

Approved \_\_\_\_\_

5/1/89

Date

x Keith Roe

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Representative Keith Roe at  
Chairperson

9:00 a.m./~~p.m.~~ on April 26, 1989 in room 519-S of the Capitol.

All members were present except:  
Representative Adam, absent

Committee staff present:  
Tom Severn, Research  
Chris Courtwright, Research  
Lenore Olson, Committee Secretary

Conferees appearing before the committee:  
Robert L. Burns, President, Washburn University  
Chris McKenzie, Douglas County Administrator  
Betty McBride, Cherokee County Treasurer  
Ernie Mosher, League of Kansas Municipalities  
Gerry Ray, Johnson County Board of Commissioners  
John Torbert, Kansas Association of Counties

Robert Burns testified in support of HB 2563, stating that it would enable the University to provide approximately \$534,000 annually for debt service on two new projects. The remaining income from the additional levy authority will be used for ongoing campus maintenance, remodeling and capital improvement needs. (Attachment 1)

Chairman Roe concluded the hearing on HB 2563.

Chris McKenzie testified in opposition to HB 2558, stating that they are concerned about the significant negative financial implications of this measure for Douglas County and the other governmental units for which the County collects ad valorem taxes. (Attachment 2)

Betty McBride testified on HB 2558, stating that they are definitely not opposed to legislation that will help ease the burden of reappraisal on owners of commercial real property, but feel there are some concerns with HB 2558 which need to be addressed before passage. (Attachment 3)

Ernie Mosher testified on HB 2558 and has concerns about the fiscal impact the bill would have on local governments. He also stated that this bill should be amended in several areas. (Attachment 4)

Gerry Ray testified in opposition to HB 2558, stating that in a year when we are under statutory fiscal limitations we cannot be asked to operate with further revenue reductions. (Attachment 5)

John Torbert testified in opposition to HB 2558, stating that this bill would be difficult, if not impossible, to administer and that they are concerned with the possible fiscal impact. (Attachment 6)

Chairman Roe concluded the hearing on HB 2558.

A motion was made by Representative Wagon; seconded by Representative Smith to amend HB 2563 to a 3.0 mill levy cap from 3.5 and exempt the subject levy from the reappraisal tax lid. The motion carried.

A motion was made by Representative Wagon; seconded by Representative Roy to pass HB 2563 favorably as amended. The motion carried.

The minutes of April 6, April 7, and April 8, 1989, were approved.

The meeting adjourned.





# WASHBURN UNIVERSITY OF TOPEKA

Office of the President  
Topeka, Kansas 66621  
Phone 913-295-6556

TESTIMONY BY ROBERT L. BURNS  
PRESIDENT, WASHBURN UNIVERSITY BOARD OF REGENTS  
ON HOUSE BILL 2563  
HOUSE COMMITTEE ON TAXATION  
April 26, 1989

Mr. Chairman and Members of the Committee:

Washburn University requests your endorsement of House Bill 2563. As introduced, this bill will raise the mill levy limitation on the University's Debt Retirement and Construction Fund from 2.25 mills to 3.5 mills. The purpose of this request is two-fold.

1. To enable the University to provide approximately \$534,000 annually for debt service on two new projects. The University is in the final planning stages of an addition to its law library and has begun planning an addition to the Henderson Learning Resources Center to house its public television station, KTWU. The total cost of these projects is estimated at \$6,350,000. The University anticipates raising \$1.6 million from private donations. It requires the additional mill levy authority so that \$4,750,000 in general obligation bonds can be issued to provide for remaining construction costs.

2. The remaining income from the additional levy authority will be used by the University for ongoing campus maintenance and remodeling requirements as well as future capital improvement needs. At the 3.5 mill levy limitation this would raise approximately \$496,000 in additional revenue for expenditures on needed campus projects.

The 3.5 levy limitation is designed to assist the University in meeting its capital requirements without the need of state dollars. These requirements would be met through these local tax funds and when available, private gifts and donations.

The University also requests that House Bill 2563 be amended to provide for an exemption on the levy for the Debt Retirement and Construction Fund from the statutory tax lid provisions contained in K.S.A. 79-5021 et seq. This will enable the University to proceed with the issuance of bonds during the upcoming fiscal year.

*4/26/89  
attachment 1*

**Mill Levy Requirements & Options**  
**Debt Retirement & Construction Fund**

**Reappraisal Impact**

Current Ad Valorem Income =		\$852,000 (2.25 mills)
Estimated Increase - Reappraisal (from KLRD)	x	1.42 (42 %)
		-----
Revised Income		\$1,209,840 (2.25 mills)
Increase due to Reappraisal		\$357,840
1 mill Prior to Reappraisal =		\$378,667
1 mill After Reappraisal =		\$537,707

**Levy Requirements**

Current Income		\$852,000
Additional Income Required		\$533,947 (Law Lib. & KTWU)
		-----
Total:		\$1,385,947 (Required)

Required Mill Rate  
@ \$537,707 per mill = 2.58; (increase of .33 mills over Current 2.25)

**Full 3.5 Mill Levy**

3.5 mills @ \$537,707 =		\$1,881,975 (Inc. of 1.25 mills)
less: Current Income		\$852,000
Additional Income Required		\$533,947 (Law Lib. & KTWU)
		-----
Potential "New" Funds		\$496,028 (for Maintenance and future Cap. Impr)

**Alternative 3.0 Mill Levy**

3.0 mills @ \$537,707 =		\$1,613,121 (Inc. of 0.75 mills)
less: Current Income		\$852,000
Additional Income Required		\$533,947 (Law Lib. & KTWU)
		-----
Potential "New" Funds		\$227,174 (for Maintenance and future Cap. Impr)

# Douglas County

TO: House Committee on Taxation  
FROM: *CM* Chris McKenzie, County Administrator  
SUBJECT: Opposition to House Bill 2558  
DATE: April 26, 1989

I am appearing before the Committee today on behalf of the Board of County Commissioners of Douglas County and the City of Lawrence to express opposition to House Bill No. 2558. We are most concerned about the significant negative financial implications of this measure for Douglas County and the other governmental units for which the County collects ad valorem taxes. Let me explain.

In 1988 Douglas County received tax protests regarding three (3) real estate and eleven (11) personal property tax statements. The three (3) real estate tax protests concerned only \$54,034 in taxes levied by the County, City of Lawrence, U.S.D. 497 and the State of Kansas. At the time of the filing of the protests the taxpayers paid \$46,423, or 85% of the amount owed. This amount was then distributed to the various taxing entities, including the State of Kansas, as provided by law.

We recently analyzed how many parcels of commercial property in Douglas County might become eligible to protest their taxes under HB 2558. There are presently 1,372 parcels of commercial real estate in Douglas County. Using the Department of Revenue's estimate of the decrease in the County's urban mill levy rate from approximately 169 mills to 92.58 mills and the County's current assessed valuation records, we estimate that 802 (or 58%) of these parcels will experience increases in valuation of 100% or more. The 1988 assessed valuation of these 802 parcels was \$17,373,770, and this property was assessed \$2,580,862 in ad valorem taxes by all taxing subdivisions in 1988. One half of the 1988 tax amount is \$1,290,431.

In 1989 these same 802 parcels are estimated as of April 21, 1989 to have an assessed valuation of \$52,738,040, a 203% increase over 1988. Applying the state estimated urban mill levy rate of 92.58 mills, this level of assessed valuation would generate \$4,882,487 in ad valorem taxes for all taxing subdivisions. Using these figures, the maximum effect (or worst case scenario) that could result from HB 2558 would be as follows:

1989 taxes due from 802 comm. properties	\$4,882,487
Less 50% of 1988 taxes of same properties	- <u>\$1,290,431</u>
Total amount unpaid during protest	\$3,592,056

Courthouse

Eleventh & Massachusetts / Lawrence, Kansas 66044 / (913) 841-7700

*4/26/89  
Attachment 2*

Based on the 1988 mill levies of the County, City of Lawrence, and U.S.D. 497, the estimated fiscal impact of the reduction in revenue would be spread as follows in 1989:

Douglas County	\$ 719,488
Lawrence	\$ 927,469
U.S.D. 497	\$1,914,207

While part of this revenue would be recovered eventually, a prudent person should wonder how certain local government functions will be financed during the period this "temporary" loss of revenue is being experienced. Furthermore, given the significant amount of revenue at stake, HB 2558 creates a handsome incentive for major commercial property owners to protest their taxes solely to earn the interest that would accrue from the investment of these monies that otherwise would go to the general funds of the counties, cities, school districts, townships, etc. that would be affected.

Other potential problems with HB 2558 include the following:

1. There would be additional computer programming costs that would be incurred. At present our tax payment system does not display the prior year's taxes, much less 1/2 of that amount. In order for the Treasurer's Office to determine the amount that would be due at the time of protest, additional programming would be necessary;
2. It could result in a significantly higher rate of protests to the State Board of Tax Appeals, resulting in higher costs to the State, longer delays, and losses of revenue to local taxing subdivisions;
3. It sets up different tax protest rules for different classes of property, creating greater incentives for commercial property owners to protest and providing less favored rules for residential and other property owners; and
4. HB 2558 unfairly shifts the cost of providing property tax relief to commercial property owners to local governments, and imposes little, if any, of these costs on the State.

In conclusion, for all of the above reasons we urge you to report HB 2558 unfavorably. Thank you.

Betty McBride, Treasurer

CHEROKEE COUNTY, KANSAS



COLUMBUS, KANSAS 66725

TESTIMONY

TO: Committee on Taxation  
RE: House Bill 2558  
FROM: Betty McBride, Cherokee County Treasurer  
DATE April 26, 1989

Mr. Chairman, members of the committee. I am Betty McBride Cherokee County Treasurer. I am appearing on behalf of the Kansas County Treasurer's Association and wish to extend our appreciation to this committee for the opportunity to express the County Treasurer's concerns with House bill 2558.

We definitely are not opposed to any legislation that will help ease the burden of re-appraisal on owners of commercial real property, but feel there are some concerns with House bill 2558 which need to be addressed before passage is considered by this committee.

House bill 2558 would allow commercial property owners whose 1989 property taxes exceed 1988 taxes at least 100% to pay under protest by paying one half of the 1988 taxes. Kansas statute prescribes that only half or full payment on taxes can be collected. Collecting one half of 1988 taxes would constitute a partial tax payment. Such payments could not be processed through regular programmed accounting procedures in the Treasurer's office, therefore new programs would have to be written. Computer program changes would also be necessary to access prior year records. All these changes would mean additional costs to Counties. Budgets for Counties, Cities and School Districts could be affected by the loss of tax revenue to their districts. Creating a serious impact

4/26/89  
Attachment 3

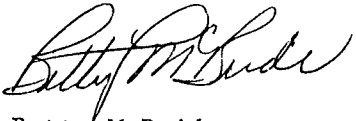
on some taxing districts. All budgets are frozen for the 1989 tax year and all tax dollars budgeted will be needed for the continued operation of these districts.

If a decision is not reached regarding the protest prior to October 31st when tax rolls in the county close, how will County Treasurer's balance their abstracts for the tax year to account for the portion of unpaid tax?

We would appreciate your consideration of the concerns which I have just stated.

I will stand for any questions you might have at this time.

Respectfully,



Betty McBride  
Cherokee County Treasurer





League  
of Kansas  
Municipalities

Municipal  
Legislative  
Testimony

An Instrumentality of its Member Kansas Cities. 112 West Seventh Street, Topeka, Kansas 66603 Area 913-354-9565

TO: House Committee on Taxation  
FROM: E.A. Mosher, Executive Director  
RE: HB 2558 -- Partial Payment of Taxes Under Protest  
DATE: April 26, 1989

HB 2558 would permit the owner of commercial property, whose property taxes for 1989 is more than twice the 1988 level, to pay only one-half the amount of 1988 taxes prior to protesting the legality of either the assessed valuation or any tax levy thereon. It differs from the present law which requires, in effect, that one-half the 1989 taxes be paid prior to the protest.

The League has some concerns about the fiscal impact the bill would have on local governments. Since there are no potential losses (penalty) to the property owner, it would be logical that every eligible taxpayer would take advantage of the new law, since it would be to their economic advantage. For example, if the 1988 taxes were \$5,000, and the 1989 taxes \$10,000, the owner could pay on December 20 only \$2,500, with a written protest. Assuming the processing of the protest takes six months, and the protest found invalid, the owner would then pay the remaining \$7,500 on June 20. The owner benefits by keeping \$2,500 for six months, with no delinquency penalty. At best, local units lose the investment earnings on the unpaid amount. At worst, local units would need to issue no-fund warrants to make up the difference. In any event, such a taxpayer has an advantage over other taxpayers, assuming the assessment and taxes are valid.

It seems reasonable to us that such a commercial property owner be required to pay at least half the 1989 taxes, not just half the 1988 taxes -- this is permitted under the existing laws, for the first installment, which means HB 2558 should be killed.

If there is some overwhelming reason to give such commercial owners a special payment provision (half or 1988 taxes), then we suggest the bill require that the balance be paid by June 20, even if the protest is not resolved.

To discourage abuse of the privilege, we would also suggest a provision be added similar to this Committee's amendment to that part of HB 2534 relating to withholding tax payments when an exemption request is filed. The amendment reads:

"In the event the board determines an application for exemption is without merit and filed in bad faith to delay the due date of the tax, the tax shall be considered delinquent as of the date the tax would have been due pursuant to K.S.A. 79-2004 and 79-2004a, and amendments thereto, and interest shall accrue as prescribed therein."

4/26/89  
attachment 4

Finally, we call to your attention that HB 2558, on lines 51:53 and 55:56, requires the owner to specify the exact portion of the assessment being protested and/or the exact portion of the tax being protested as an unlawful levy. Assuming only 10% of the assessment or taxes is being protested, and using the \$5,000 - 1988 and \$10,000 -- 1989 example, the taxpayer is given a special break: While only \$1,000 in taxes is under contest, the owner could pay only \$2,500 on December 20, 1988 (1/2 1988 taxes), instead of \$5,000 (1/2 1989 taxes), less the \$1,000 contested amount, or \$4,000.

Putting all of this in another way, we think there are some problems in HB 2558.



Johnson County  
Kansas

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April 25, 1989

HOUSE TAXATION COMMITTEE

HEARING ON HOUSE BILL 2558

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 Board of Commissioners. I am appearing today to express the Commission's opposition to House Bill 2558.

The bill pertains to the payment of taxes under protest on commercial property. It would allow a commercial property owner whose 1989 taxes have increased at least 100% over 1988 to pay only half of the amount of 1988 taxes before the protest procedure with the remaining portion not due until the protest action is completed. This will result in the taxing units collecting only one quarter of the 1989 taxes on commercial property until some unknown time in the future.

The proposal in House Bill 2558 comes at a time when the Board of Tax Appeals docket will be overloaded due to reappraisal thus increasing the normal time required for resolution of a case. In 1990 counties are under the reappraisal freeze limiting them to the 1988 dollar amount that can be collect. The shift from residential to commercial is part of this process, to change the rules on collection will have a significant impact on counties such as Johnson where commercial property is a major factor in the tax base.

It is understandable that the Legislature is concerned about the impact of reappraisal on businesses, especially the smaller ones that may experience damaging effects from classification. Johnson County shares this concern, however in a year when we are under statutory fiscal limitations we cannot be asked to operate with further revenue reductions.

The Johnson County Commissioners urge the committee to recommend that House Bill 2558 not be passed.

*4/26/89  
Attachments*



"Service to County Government"

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Thomas "Tom" Pickford, P.E.  
Shawnee County Engineer  
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Dixie Rose  
Butler County Register of Deeds  
(316) 321-5750

**NACo Representative**  
Joe McClure  
Wabaunsee County Commissioner  
(913) 499-5284

**Executive Director**  
John T. Torbert

**Testimony**

April 26, 1989

To; House Taxation Committee

From; John T. Torbert  
Executive Director

Subject; HB 2558

The Kansas Association of Counties is opposed to HB 2558. The opposition is based on several factors.

First of all, the bill would be difficult, if not impossible to administer. The legislation would allow commercial property owners to total taxes paid in 1988 for all properties owned statewide and compare them to taxes levied for 1989 to determine if they were eligible for this special provision. County treasurers would have no way of determining whether or not the commercial property owner included all property in their calculations or only that which would bring the increase to 100% or more. Further, there would be no way of knowing whether this increase was actually on the same property or was a result of new or added improvements. Treasurers would also have no way of knowing if protests had been filed in other counties and if they had been, what the disposition of those protests had been.

Our second area of concern relates to the fiscal impact of this legislation. To begin with, nobody really knows at this point what the actual impact will be. In that sense, this legislation gambles with our financial future. Further, it is not right that the commercial property owner only be required to pay half of their 1988 taxes. If the taxes had increased by the minimum 100% threshold set forth in this legislation, it would mean that this individual would only be paying the equivalent of 25% of their taxes.

*4/26/89  
Attachment 6*

If the increase had been larger, the percentage of taxes paid would be smaller. Although it is assumed that most of these taxes would eventually be collected, in the meantime a substantial financial shortfall could result, especially in those counties with a great deal of commercial property. Such shortfalls could result in service cutbacks, personnel reductions or the issuance of no fund warrants (at additional interest cost to the taxpayer).

It also seems patently unfair that the commercial property owner be accorded this special status. What about the residential property owner in the same situation? At the very least, it would seem that the protesting commercial property owner be required to pay half of their 1989 taxes- an approach permitted by current law.

In sum, we think this legislation has serious technical flaws and represents poor public policy. We urge this committee to report it adversely.

I'd be happy to respond to questions.

TSJHTAXA