purpose of acquiring property rights for waterworks plants. This is a mutual arrangement between the two states and the two cities.] [R. S. 1923, 79-205.]

Research and Practice Aids:

Hatcher's Digest, Taxes §§ 60½, 62, 63.

CASE ANNOTATIONS

1. Cited in construing agreement between Kansas and Missouri. State, *ex rel.*, v. Joslin, 116 K. 615, 227 P. 543.
2. Proprietary power of Kansas City, Mo., to furnish water to Kansans upheld. Speas v. Kansas City, 329 Mo. 184, 44 S. W. 2d 108, 113.
3. Agreement between states held to exempt from drainage assessments. Kansas City v. Fairfax Drainage Dist., 34 F. 2d 357, 359.

79-206. Property held in trust by corporation for state educational institution. All property, real, personal or mixed, controlled or held in trust by any corporation organized under the laws of the state of Kansas for the sole purpose of affording financial aid to any one of the state educational institutions maintained and managed by the state, shall be considered as being used for state purposes as provided by article 11, section 1, of the constitution, and as such shall be exempt from taxation: *Provided,* That the governing board of said institution shall have full power to accept or reject any and all offers of such financial support made by said corporation. If rejected by said governing board such property so rejected shall not be exempt from taxation. [L. 1931, ch. 315, § 1; May 28.]

Judicial Council Bulletin References:

Quoted in part in discussing tax exemptions, Peter F. Caldwell, 1958 J. C. B. 69, 72.

79-207. Cemeteries and mausoleums; funeral homes and mortuaries prohibited unless listed for taxation; injunction. No person, firm, association, partnership or corporation engaged in the ownership, operation or management of a cemetery or mausoleum in this state which is exempt from payment of general property taxes shall, either directly or indirectly, own, manage, conduct or operate a funeral home or mortuary in such cemetery or mausoleum or adjacent thereto and in connection therewith, unless said cemetery or mausoleum and funeral home or mortuary is listed for assessment purposes. The attorney general, county attorney or any interested party may maintain injunction proceedings to prevent any violation of this act. [L. 1945, ch. 157, § 1; June 28.]

Research and Practice Aids:

Taxation⚿245.
Hatcher's Digest, Taxes § 73.
C. J. S. Taxation § 292.

79-208. Certain property used for housing denominational college or university faculty or students. All property used exclusively for the housing of faculty members or regularly matriculated students including married students of any denominational college or university erected upon the regular campus grounds of such college or university or upon lands in close proximity thereto which are owned by such college or university shall be exempt from taxation. [L. 1945, ch. 374, § 1; L. 1959, ch. 364, § 1; June 30.]

Research and Practice Aids:

Hatcher's Digest, Taxes, §§ 70, 74.

79-209. Exemption of certain animals from taxation. The following animals shall be exempt from taxation in this state: (1) Horses less than six (6) months old; (2) neat cattle less than six (6) months old; (3) mules and asses less than six (6) months old; (4) sheep less than six (6) months old; (5) hogs less than six (6) months old; (6) goats less

TAXATION

TAXATION AND TAX STRUCTURE IN KANSAS

After hearing testimony from a variety of businesses and business-location conferees, the Capital Markets and Taxation Task Force concluded that Kansas' tax structure and tax incentives should be viewed as an integral part of any successful economic development program. The Commission concurs with this conclusion. The ability of the state to appear competitive in its tax structure can send an important signal to outside firms and affect expansion plans of current Kansas businesses. Despite hearing testimony that most tax incentives are not cost-effective, the Task Force believes that Kansas should take steps to remove burdensome tax features and assure that the tax structure remains regionally competitive.

Some corporations recently have chosen not to locate in Kansas after analyzing the tax structure of bordering states. The Commission believes that this problem has arisen in part because of several features of Kansas' corporation income tax that make the effective rate significantly higher than any of its neighbors' effective rates, especially for large and very profitable corporations.

-- Kansas' 6.75 percent rate for all corporations with KAGI of $25,000 or more does not compare favorably with the 5 percent across-the-board rate in Missouri, Oklahoma, and Colorado.

-- Of the 43 states with corporation income taxes, Kansas is one of 37 states that does not allow federal taxes paid as a deduction. Missouri is one of six states with corporation income taxes that does allow that deduction. This deduction lowers Missouri's effective rate under current law to 2.7 percent.

-- Kansas and all of its neighboring states have adopted UDITPA, the Uniform Division of Income for Taxation Purposes Act. Three factors -- sales, payroll, and property -- are equally weighted when apportioning the amount of a corporation's income attributed to Kansas. Missouri, however, allows corporations the option of computing liability either under UDITPA or under a single-factor (sales) formula.

These distinctions in the states' corporation income taxes have combined to lead some publicly-held corporations, unable to justify payment of Kansas taxes, to locate in neighboring states, especially Missouri.

Another area in which Kansas compares unfavorably is that it charges sales tax on manufacturing machinery and equipment. Such equipment has been subject to a refund of the sales tax when located within an enterprise zone. However, the value of the refund was diminished by the time lag between initial payment of the tax and receipt of the refund. Occasionally, this delay has proven to be a burden for some corporations. Beginning January 1, 198[illegible],

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such equipment installed within an enterprise zone will be exempt from sales taxes.

Table 2, below, compares some tax features of Kansas and neighboring states with respect to the characteristics mentioned above.

TABLE 2

Selected Tax Features for Kansas and Neighboring States

	Kansas	Missouri	Oklahoma	Colorado	Nebraska
Corporation Income Tax					
Rates -- Maximum	6.75%	5.00%	5.00%	5.00%	6.65%
Rates -- Minimum	4.50%	5.00%	5.00%	5.00%	4.75%
Fed. Tax Deductible	No	Yes[1]	No	No	No
UDITPA	Yes	No[2]	Yes	Yes	Yes
Credits --					
Job. Exp.	Yes	Yes	No	No	No
Investment	Yes	Yes	Yes	No	No
Relative Collections[3]	$ 65.17	$ 31.93	$ 31.66	$ 31.46	$ 30.49
Sales and Use Taxes					
Rate	4.000%	4.225%	3.250%	3.000%	3.500%
Local Taxes	Yes	Yes	Yes	Yes	Yes
Exemptions --					
Manufacturing Mach.	No	Yes	Yes	Yes	Yes[4]
Enterprise Zones	Yes	No	Yes	No	No

Notes:

1) This deduction lowers Missouri's effective rate under current law to 2.7 percent.

2) Missouri, although it has adopted UDITPA, allows the option of using only the sales factor.

3) FY 1985 collections per capita.

4) As refund.

Source: Commerce Clearing House, State Tax Guide, 2d. Ed.

In order to make Kansas more competitive with surrounding states, the Commission believes that it is essential that all tax incentives be as cost-effective as possible for the state and local governments. The Commission, therefore, makes the following recommendations to the 1987 Legislature:

-- Extend the sales and use tax exemption for manufacturing machinery and equipment to the entire state, to be phased in over a four-year period. The exemption currently exists only within enterprise zones. The Department of Revenue has estimated that this would cause a $12-18 million reduction in State General Fund receipts when fully phased in. The Commission recommends that the exemption be funded in part by repealing the enterprise zones' enhancement of job expansion and investment credits, determined to be not cost effective by Task Force consultant, Charles Krider. The Department has estimated that receipts would increase by $2-3 million in response to such legislation. Thus, the combined cost of the two elements of this recommendation would be $14.5 million, assuming figures of $17 million for the full sales tax exemption and $2.5 million for the repeal of the enhanced portion of the income tax credits. These measures are estimated to decrease SGF receipts by $4.0 million in FY 1988, and $8.0 million in FY 1989. The fiscal impact of these provisions would be fully phased in FY 1997.

-- The Commission believes that Missouri's allowing the single-factor apportionment option presents a serious problem for Kansas and that jobs have been lost because of it. While Kansas should not immediately abandon UDITPA, the Department of Revenue should study the business-location situation along the Kansas-Missouri border and make recommendations to the Legislature about how Kansas can respond.

-- The Legislature should consider appropriate reductions in corporation income tax rates to make Kansas more competitive with neighboring states.

The Task Force also studied a number of other proposed tax changes that could enhance economic development in Kansas, including exempting the interest from general obligation bonds from the state income tax, adopting a single-factor apportionment option, and restoring corporate federal deductibility. However, given the realities of the state's fiscal situation, the Commission is not recommending these changes at this time.

The Commission wishes to place the highest priority possible on extension of the sales and use tax exemption for manufacturing machinery and equipment to the entire state. The Commission believes that this change would significantly improve the perception of the Kansas business climate. Economic activity would increase as a result of more manufacturing activity in Kansas. It is therefore imperative, particularly given the current economic situation, that this economic development initiative be enacted.

Adoption of these recommendations is also needed to stop an apparent trend of corporations choosing to locate elsewhere. A more competitive tax structure, coupled with an aggressive marketing strategy by the Department of Commerce to convince outside firms of the numerous advantages of locating in Kansas, can reverse the trend and serve as a crucial tool in Kansas' economic development strategy.

WORKERS' COMPENSATION IN KANSAS

The amount of workers' compensation premiums paid by Kansas employers, as measured in direct premiums earned, increased by 21.9 percent for calendar year 1985 over 1984. Payment of the premiums effectively constitutes a "tax" on Kansas businesses, and the annually increasing rates therefore are disincentives for economic development.

The Commission has concluded that there are a number of problems with the workers' compensation system in Kansas that need to be addressed by the 1987 Legislature.

The system literally has become swamped in recent years, with over 5,000 pending claims, representing a 48 percent increase since 1984, now facing the seven administrative law judges. Labor, industry, the Division of Workers' Compensation, and the legal profession proposed a wide variety of possible solutions to the backlog, including the following:

-- increasing the number of administration law judges;

-- redefining existing geographic areas of jurisdiction;

-- empowering the Director to mandate venue for certain cases;

-- making any additional judges "roving";

-- increasing judges' pay to reduce turnover; and

-- finding ways to relieve backlog beyond increasing the number of judges.

Repetitive use injuries, including carpal tunnel syndrome, represent a significant part of the recent flood of claims. The Commission believes that the way these injuries are now treated represents one of the most obvious inequities in the system, with maximum awards often being issued to claimants who have sustained only minimal loss of overall function. A number of recommendations again were offered by conferees.

-- Amending the definition of disability to incorporate the capability of the injured worker to retain and perform all kinds of employment not just employment of the same type and character.

-- Adding a specific definition of repetitive use injuries to the functional disability schedule.

-- Creating a specific legislative limitation on carpal tunnel awards.

The static statutory cap on liability for partial and total disability, in place since 1974, has combined with steadily increasing maximum weekly benefits to create another inequity in the system. Injured workers qualifying for the maximum weekly benefit can run up against the caps long before the term of payment provided for in K.S.A. 44-510e(a). The recommendation of one conferee would increase the present caps, $75,000 for partial disability and $100,000 for total disability, to compensate for the increased cost of living since 1974.

There is also a lack of incentive for both labor and industry to engage in good faith vocational rehabilitation, according to conferees. The Task Force believes that substantial steps need to be taken to encourage both parties to undertake rehabilitation, through changes initiated by the Director, the Legislature, or both.

Since overall rates have increased by 10 and 9 percent in 1985 and 1986 respectively, the question of how rates are established in Kansas came under some scrutiny. Various options may need to be explored in the future, including giving the Insurance Commissioner additional authority to assure that the rates, including the medical cost trend factors, accurately reflect Kansas experience, and the authority to mandate premium rollbacks.

These are just a few of the numerous workers' compensation issues that need to be addressed. Of the $116 million paid out in FY 1986, a significant portion may have ended up in the hands of those not deserving it rather than in the hands of those being under-compensated.

Besides the existing inequities within the system, the avalanche of claims and steadily increasing premiums represent a serious threat to economic development in Kansas. However, the Commission decided not to make specific recommendations regarding workers' compensation, but instead to establish a special task force to study all aspects of the system and its administration in Kansas. The task force will consist of seven members, with no lobbyists, presidents of trade organizations, paid professional representatives of interest groups, consultants, or lawyers with significant workers' compensation practices, and will be empowered to hire a consultant. Because it is critical that significant progress be made toward resolving the workers' compensation issues during the next session, the task force should hold hearings throughout January and February, before reporting back to the standing Committees on Economic Development in early March.

TAX CONCESSIONS IN STATE AND LOCAL ECONOMIC DEVELOPMENT

DR. LARRY C. LEDEBUR
WILLIAM W. HAMILTON

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II. EXISTING EVIDENCE

Variations in business tax liabilities among states and municipalities are unlikely to play a major role in business site selection, location, or relocation decisions. Existing studies, with a striking degree of consistency, have failed to demonstrate a significant relationship between taxes and location decisions of business firms.[1]

Studies:

Major reviews of literature on tax concessions document this conclusion.

> "No empirical analysis has been able to find a significant relationship between local taxes and economic development."[2]

> "Only 3.3 percent of the new firms (in a survey), none of the expansions, and 6.3 percent of the new branch plants indicated they would have located in another state in the absence of tax incentives"[3]

> "Tax levels are either not applicable or of low concern to the typical relocating plant... "...[O]nly about a quarter to a third of the relocating plants actually move to new locations with lower property tax rates. The bulk, 40 to 50 percent, move within the same taxing jurisdiction or to locations in towns with similar tax rates. Another quarter move to jurisdictions with higher property tax rates"[4]

> "Despite the perception among policy makers that taxes matter and, therefore, a good incentive package should contain tax concessions, the overriding conclusion from previous research is that taxes do not play a significant role in a firm's choice of location *among regions*. Research also has shown that the other nontax controlables contained in state and local industrial incentive packages play little or no role in a firm's *interregional* choice of location. But as the geographical area diminishes, the importance of taxes and fiscal incentives increase.

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[1] For reviews of these studies see: Larry C. Ledebur and David W. Rasmussen, "State Development Incentives" (Urban Institute Report, May 10, 1983) and George A. Reigeluth and Harold Wolman, "The Determinants and Implications of Communities Changing Competitive Advantages: A Review of Literature" (Urban Institute Report, January 9, 1979).

[2] Michael Kieschnick, *Taxes and Growth: Business Incentives and Economic Development*, (Washington, D.C.: Council of State Planning Agencies, 1981).

[3] Roger Vaughan, *The Urban Impacts of Federal Policies: Vol. 2, Economic Development* (Santa Monica: The Rand Corporation, June 1977).

[4] Roger Schmenner, "*The Location Decisions of Large, Multi-Plant Companies*", Mimeo, 1980.

[10] Conclusions of Barry M. Rubin and C. Kurt Zorn, "Sensible State and Local Economic Development," *Public Administration Review*, March/April 1985, 333-339. As sources supporting these conclusions, the authors cite: Michael Wasylenko, "The Location of Firms: The Role of Taxes and Fiscal Incentives," in *Urban Government Finance*, Roy Bahl, Ed. (Beverly Hills, California: Sage Publications, 1981), 155-190.

February 11, 1987

TESTIMONY BEFORE THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION
IN SUPPORT OF SB 65 AND SB 71

Charles E. Krider
Professor, School of Business
Director, Business Research
Institute for Public Policy and Business Research
University of Kansas

I appreciate the opportunity to appear before you to support Senate Bills 65 and 71. The purpose of this legislation is to improve the state's economic development efforts by making Kansas more competitive on taxes in comparison to other states. SB 71 will phase out the state sales tax on manufacturing machinery and equipment over a four-year period. SB 65 will reduce the cost to the state of the sales tax phase-out by removing a portion of the tax credit relating to job expansion and investment in enterprize zones. Taken together, the two bills will improve the tax competitiveness of Kansas relative to other states, particularly the five states surrounding Kansas.

TAX INCENTIVES

One major conclusion of the *Kansas Economic Development Study* is that tax incentives should not play a major role in the state's economic development strategy. This is because there is no convincing evidence that taxes have a dominant or significant impact on business location decisions in most cases. Rather, firms will make a location decision based upon such fundamental factors as proximity to markets or suppliers, the availability

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of qualified employees, transportation costs, energy costs, etc. It is only when such considerations are roughly equal that tax incentives will affect location decision. Rather than the driving force behind location decisions, it appears that tax incentives are more likely used to break ties between competing locations that are roughly equal on other more important dimensions. This conclusion is supported both by surveys of businesses on the factors that influence location decisions and on the academic literature on firm location determinants. In many cases tax incentives are given to firms that would have located in the state even in the absence of such incentives. Under these circumstances, it is important for Kansas not to offer tax incentives to the extent that its ability to offer important services to business would be hindered.

On the other hand, it is important for Kansas to be competitive on taxes. Our basic conclusion is that Kansas should strive to be about average on business taxes in comparison to other states, particularly those in this region. Kansas should not strive to offer more tax incentives than other states but rather should seek a more limited objective of being roughly in line with tax incentives offered by other states. Essentially, the strategy should be to identify those areas where Kansas business taxes "stand-out" in comparison to competing states. We should be identifying the "sore thumbs" in the tax code that stand-out and possibly signal that Kansas is a high tax state or a state that is not concerned with developing a hospitable environment for business.

In addition, we must be concerned with major areas of the state that are contiguous to other states with more generous tax incentives. It is important for these areas that Kansas be roughly competitive on taxes. In particular. for firms deciding on a location between western Missouri or eastern Kansas, many of the fundamental factors such as availability of skilled labor, transportation, energy costs, etc., are likely to be approximately equal. In such cases, taxes could be a more significant factor in location decisions. This concern is sufficiently serious that the state should be identifying anomalies in the tax code that stand out and make Kansas less competitive than surrounding states. Last year a constitutional amendment removed one such anomaly--the property tax on inventories. One major anomaly remaining in the Kansas tax code is the sales tax on manufacturing machinery and equipment.

THE SALES TAX

The major reason for phasing out the sales tax on business equipment and machinery is to improve Kansas competitive position on business taxes. Of most significance, is that Kansas is the only state in this region that has such a sales tax. After July of this year, Kansas will be the only state in this region with a state sales tax on manufacturing equipment and machinery. Iowa, Missouri, Colorado, Nebraska, and Oklahoma all will have state-wide exemptions on sales tax for manufacturing equipment and machinery. Iowa is ending its sales tax in this area effective July, 1987; the other states already have such an exemption. Thus, it is clear that capital investments in Kansas will cost a firm 4 percent more off the top in comparison to a similar investment in other states. The competitive position of Kansas would be improved if the sales tax on manufacturing equipment and machinery would be phased out as proposed in Senate Bill 71. This would put Kansas on more competitive footing with Missouri and other states on business taxes.

A second reason for this recommendation, which was also contained in the *Kansas Economic Development Study,* is our concern that Kansas is unnecessarily signalling the business community that it has a less favorable business climate than do other states. Firms with options on where to locate may interpret this tax as an indicator that the state in general is less concerned with fostering economic development than are competing states.

Third, Senate Bill 71 would encourage economic development throughout the state by reducing the cost of capital investments for all firms. If the state reduces the cost of investing in manufacturing equipment and machinery then more such investment should be forth coming. This is particularly important in a period of rapid technological change when firms must continually invest in equipment and machinery to remain competitive.

Finally, it should be noted that since January 1, 1987, purchases of manufacturing machinery and equipment in enterprise zones are exempt from the state sales tax. One hundred thirty-eight cities and 4 counties already have enterprise zones and it can be expected that other communities will establish enterprise zones in order to qualify for the sales tax exemption. It would simplify the entire process for business if the exemption would be made state-wide and not tied to enterprise zones.

JOB EXPANSION AND INVESTMENT CREDIT

Senate Bill 65 would repeal the extra tax credit associated with job creation and investments in enterprize zones. Under current law a firm that invests in a major expansion or new facility is eligible for a $100 tax credit for each job created and $100 tax credit for each $100,000 investment. If the investment is made in an enterprize zone the credits increase to $350 each. Under SB 65 the extra credit associated with enterprize zones would be repealed and the credits would remain at $100 statewide.

The major reason for this proposal is to reduce the cost of phasing out the sales tax on business machinery and equipment. The state would be giving up part of one tax incentive in order to enact a more important tax incentive. Rather than simply adding on additional tax incentives we believe it is appropriate for the state to reduce an existing incentive that is not particularly effective in promoting economic development.

A recent study at the Institute for Public Policy and Business Research concluded that the job expansion and tax credit act was not cost effective in 1985. Our best judgment is that the costs of the JETC exceed the benefits by a factor of 2.3 to 1. That is for every 2.3 dollars lost to the state through tax credits there was a gain of one dollar in increased revenues to state/local governments. This conclusion was based on an assumption that 3.3 percent of the firms claiming the credit would not have invested in Kansas without the special inducement of the JETC. This response rate is based upon a national estimate of how responsive firms are to tax incentives. The break-even point for states/local governments combined would be at an eight percent response rate; the break-even point for the state alone would be a 19 percent response rate. We believe it is very unlikely that the JETC has such a substantial impact on firms investment decisions.

Given the questionable cost effectiveness of the job expansion and tax credit act as a whole it is very unlikely if the extra credit in the enterprise zones could be beneficial for the state. Increasing the credit to $350 for each job and $350 for each $100,000 dollar investment substantially increases the cost to the state over a ten year period without much corresponding increase in benefits. An additional $250 credit, even over ten years, is simply too small to be the determining factor in major investment decisions.

It should be noted that the sales tax refund in 1985 is also not cost effective at a response rate of 3.3 percent by firms. The cost/benefit ratio is 2.09, which is only slightly better than the 2.30 for the job expansion and investment credit. AT a response rate of 8 percent the cost/benefit ratio is a positive .92 for the sales tax refund, indicating that for every $.92 lost in revenue the state and local government gained $1.00. I expect the response rate of firms to be higher for the sales tax exemption than for the job expansion and investment credit.

Overall, Senate Bill 71 and Senate Bill 65 embody an appropriate trade-off for the state. The result would be a significant improvement in an area of tax incentives where the state is clearly out of line with competing state while giving up a portion of a tax incentive that is not particularly cost effective. It is important to note that the job expansion and tax credit act would still remain at a uniform $100 on a state-wide basis.

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

February 11, 1987

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment and Taxation

by

Bud Grant
Vice President

Mr. Chairman, members of the committee. My name is Bud Grant and I appreciate the opportunity of appearing before you today in support of Senate Bill 71.

> 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.

To quote from the Kansas Economic Development study's findings, strategy and recommendations, prepared by the Institute for Public Policy and Business Research at the University of Kansas "...Kansas will lose its attractiveness relative to competing

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states if its tax structure and levels contain significant anomalies or fail to send the right "signals" about business climate. In particular, the state must avoid having a tax not generally found in other states that negatively impacts business in any significant way. The Kansas tax structure does contain some impediments to business development, and the tax burden on businesses perceived as slightly high."

There is little doubt that one of the major anomalies which exists in the Kansas tax structure is the state's practice of collecting sales and use tax on machinery and equipment. Kansas is the only state in this region which does not exempt all machinery and equipment used in manufacturing from the sales tax. Missouri, Colorado, Iowa, Nebraska and Oklahoma have this exemption. In fact, by the end of 1984, 39 states exempted machinery and equipment from the sales and use tax.

Kansas took a very important first step towards achieving this total exemption when the legislature last session passed legislation which exempts this machinery when the firm is located within an enterprise zone. This bill would take the second step and extend this exemption to all Kansas manufacturing businesses. Doing so will offer significant encouragement to Kansas manufacturers to modernize at a time when competition requires the most up to date facilities, and to expand and create the additional jobs we so need in Kansas today.

Mr. Chairman, I would mention one additional point. The Redwood-Krider report also recommended that this exemption apply to computers used in business because of its anticipated affect of creating jobs in the service in high technology sectors. I recommend that this point be part of the committee's deliberations.

Thank you for the opportunity of appearing before you today and I would be pleased to attempt to answer any questions.

Testimony
Assessment and Taxation Committee
Kansas Senate
Wednesday, February 11, 1987

By Larry E. Danielson
Kansas Industrial Developers Association

Re: SB 71

Chairman Kerr, members of the committee, I am Larry Danielson, Vice President of the Kansas Industrial Developers Association. I'm here today to endorse S.B. 71 that will eliminate sales and use tax on manufacturers machinery and equipment.

K.I.D.A. is an association representing 130 Kansans charged with bringing new jobs and investments to their respective communities in the capacity of economic development, chamber of commerce executives and dedicated volunteers. In our day-to-day work, we directly assist local industries with expansion opportunities and new industry with location opportunities in our communities. We are not alone - there are over 12,000 organizations in the country doing the same type of thing - it is a very competitive marketplace.

Kansas is one of a few states that continues to charge sales and use tax on manufacturers machinery and equipment. As you can see, we are in a minority charging this regressive tax on primary employers in our state.

For over three years, we have had an excellent mechanism to eliminate sales and use tax on manufacturers machinery and equipment for companies locating or expanding in certified enterprise zones.

With only a handful of exceptions, most Kansas manufacturers are located in enterprise zones and have been able to use this valuable incentive for job creation in our state. By adopting this bill we are extending this incentive to all manufacturers throughout the state - if they are not in an enterprise zone.

As many Kansas manufacturers position themselves to compete in world-wide markets, we must provide a competitive environment for Kansas firms to modernize their equipment and place themselves on the cutting edge of technology. Approval of S.B. 71 will not only send a signal to existing and interested firms that Kansas is strengthening our business climate but provide a needed stimulus for new capital investment throughout all areas of our state.

Thank You.

Testimony
Assessment and Taxation Committee
Kansas Senate
Wednesday, February 11, 1987

By Larry E. Danielson
Kansas Industrial Developers Associaton

Re: SB 65

Chairman Kerr, members of the committee, I am Larry Danielson, Vice President of the Kansas Industrial Developers Association. I'm here today to oppose S.B. 65 which calls for a major stepbackward in our efforts to stimulate economic development in our state.

Our reason for debating this bill today comes from the work of the 1986 interim recommendations of the Legislative Economic Development commission. The Capital Markets and Tax Committee made a recommendation to offset tax revenue projected to be lost from eliminating manufacturers machinery and equipment by reducing corporate income tax credits to firms adding needed jobs and capital investment in enterprise zones.

The other recommendation from this group called for consideration to lower the corporate income tax to make Kansas more competitive with neighboring states. This is an acknowledgement that we, in the economic development business have known for the past few years - Kansas corporate income taxes are out of line with our competition.

Enterprise zone tax credits are the only way we can compete head-to-head with our neighboring states. Without enhanced credits in enterprise zones, we find our situation getting worse - at a time when we are striving to improve our situation with many bold new initiatives taken by our legislature in the past 12 months.

S.B. 65 represents a knee jerk reaction. In an attempt to take one step forward in improving our business climate we don't need to take two steps backward.

K.I.D.A. believes the corporate income tax question is perhaps the most important issue for economic growth in our state. We need to commission Kansas, Inc., to conduct a comprehensive study to analyze our corporate income tax structure and compare Kansas to the competition.

We do not need to eliminate one of the most important incentives we have in our state - to meet our competition by providing significant tax credits to companies that are expanding, bringing new investment to Kansas and most importantly, providing jobs for our citizens.

We respectfully request that S.B. 65 be killed in committee. Let us get a good grasp on our corporate income tax structure before we make any changes - Let's not make radical changes without all the facts.

Thank You.

TAXATION

TAXATION AND TAX STRUCTURE IN KANSAS

After hearing testimony from a variety of businesses and business-location conferees, the Capital Markets and Taxation Task Force has concluded that Kansas' tax structure and tax incentives should be viewed as an integral part of any successful economic development program. The ability of the state to appear competitive in its tax structure can send an important signal to outside firms and affect expansion plans of current Kansas businesses. Despite hearing testimony that most tax incentives are not cost-effective, the Task Force believes that Kansas should take steps to remove burdensome tax features and assure that the tax structure remains regionally competitive.

Some corporations recently have chosen not to locate in Kansas after analyzing the tax structure of bordering states. The Task Force believes that this problem has arisen in part because of several features of Kansas' corporation income tax that make the effective rate significantly higher than any of its neighbors' effective rates, especially for large and very profitable corporations.

-- Kansas' 6.75 percent rate for all corporations with KAGI of $25,000 or more does not compare favorably with the 5 percent across-the-board rate in Missouri, Oklahoma, and Colorado.

-- Of the 43 states with corporation income taxes, Kansas is one of 37 states that does not allow federal taxes paid as a deduction. Missouri is one of six states with corporation income taxes that does allow that deduction. This deduction lowers Missouri's effective rate under current law to 2.7 percent.

-- Kansas and all of its neighboring states have adopted UDITPA, the Uniform Division of Income for Taxation Purposes Act. Three factors -- sales, payroll, and property -- are equally weighted when apportioning the amount of a corporation's income attributed to Kansas. Missouri, however, allows corporations the option of computing liability either under UDITPA or under a single-factor (sales) formula.

These distinctions in the states' corporation income taxes have combined to lead some publicly-held corporations, unable to justify payment of Kansas taxes, to locate in neighboring states, especially Missouri.

Another area in which Kansas compares unfavorably is that it charges sales tax on manufacturing machinery and equipment. Such equipment has been subject to a refund of the sales tax when located within an enterprise zone. However, the value of the refund was diminished by the time lag between initial payment of the tax and receipt of the refund. Occasionally, this delay has proven to be a burden for some corporations. Beginning January 1, 1987, such equipment installed within an enterprise zone will be exempt from sales taxes.

Table 1, below, compares some tax features of Kansas and neighboring states with respect to the characteristics mentioned above.

TABLE 1

Selected Tax Features for Kansas and Neighboring States

	Kansas	Missouri	Oklahoma	Colorado	Nebraska
Corporation Income Tax					
Rates -- Maximum	6.75%	5.00%	5.00%	5.00%	6.65%
Rates -- Minimum	4.50%	5.00%	5.00%	5.00%	4.75%
Fed. Tax Deductible	No	Yes[1]	No	No	No
UDITPA	Yes	No[2]	Yes	Yes	Yes
Credits --					
Job. Exp.	Yes	Yes	No	No	No
Investment	Yes	Yes	Yes	No	No
Relative Collections[3]	$ 65.17	$ 31.93	$ 31.66	$ 31.46	$ 30.49
Sales and Use Taxes					
Rate	4.000%	4.225%	3.250%	3.000%	3.500%
Local Taxes	Yes	Yes	Yes	Yes	Yes
Exemptions --					
Manufacturing Mach.	No	Yes	Yes	No	No
Enterprise Zones	Yes	No	Yes	No	No

Notes:

1) This deduction lowers Missouri's effective rate under current law to 2.7 percent.

2) Missouri, although it has adopted UDITPA, allows the option of using only the sales factor.

3) FY 1985 collections per capita.

Source: Commerce Clearing House, State Tax Guide, 2d. Ed.

In order to make Kansas more competitive with surrounding states, the Task Force believes that it is essential that all tax incentives be as cost-effective as possible for the state and local governments. The Task Force, therefore, asks the Commission to make the following recommendations to the 1987 Legislature:

-- Extend the sales and use tax exemption for manufacturing machinery and equipment to the entire state. The exemption currently exists only within enterprise zones. The Department of Revenue has estimated that this would cause a $12-18 million reduction in State General Fund receipts. The Task Force recommends that the exemption be funded in part by repealing the enterprise zones' enhancement of job expansion and investment credits, determined to be not cost effective by Task Force consultant, Charles Krider. The Department has estimated that receipts would increase by $2-3 million in response to such legislation. Thus, the combined cost of the two elements of this recommendation would be $9-16 million.

-- The Task Force believes that Missouri's allowing the single-factor apportionment option presents a serious problem for Kansas and that jobs have been lost because of it. While Kansas should not immediately abandon UDITPA, the Department of Revenue should study the business-location situation along the Kansas-Missouri border and make recommendations to the Legislature about how Kansas can respond.

-- The Legislature should consider appropriate reductions in corporation income tax rates to make Kansas more competitive with neighboring states.

The Task Force also studied a number of other proposed tax changes that could enhance economic development in Kansas, including exempting the interest from general obligation bonds from the state income tax, adopting a single-factor apportionment option, and restoring corporate federal deductibility. However, given the realities of the state's fiscal situation, the Task Force is not recommending these changes at this time.

The Task Force wishes to place the highest priority possible on extension of the sales and use tax exemption for manufacturing machinery and equipment to the entire state. The Task Force believes that this change would significantly improve the perception of the Kansas business climate. Economic activity would increase as a result of more manufacturing activity in Kansas. It is therefore imperative, particularly given the current economic situation, that this economic development initiative be enacted.

Adoption of these recommendations is also needed to stop an apparent trend of corporations choosing to locate elsewhere. A more competitive tax structure, coupled with an aggressive marketing strategy by the Department of Commerce to convince outside firms of the numerous advantages of locating in Kansas, can reverse the trend and serve as a crucial tool in Kansas' economic development strategy.

Greater Topeka Chamber of Commerce

ACCREDITED
CHAMBER OF COMMERCE
CHAMBER OF COMMERCE OF THE UNITED STATES

Testimony before the Senate Assessment and Taxation Committee

By: Christy Young
Vice President Government Affairs
Greater Topeka Chamber of Commerce
February 10, 1987

Chairman Kerr and members of the committee:

The Greater Topeka Chamber of Commerce agrees with the Commission on Kansas Economic Development that eliminating the sales tax on manufacturing machinery and equipment is an incentive to the growth of existing companies and the development of new manufacturing in Kansas. As you know, this incentive is currently offered to firms who locate in local enterprise zones. And, in addition, those firms are eligible to receive a $350.00 tax credit for each new employee and a $350.00 credit for each $100,000 of investment, as long as the credit does not exceed 50% of their income tax liability.

Therefore, Mr. Chairman, it is difficult for me to speak totally in favor of Senate Bill 71 when Senate Bill 65 sacrifices those tax credits as a trade off to finance the sales tax exemptions in Senate Bill 71. In Topeka, the majority of our industrial property is located within our local enterprise zone. Those firms who locate or expand within this zone currently receive both the sales tax exemption and the tax credits. Today, Topeka has four firms at various phases of expansion with substantial increases in employment; all are within the Topeka enterprise zone. It will be unfortunate to tell them that the tax credits allowed now, will soon not be available.

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I'm sure these four companies, as with other firms, did not make their decision to expand entirely on tax exemptions and credits. However, incentives such as these contribute to the dollars they utilize for capital investment from which we see the growth of these companies and increased employment.

The Greater Topeka Chamber of Commerce does support Senate Bill 71, but we hope not at the expense of the tax credits currently allowed in enterprise zones which Senate Bill 65 strikes.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND PLANNING
MUNICIPAL OFFICE BUILDING 701 NORTH 7TH STREET
KANSAS CITY KANSAS 66101

ECONOMIC DEVELOPMENT DIVISION 573-5730

MEMORANDUM

TO: Dean H. Katerndahl

FROM: Frank G. Viscek

DATE: February 6, 1987

RE: **Enterprise Zone Impact**

Over the past three years, the City of Kansas City, Kansas has benefited from 130 Major New Commercial/Industrial Developments (i.e., over $100,000) which resulted in $1,171,764,000 in new private investment throughout the community. Of these major developments, 78 with an aggregate investment of $1,102,603,000 have been located within Enterprise Zones. Percentage wise, over 60% of the major developments and 94% of new investment dollars have taken place in these zones.

Clearly, the City's Enterprise Zones are a significant factor in the community's economic growth. As part of our total development package, the Enterprise Zone incentives have given us a competitive edge on many occasions, especially when KCK sites are competing with Kansas City, Missouri locations.

In the future, we expect the Enterprise Zone incentives to be a significant development tool in attracting developers to the I-435 corridor, and new industrial parks. Any changes in the legislation could sharply curtail our efforts in these areas as well as hinder the on-going redevelopment of our older urban areas.

FGV:lmw

may establish a capital improvements fund and such other funds deemed necessary.

History: L. 1981, ch. 63, § 12; July 1.

12-17,106. Same; severability. If any provision of this act or the application thereof to any persons or circumstances is held invalid, such invalidity shall not affect other provisions or application of the act which can be given effect without the invalid provisions or application and to this end the provisions of this act are declared to be severable.

History: L. 1981, ch. 63, § 13; July 1.

ENTERPRISE ZONES

12-17,107. Title of act. This act shall be known and may be cited as the Kansas enterprise zone act. 4-22-82

History: L. 1982, ch. 75, § 1; July 1.

12-17,108. Enterprise zones; purpose of act. The purpose of this act is to expand and renew the local economy and improve the social and economic welfare of residents in economically distressed zone areas located within the cities of the state of Kansas, by providing incentives for business and industry to develop new business and expand existing business within economically distressed areas and thereby create new jobs and sources of income, particularly for disadvantaged workers.

History: L. 1982, ch. 75, § 2; July 1.

12-17,109. Same; designation of zone; procedure. The governing body of a city seeking to designate an area located within the city as an enterprise zone shall submit to the secretary of the department of economic development a resolution requesting such area be approved as an enterprise zone. The secretary shall review the resolution and any evidence submitted therewith to determine whether such area meets the criteria listed in K.S.A. 12-17,110. The secretary shall approve or disapprove the resolution by written findings of fact and shall notify the governing body of the city submitting the resolution of such determination. Upon the approval or disapproval of the resolution, the secretary shall transmit such findings to the governing body of such city. If the resolution is approved, the secretary shall transmit such findings and approval, to all affected state departments and agencies and shall notify such departments and agencies that the provisions of K.S.A. 12-17,111 shall be effective for the authorized enterprise zone in accordance with the provisions of this act. The secretary shall have 30 days from receipt of such resolution to review, approve or disapprove its compliance with K.S.A. 12-17,110 and if applicable, transmit written notice of approval. Upon expiration of the thirty-day period, if the secretary has taken no action, the designating resolution shall be deemed approved and written notice of the automatic approval shall be transmitted to all affected state departments and agencies.

History: L. 1982, ch. 75, § 3; July 1.

12-17,110. Same; resolution submitted to secretary of department of economic development; criteria for approval. The secretary of the department of economic development shall approve a resolution submitted pursuant to K.S.A. 12-17,109 only if:

(a) The area is within the corporate limits of a city; and

(b) the boundary of the area is continuous and includes, if feasible, vacant or underutilized lands or buildings which are easily accessible to residents of the area; and

(c) (1) the area has a population according to the most recent census, of at least 4,000, if any portion of the area is located within a standard metropolitan statistical area, as defined by section 103A(1)(4)(B) of the federal housing and community development act of 1974, and which has a population of at least 50,000; or

(2) the area has a population of at least 2,500 in any other case; and

(d) (1) there is widespread poverty, unemployment, and general distress in the area; or the average rate of unemployment in the area for the most recent eighteen-month period for which data is available was at least 1.5 times the average state rate of unemployment for such eighteen-month period; or at least 70% of the residents living in the area have incomes below 80% of the median income of the residents of the city as determined under section 119(b) of the housing and community development act of 1974; or the population in the area decreased by 10% or more between 1970 and 1980; and

(A) the governing body of the city finds that there is substantial deterioration, abandonment or demolition of commercial or residential structures in the area; or

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(B) the governing body of the city finds that there are substantial tax arrearages of commercial or residential structures in the area; or

(2) the area is located wholly within a city which meets the requirements for federal assistance under section 119 of the housing and community development act of 1974.

History: L. 1982, ch. 75, § 4; July 1.

12-17,111. Same; preference given to zones. (a) Preference shall be given to enterprise zones and businesses and other local incentive projects located therein in the provision of programs, funds and services administered by the secretary of the department of economic development.

(b) Preference shall be given to enterprise zones and businesses and other local incentive projects located therein in the provision of programs, funds and services not administered by the secretary, but which directly or indirectly impact the economic viability thereof, including, but not limited to, the provision of investment capital, the provision of maintenance services for infrastructure and the allocation of state and federal funds for social services.

(c) All state agencies, notified by the secretary of economic development pursuant to K.S.A. 12-17,109, shall review the rules and regulations which they administer which may negatively impact the economic viability of such enterprise zones, and shall take the necessary steps to waive or modify such rules and regulations in enterprise zones and businesses and other local incentive projects located therein, so long as such action does not adversely affect the health, safety or welfare of the public.

(d) The secretary shall prepare a report, for use by cities with enterprise zones, which will provide detailed information on how cities may provide incentives for and reduce barriers to economic growth within enterprise zones. Also, the secretary shall provide all possible technical assistance to cities in aiding their implementation of the purposes of this act.

History: L. 1982, ch. 75, § 5; July 1.

Article 18.—SIDEWALKS

Cross References to Related Sections:

Cities of 60,000 or more, see 13-1008a.

Cities of not less than 60,000, see 13-1008d to 13-1008h.

General improvement and assessment law, see ch. 12, art. 6a.

12-1801. Construction and repair. The cities of Kansas may provide for the construction, repair, condemnation, and reconstruction of sidewalks.

History: L. 1941, ch. 103, § 1; June 30.

Research and Practice Aids:

Municipal Corporations⚖269(4).

C.J.S. Municipal Corporations § 1048.

Law Review and Bar Journal References:

Special assessment plans in municipal corporations, 25 K.L.R. 286, 288, 289 (1977).

CASE ANNOTATIONS

1. Act mentioned in construing 12-6a08; arbitrary action found in assessment of costs; city enjoined. Davies v. City of Lawrence, 218 K. 551, 561, 545 P. 2d 1115.

12-1802. Plans and specifications. The governing body of the city shall, by ordinance, determine the plans, specifications (including widths and location in the street), for the construction, repair, and reconstruction of all sidewalks: *Provided,* That plans and specifications may be adopted by reference, in which case a copy or copies of the plans and specifications as adopted shall be kept on file in the city clerk's office and, if the city has a city engineer, in the city engineer's office, and shall not be changed or amended or added to without a readoption by ordinance.

History: L. 1941, ch. 103, § 2; June 30.

Research and Practice Aids:

Construction, ordinance, Vernon's Kansas Forms § 761.

CASE ANNOTATIONS

1. Sidewalk, formerly approved, condemned and reconstruction ordered; property owner's petition for injunction sufficient. Skaggs v. City of Pratt, 183 K. 424, 427, 428, 429, 327 P.2d 1083.

12-1803. Petition. When a petition signed by not less than ten citizens owning real estate in a precinct or ward in a city of the second or third class or by not less than twenty-five citizens owning real estate in a precinct or ward of a city of the first class, praying for the construction of a sidewalk or sidewalks in such precinct or ward is filed with the city clerk, the governing body may, in its discretion, by resolution, order such sidewalk or sidewalks constructed.

History: L. 1941, ch. 103, § 3; June 30.

Source or prior law:

13-1003.

KASB

KANSAS ASSOCIATION FOR SMALL BUSINESS
111 W. DOUGLAS, SUITE 820 • WICHITA, KANSAS 67202 • 316-267-9984

TESTIMONY PRESENTED TO THE
SENATE ASSESSMENT AND TAXATION COMMITTEE
FEBRUARY 5, 1987

Senator Kerr, Members of the Committee, I am Mary Ellen Conlee, Executive Director for the Kansas Association for Small Business--an association of nearly 100 small businesses in Kansas. A majority of these companies are small manufacturers, industrial supply companies, foundries and others who service manufacturing companies. While some of our companies have 100 employees, most have less than 25.

The Kansas Association for Small Business supported the constitutional amendment which you are considering this morning. When its original version addressed property tax abatements for new business, we asked that the proposal be expanded to include existing business expansion. The legislature heard then, and hears now, that most economic growth will come from nurturing our small existing businesses. In fact three or four of our companies are planning expansions and looking at the tax incentives in this program.

Therefore, we ask that a program for property tax abatements be sensitive to the small business expansion as well as major expansions. A tax abatement on the purchase of a $50,000.00 machine or a $100,000.00 building expansion resulting in one or two more employees may provide the extra push necessary to begin a process of growth for a small aircraft parts manufacturer.

The IDB program, while supported by small manufacturers, often frustrated them because it was not responsive to small business growth. For example, a large aircraft company could receive IDB's and the resulting lower interest rates and tax abatements for a major expansion. A small manufacturer, in turn, often needed to purchase new machinery to respond competitively to that new growth, but had to pay for its expansion with going interest rates and full taxes because that expansion was too small for IDB's.

The Kansas Association for Small Business therefore asks that the local property tax abatement program be available for the small expansions in machinery and buildings. At this point the Board of our Association believes that programs for implementation can be designed at the local level--with each city representing its need for economic development in its implementation of the program.

We will work with local governing bodies to assure--

1. That small expansions are eligible

2. That paperwork be reasonable

3. That the abatement decision be made for a given period, i.e. five or ten years, without an annual review. In figuring the numbers on an expansion decision, a company cannot be faced with the abatement being pulled after a year or two.

We believe that a "but for" determination is unreasonable. Even with IDB's, the language written to support a "but for" commitment was usually an example of persuasive writing, not the compelling reason for a business decision. With IDB's the local tax incentives were only a part of a larger financial package. It is unlikely for an expansion of an existing business that the abatement would be truly a "but for" factor.

The implementation of the local property tax abatement program approved by the voters is a signal to business that expansion is encouraged. In summary, if the state decides to write implementing language or guidelines, we ask that you be sensitive to Kansas's existing small manufacturers.

TESTIMONY BEFORE THE SENATE

COMMITTEE ON ASSESSMENT AND TAXATION

TO: Senator Fred Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Terry Humphrey, Executive Director
Kansas Manufactured Housing Institute

DATE: February 11, 1987

Mr. Chairman and members of the Senate Transportation Committee, I am Terry Humphrey, Executive Director of the Kansas Manufactured Housing Institute and I appreciate the opportunity to appear before you on Senate Bill 71.

I come before you today to ask your support of an amendment to Senate Bill 71 that would help the manufactured housing industry in Kansas. Specifically, I would like to see an amendment that would reduce sales tax paid on new manufactured housing by 40%. As you know, the consumer of new manufactured housing pays sales tax on the full retail cost of the home, compared to the purchaser of site built housing where sales tax is paid on materials used in construction **only.**

Several years ago the manufactured housing industry in Kansas was a large industry with many manufacturers, suppliers and retailers however, in the past three years manufactured housing sales have dropped by 40% and today only five manufacturers and a few suppliers remain.

In conclusion, if the manufactured housing industry is going to stabilize and grow stronger it is important that the sales tax policy effecting manufactured housing be modernized. Therefore, I respectfully request your support of an amendment to achieve this goal. Thank you.

MANUFACTURED HOME PLANTS OF KANSAS - 1987

KIT Manufacturing Company
P.O. Box 738
McPherson, Kansas 67460

Liberty Homes, Inc.
P.O. Box 18
Yoder, Kansas 67585

Schult Homes Corporation
P.O. Box 409
Plainville, Kansas 67663

Skyline Corporation
920 W. 2nd Street
Halstead, Kansas 67056

Skyline Corporation
P.O. Box 719
Arkansas City, Kansas 67005

CLOSED MANUFACTURED HOME PLANTS IN KANSAS

BelleVista Homes - Closed 1984
Russell, KS - 85 Employees

Classic Designs, Inc.- Closed 1985
Hutchinson, KS

DMH Company, Inc. - Closed 1985
Newton, KS - 125 Employees

Commodore Home Systems Inc. - Closed 10/86
Ottawa, KS - 70 Employees

Zimmer Homes of Kansas - Closed 11/86
Newton, KS - 100 Employees

Guerdon Industries, Inc. - Closed 7/85
Manhattan, KS - 75 Employees

Marlette Homes - Closed 2/85
Great Bend, KS - 125 Employees

River Oaks Homes - Closed - 3/86
Hutchinson, KS - 275 Employees

DMH Company, Inc. - Closed 1985
Hutchinson, KS - 100 Employees

CLOSED SUPPLIERS IN KANSAS

Congoleum Corporation - Closed 6/86
Newton, KS - 110 Employees

Hajoca Corporation - Closed 9/86
Newton, KS - 10 Employees

Kansas Forest Products - Closed 1986
McPherson, KS - 10 Employees

Donovan Company - Cloased 1985
Newton, KS - 5 Employees

Commodore Shuts Down

By MELISSA BAUMAN

The local manufacturing plant for Citation Homes survived its parent company's Chapter 11 bankruptcy over a year ago but apparently cannot do the same with a lagging Kansas mobile home market.

Commodore Corporation of Goshen, Ind., announced today that mobile home production here will be shut down, leaving only sales and service at the Ottawa plant, according to Richard Barrett, general plant manager.

As a precursor to the decision, effective today, all 67 line employees were laid off Sept. 26. Of the 20 people employed in administration, sales and clerical positions, some will be retained for the sales operation, but Barrett is uncertain how many. The firm's annual payroll totals $1.3 to $1.4 million.

"They (the corporation) have been looking at this plant because of the market for probably 90 days, concerned about going into a down market," Barrett said, explaining that the firm's cyclical sales are at a high during spring and summer but slump during the winter months.

Regional sales in Missouri, Kansas, Colorado and Arkansas will continue from the area office with the product coming from one of four other plants nationwide, but freight costs to dealers for delivery obviously will increase, he said.

Just last July, the corporation and its subsidiary, Commodore Home Systems Inc., declared a Chapter 11 bankruptcy that allowed the firm to reorganize and keep in production four of the 12 mobile home manufacturing plants nationwide, including Ottawa. After reorganization, a fifth plant in Alabama was reopened.

The Chapter 11, however, is not responsible for the Ottawa plant's closing. Rather, Barrett and Marty Burik, regional salesman, blame primarily a poor Kansas mobile home market and city zoning laws.

The mobile home industry has mirrored Kansas' decline in agriculture, oil and aeronautics, Barrett said. More than a decade ago, Citation's goal was to capture a 4 or 5 percent share of the mobile home market.

Now it holds a 20 percent share of the Kansas market — the largest of

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Ottawa School Board Agenda

The Ottawa Board of Education will meet in regular monthly session at 7:30 tonight at the U.S.D. 290 office, 420 S. Main.

Its agenda includes:

- A report from Russ Testorff, a special education teacher at Ottawa High School, on a survey of OHS achievement center graduates.
- Annual approval of a district comprehensive plan for special education services.
- Consideration of a land transfer request from Central Heights U.S.D. 288.
- Consideration of [illegible] from the general fund to the vocational education fund. The transfer would pay for expenses of a house-building project of the East Central Vocational Cooperative. The general fund would be reimbursed once the completed house is sold.
- An update on projects funded by a $525,000 bond issue.
- A report on drainage problems at Ottawa Middle School.

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The Newton KANSAN

Second Front

Zimmer to suspend production here

Production at the Newton Zimmer Homes plant will be suspended later this week and will not resume until after the first of the year, according to Dick Roughton, local vice president and president of the Zimmer Manufacturing Group.

The suspension will leave approximately 100 workers jobless, Roughton said.

"We're going to build the product for our dealers in this area in another plant," Roughton told The Kansan today. "It is our intent to restart operations early next year, depending on the economy."

Between six and 12 employees will be retained while production is suspended, Roughton stated.

"Our sales effort will go on," he said. "We want to maintain our position in the market. We also will have some administrative people here."

Roughton said that a seasonal sales slowdown, a dwindling list of manufactured housing dealers and a struggling regional economy made the suspension necessary.

"It's a lack of orders," he said. "We have good dealers but they've got no business. They have the units, but no place to go with them. I would suppose that it is oil and farm related. Winter typically is a bad time for this industry. We're usually down from October until February or March. We've also had a loss of dealers in this market area — about 50 to 100 who have fallen victim to bad business."

The shutdown is in contrast to public statements by Roughton in June, when he told The Kansan that the plant would remain open and would increase production from three to five units per week, adding 10 to 15 jobs. At one time in the 1970s production was around 40 units per week before falling off.

Roughton indicated today that the production increases took place, but were derailed by regional economic problems.

No target date has been set for the resumption of production.

"We have no date," Roughton stated. "It all depends on what happens early in the year."

M E M O R A N D U M

TO: Mr. Gary L. Stotts, Acting Dir. Division of the Budget

DATE: February 10, 1987

FROM: Kansas Department of Revenue

RE: Senate Bill #65 As Introduced

Brief of Bill:

Senate Bill #65, as introduced, repeals the additional credit amounts awarded to facilities within enterprise zones, amending K.S.A. 1986 Supp. 79-32,153. The provisions of the act would apply for all businesses which qualify for the credits commencing after December 31, 1986.

Any investor who qualified for and claimed the higher credit before December 31, 1986, would be subject to the law preceding the effective date of this bill. All other investors would receive credits of $100 per qualifying employee and $100 per qualifying $100,000 investment.

The effective date of this bill would be from and after its publication in the statute book.

Fiscal Impact:

Based on the 18 enterprise zone credits claimed in process year 1985, and the $250 gain (i.e. $350 - $100) per employee and/or per $100,000 investment, this reduced credit amount would only increase state revenue $33,000 per year.

However, there are two major investment projects currently under construction which could become operational during tax year 1987 and, therefore, credits could be claimed during Fiscal Year 1988. The total investment of these two projects is estimated to be in the neighborhood of $860 million. This represents 8,600 units @ $250 or $2,150,000 in investment credits.

Total employment for these new projects is estimated at 1,500 employees which, at $250 each, totals $375,000 in job credits. Together, these projects alone total $2,525,000 in credits. Assuming the sum of the $100 amounts per unit they will claim plus this $2.5 million does not exceed 50% of their tax liability, the general fund would be richer by $2.5 million.

Fiscal Comment:

The two projects involved in this fiscal impact have been under construction for two to three years and represent a major long term investment and commitment to Kansas. The Department questions the propriety of altering this legislation at this time

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considering the investment of the two projects underway. It is respectfully suggested that the committee may wish to provide some sort of grandfather clause for projects begun before the effective date, even though the credits could not be claimed until after the project was operational.

Administrative Cost:

There would be no administrative cost increase for the Department of Revenue due to the enactment of this bill.

APPROVED BY:

Harley T. Duncan
Secretary of Revenue

HTD/ep

M E M O R A N D U M

TO: Mr. Gary L. Stotts, Acting Dir.
Division of the Budget

DATE: February 10, 1987

FROM: Kansas Department of Revenue

RE: Senate Bill #71
As Introduced

Brief of Bill:

Senate Bill #71, as introduced, reduces the amount of sales and compensating use tax collected from the sale of manufacturing machinery and equipment, amending K.S.A. 79-3603 and K.S.A. 79-3703. The tax would be reduced beginning July 1, 1987, in the following manner:

Fiscal Year Beginning	Percent of Gross Receipts
July 1, 1987	3%
July 1, 1988	2%
July 1, 1989	1%

On and after July 1, 1990, all sales of manufacturing machinery and equipment would be exempt from the collection of sales tax, amending K.S.A. 79-3606.

The effective date of this bill would be from and after its publication in the statute book.

Fiscal Impact:

Assuming 50 percent of new and used manufacturing machinery and equipment sales would be for enterprise zones, and therefore already exempt, the following table shows the range of impacts for annual growth rates between zero and 5 percent:

	Reductions in Sales Tax Collections (In $ Millions) At Annual Growth Rates of	
	0%	5%
1988	$ 3.0	$ 3.7
1989	6.0	7.7
1990	9.0	12.1
1991	12.0	16.9

The Bureau of Census' 1984 Annual Survey of Manufacture shows the following 1984 amounts for capital expenditures in Kansas for machinery and equipment:

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New	-	$562.9 million
Used	-	37.5
Total	-	$600.4 million

Previous Department estimates have been based on a 1982 figure of $443.7 million for new machinery and equipment because expenditures for used machinery and equipment was not previously available. Use of the new 1984 base alone will therefore increase this estimate by about 35% over any prior estimates released by the Department.

At the 1984 level of $600.4 million, a 4% tax rate would have produced collections of about $24 million. However, two factors need to be considered in this estimate:

1. Rate of growth -- Because of lower inflation and less real growth in the economy, post-1984 growth is expected to be less than pre-1984 growth rates.

2. Enterprise zone sales -- It is expected that a considerable amount of manufacturing machinery and equipment would be going to enterprise zones and would therefore, already by exempt under K.S.A. 1986 Supp. 79-3606(ee) enacted in 1986.

Attached Table 1 shows a number of ranges of possible fiscal impacts based on different annual growth rates from the base year 1984 and assumptions regarding the enterprise zone sales.

Administrative Cost:

The enactment of Senate Bill #71, as introduced, would create an annual expense of $62,618.00 for three fiscal years beginning Fiscal Year 1988 and continuing through Fiscal Year 1990. In addition, the Department would incur a one-time expense of $19,398.00 (see attached Tables 2 and 3).

The Department would need two Tax Examiner positions to prepare Balance Due letters (STD-55) to taxpayers who have inaccurately computed the returns. The Tax Examiners would adjust the accounts when the Balance Due letters are returned to the Department. The Tax Examiner II would answer telephoned and written taxpayer questions concerning the sales tax reductions and exemptions. The Tax Examiner I would prepare answers to correspondence from taxpayers concerning the exemptions and sales tax reductions. The Keyboard Operator I would be responsible for typing all of the correspondence for both Tax Examiners. The estimate of these costs is based upon the volume of telephone calls and correspondence from taxpayers to the Department when the tax rate was increased July 1, 1986.

The Annual Expenses (Table 2) include a cost of $6,642.00 for Notices to inform taxpayers of the reduction in the sales tax rate. This cost would be an annual expense for the three fiscal years beginning with FY 1988.

Administrative Comment:

The Department requests that a more specific definition for manufacturing machinery and equipment be provided. The present definition would allow almost any machinery and equipment to be included for the exemption.

APPROVED BY:

Harley T. Duncan
Secretary of Revenue

HTD/ep

TABLE 1

REDUCTION IN SALES TAX COLLECTIONS (IN MILLIONS).*

FISCAL YEAR (RATE)	PROPORTION OF SALES IN ENTERPRISE ZONES	ANNUAL AVERAGE GROWTH RATE (FROM CY 1984) 0%	1%	3%	5%
1988 (3%)	0%	$ 6.00	$ 6.25	$ 6.76	$ 7.30
	25	4.50	4.69	5.07	5.48
	50	3.00	3.13	3.38	3.65
	75	1.50	1.56	1.69	1.83
	100	0	0	0	0
1989 (2%)	0%	$12.01	$12.62	$13.92	$15.33
	25	9.01	9.47	10.44	11.50
	50	6.01	6.31	6.96	7.67
	75	3.01	3.16	3.48	3.83
	100	0	0	0	0
1990 (1%)	0%	$18.01	$19.12	$21.51	$24.14
	25	13.51	14.34	16.13	18.11
	50	9.01	9.56	10.76	12.07
	75	4.50	4.78	5.38	6.04
	100	0	0	0	0
1991 (0%)	0%	$24.02	$25.75	$29.54	$33.79
	25	18.02	19.31	22.16	25.34
	50	12.01	12.88	14.77	16.90
	75	6.01	6.44	7.38	8.45
	100	0	0	0	0

* From Sales of Manufacturing Machinery and Equipment

SENATE BILL #71
Annual Expenses
(Table 2)

I.	Salaries and Benefits		FY 1988
	1 Tax Examiner II	Salary	$17,262.00
		Benefits	3,062.00
	1 Tax Examiner I	Salary	$15,148.00
		Benefits	2,802.00
	1 Keyboard Operator I	Salary	$14,500.00
		Benefits	2,722.00
		Total	$55,496.00
II.	Contractual Services		
	1 Telephone Line Charge @ $40.00 per month		$ 480.00
		Total	$ 480.00
III.	Commodities (Recurring for 3 Fiscal Years)		
	92,000 Notices @ $.01 each		$ 920.00
	26,000 Address Cards @ $.02 each		520.00
	26,000 Envelopes @ $10.06 per M		262.00
	26,000 Postage @ $.19 each		4,940.00
		Total	$ 6,642.00
IV.	Summary Annual Expenses		
	Salaries & Benefits		$55,496.00
	Contractual Services		480.00
	Commodities		6,642.00
		Total	$62,618.00

One-Time Expenses
(Table 3)

			FY 1988
I.	Contractual Services		
	1 Telephone Installation		$ 207.00
	2 Telephone Receptacles @ $27.50 each		27.50
	2 Electrical Receptacles @ $48.50 each		97.00
		Total	$ 331.50
II.	Capital Outlay		
	2 Desks, 60" x 30" Executive Double-Pedestal @ $350.00 each		$ 750.00
	1 Desk, 60" x 30" Secretarial Double-Pedestal @ $500.00 each		500.00
	2 Chairs, Swivel Tile Arm, @ $190.00 each		380.00
	1 Chair, Steno posture, @ $125.00 each		125.00
	2 Calculators, 12 column, @ $106.00 each		212.00
	1 Electronic Typewriter (Panasonic, no-memory) @ $350.00 each		350.00
	2 Open Shelf Files, 90" x 15" x 36", 8-Shelf, Legal @ $200.00 each		400.00
		Total	$ 2,667.00
III.	Commodities		
	600,000 STD-16 Reporting Forms @ $5.50 per M		$ 3,300.00
	600,000 STD 16R Reporting Forms @ $11.00 per M		6,600.00
	50,000 STD-36 Reporting Forms @ $30.00 per M		1,500.00
	100,000 STD-55 Forms @ $50.00 per M		5,000.00
		Total	$16,400.00
IV.	Summary One-Time Expenses		
	Contractual Services		$ 331.50
	Capital Outlay		2,667.00
	Commodities		16,400.00
		Total	$19,398.50