

Approved

Al T. Roe

Date

1/24/90

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by _____ at _____
Chairperson

9:00 a.m./~~p.m.~~ on January 23, 1990 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn, Research Department
Chris Courtwright, Research Department
Don Hayward, Revisor's Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Linda Ferguson, Home Cinema of Manhattan
Dana Hummer, Citizens for Responsible Government - Topeka
George Barbee, Kansas Lodging Association
Karen France, Kansas Association of Realtors
George Puckett, Kansas Restaurant Association

Chairman Roe stated that today's meeting is for the purpose of hearing proponents on HB 2620, HB 2632, HB 2670, and any other circuit breaker bills proponents wish to address.

Linda Ferguson, Home Cinema of Manhattan, stated that she is appearing with mixed emotions and is probably in support of HB 2670. Ms. Ferguson stated that she is concerned that her community will be affected by the monies taken away from other areas in order to subsidize the circuit-breaker. (Attachment 1)

Dana Hummer, Citizens for Responsible Government, stated that he concurs with the circuit-breaker proposals and emphasized that they are only a stop-gap measure. He also stated that the total reliance on property taxes for services must be remedied, and that sales taxes and user fees are the most equitable taxes.

George Barbee, Kansas Lodging Association, testified that he supports the concept of circuit-breaker tax relief, but HB 2620 and HB 2632 do not offer the relief necessary to save many hotel and motel property owners from suffering financial ruin. Mr. Barbee stated that they do not favor taking funds away from the Highway Program, and suggested revisiting the classification amendment to provide a class less than 30 percent for service industries who don't benefit from the removal of the inventory tax. (Attachment 2)

Karen France, Kansas Association of Realtors, urged the Committee to adopt a circuit-breaker for those businesses who receive a tax increase which is "passed through" from a lessor to a lessee, in addition to those businesses who own their own buildings. (Attachment 3)

George Puckett, Kansas Restaurant Association, testified that a circuit-breaker is urgently needed if service oriented, small or no inventory businesses are to continue to exist or newly establish in Kansas. (Attachment 4)

Chairman Roe concluded the hearing for proponents for the circuit-breaker bills.

The meeting adjourned at 10:30 a.m.

HOUSE COMMITTEE ON TAXATION

DATE 1/23/90

NAME	ADDRESS	REPRESENTING
Harriet Lange	Topeka	Ks Assn Broadcasters
Russ Bishop	Houston, Texas	Panhandle Eastern Corp
Jack Graves	Wichita	" "
Kent Thompson	Topeka, Ks	KLA
Don Lamp	Pigea Ks	KLA
Kevin Alpers	Hudson, Ks	KLA
Tony Williamson	Dexter, KS	KLA
Joe HITE	Newton, Ks	KLA
David Huff	Norcaton, Ks	KLA
Tom TUNNELL	TOPEKA	KANSAS GRAIN & FEED ASSN
John Davis	Topeka	informed voter alliance
Tim Turek	South Haven KS	KLA
Howard H. Woodbury	Quenoma, Ks	KLA
Lyle Gray	Lea, Ks	KLA
Kim Boone	Toronto Ks	KLA
F. Robert Torres	Pratt, Ks	KLA
Lee Harrison	Topeka, Ks	KFFTA (educator)
Don Anderson	TOPEKA KS	KFFTA
Don Snodgrass	Topeka Ks	Self
Dale Nuss	Marion Ks	KLA
Mike Blah	Balwin, Id.	KIA
Larry Alexander	Chay Center, Ks	KLA
Alvin White	Haddon Ks	KLA
Dwight Eaton	Bradley Ks	KCA

HOUSE COMMITTEE ON TAXATION

DATE 1-23-90

NAME ADDRESS REPRESENTING

Mike Calkin	Anthony, KS.	KLA
Cathy Holdeman	Wichita	City of Wichita
Bernie Koch	Wichita	Wichita Area Chamber
Don Duster	Frankfort	KLA
Sheller Hughes	Liberal	KLA
Brad Fansher	Garden City	KLA
Clark Cronin	Coldwater	KLA
Wally Sawyer	McPherson	KLA
Donny Danta	Beloit	KLA
Todd Zimmerman	Lyons	KLA
Latie Ryle	Topeka	AARP, Cap City J. Fac
George Goebel	Topeka	AARP CCTF Chv.
Chuck Stuart	Topeka	United School adm & fts
Mendell Strom	Topeka	AARP CCTF
Roger Kiskwood	Topeka	AARP - Kansas
Jim Burgess	Topeka	ICsBA
Dr. Clark	Kansas City	Hellmark
Jacquie Daboe	Topeka	Ks. Ind. Auto Dealers Assoc.
MIKE BILLINGER	HAYS	CG. TICKETSUREX
JERRY CLINGMAN	TOPEKA	SANTA FE RY CO
Byron Patten	Topeka	Citizens For Better Govt.
DONALD W. COOK	TOPEKA	" " " "
Muriel Beasley	Topeka	Rep. S. Bur

HOUSE COMMITTEE ON TAXATION

DATE 4/23/90

NAME	ADDRESS	REPRESENTING
Craig Falkenstein	Ames	Ks. Livestock Assn
Kent McCune	Wichita	Ks Livestock Assn
Mike Beam	Topeka	Ks Livestock Assn
Mike McGraw	Tulsa	Dry USA Inc.
LISA Eptz	WICHITA	KANSAS ASSO. FOR SMALL BUSINESS
David A. Hawley	"	"
GEORGE RUCKETT	WICHITA	KS RESTAURANT ASSN.
MARK A. BURGHART	TOPEKA	REVENUE
Julie Hein	Topeka	Hein & EBERT / MESA
Nona Hummer	Topeka	City for responsible government
Harold Pitts	Topeka	
George Barbee	Topeka	Barbee & Assoc's - Ks Lodging Assn
Juan Ferguson	Marhacran	Small Business Owners
Charles Nicolay	Topeka	Ks Oil Marketers Assn
Richard Smith	Wichita	WIBA
Robert Enderman	O'Leary	Mid Cont Oil & Gas
Jim Ludwig	TOPEKA	KPL
Karen France	Topeka	KAR
Jerry Connors	Law	KC & E

Linda A. Ferguson
House Tax Committee
January 13, 1990

I own two Video Stores in Manhattan, Kansas. One is located in Village Plaza Shopping Center, which has 16 businesses in it and the other is located in a strip mall with 8 business.

Attached is a breakdown of the 1988 and 1989 taxes on the businesses located in the Village Plaza Shopping Center. In addition to that I have visited with two other shopping centers. Candlewood saw an increase of 200% in the taxes. Westloop Shopping Center saw an increase of 225%. They went from \$147,000 per year to \$328,000 per year taxes. A small strip mall which has 5 businesses saw an increase of 325%. My new store would have seen approximately a 250% increase.

All of the above taxes were paid under protest, however, the number of protest does not accurately reflect the number of businesses affected. One protest vs 36 businesses; 1 protest vs 28 business; 1 protest vs 7 businesses, etc. So the comments about the low number of protests is very misleading. We as tenants can't file protests.

I would like to say that the Property Tax Relief bill will solve the problems facing Small Businesses. But realistically we have to look at and address the real issue. The relief bill is a Band-Aid approach to a major problem facing business owners like myself.

I firmly believe that the re-appraisal was needed. It has been to long. But the real culprit was the re-classification. I feel that we have shifted the burden from large business to the Small Business owner like me.

I hope that by passing the Tax Relief bill that this does not effect the progress on reevaluating the current tax structure. That issue has to be addressed immediately.

It is my hope that if the House does pass some Tax Relief Bill that they will work diligently in the Senate to get the bill passed also, and not just pass the buck.

1/23/90

Attachment 1

SASCO DEVELOPMENT COMPANY

3003 ANDERSON AVE. • SUITE 1001-A • MANHATTAN, KS 66502 • (913) 537-1111

	<u>1988</u>	<u>1989</u>
Lot 2 -- Village Plaza Entrance	\$ 1,025.78	\$ 2,080.66
Lot 3 -- VP Auto Wash	\$ 1,365.98	\$ 3,270.04
Lot 4 -- Yen Ching Chinese Restaurant	\$ 4,282.70	\$17,224.20
Lot 5 -- Recruiting Office Bldg.	\$ 2,152.64	\$ 5,606.34
Lot 6 -- Sasco Office Bldg.	\$ 5,050.66	\$13,162.90
Lot 7 -- Suites 901-961 Village Plaza	\$22,893.30	\$51,710.02
Lot 9 -- Alco Discount Stores	\$27,996.98	\$51,595.74

1/2



KANSAS
LODGING
ASSOCIATION

DATE: January 23, 1990
TO: House Committee on Assessment & Taxation
FROM: George Barbee, CAE
Executive Director
RE: House Bills 2620/2632

Mr. Chairman & Members of the Committee, my name is George Barbee, I am Executive Director of The Kansas Lodging Association.

Membership in the Kansas Lodging Association consists of approximately 160 Hotel & Motel properties state wide representing a total of 10,000 guest rooms. Over the past year, lodging property owners have shared the many horror stories of their 1989 property tax increases. At the KLA annual meeting in October, KLA members most often cited 1989 property taxes projected to be two and three times the taxes they paid in 1988. This is after the majority of the property owners had battled reappraisal by hiring outside assistance and had their property values reduced through the appeals process.

Hotels & Motels are service businesses and they do not have inventories, and as a result they did not benefit from the exemption of merchants and manufactures inventory tax granted to retail businesses and manufactures. The combination of hotels and motels having virtually no inventory and remaining classified at 30 percent has resulted in a tremendous shift of taxes onto the lodging industry.

I appear in support of the concept of circuit breaker tax relief because of the unfair tax shift onto hotel owners. However, House Bill 2620 and House Bill 2632 do not offer the relief necessary to save many hotel and motel property owners from suffering financial ruin.

Let me give you a specific case study of a real world example of a typical motel tax problem. This motel is a "mom and pop" motel located on I-135 between Wichita and Salina. The motel has 82 rooms and in 1988 paid \$27,878 in property taxes. The anticipated increase in 1989 property taxes for this motel will be 95% or \$54,439. That is an increase of \$26,564.

*1/23/90
Attachment 2*

In looking in the eligibility requirements of House Bill 2620 I note that this motel is small, it's independently owned, independently operated, employs less than 50 employees, has a net income of less than \$50,000, and generally meets the eligibility requirements of the bill. However, neither one of these bills would offer any help whatsoever. This particular motel did not reach the bills 100% threshold for increase property taxes, but even so must pay almost \$27,000 in additional taxes. Even if it did go over 100% it would only receive a \$5,000 credit on its 1989 taxes.

Unless the 100% threshold in these bills are reduced to a lower percentage they offer no help to an industry that is already suffering from an economic downturn in Kansas caused by depressed oil prices and agriculture set back that has meant fewer commercial lodging guest. While we do support the concept, and appreciate your difficult task, these bills fall short of our needs.

Turning to the funding mechanisms of these two, bills we note that there are similar provisions for funding in the bills relative to accelerated payments, however, we would much prefer House Bill 2620 funding mechanisms over House Bill 2632 because we do not favor taking money away from the Highway Program. It has been pointed out and debated in the special session that taking money away from the highway program could have a dampening affect on the marketability of the bonds for the Highway Program.

I would be remiss if I did not mention that we are certainly hopeful that you will look to long term solutions to this unfair tax burden to our industry by revisiting the classification amendment to provide a class less than 30% for these service industries that did not receive the benefit of the removal of an inventory tax.

Members of the Committee, I do not want you to assume that hotel owners are not willing to pay their fair share in state taxes; they are. The problem is, the classification and reappraisal of property recently completed in Kansas has resulted in a property tax base unfair to several business owners. Hopefully these bills can be amended to provide hotels and motels with some meaningful relief.

On behalf of the Kansas Lodging Association, I appreciate the opportunity you have given me to appear before you today. I would be happy to answer any questions you may have.



Executive Offices:
3644 S. W. Burlingame Road
Topeka, Kansas 66611
Telephone 913/267-3610

TO: THE HOUSE TAXATION COMMITTEE
FROM: KAREN FRANCE, DIRECTOR, GOVERNMENTAL AFFAIRS
DATE: JANUARY 23, 1990
SUBJECT: CIRCUIT BREAKER PROPOSALS

Thank you for this opportunity to testify. On behalf of the Kansas Association of REALTORS®, I appear today to offer our comments for developing a commercial circuit breaker.

First and foremost, we want to say that the first priority in handling the property tax problems which we face, is to develop a new property tax constitutional amendment. As was indicated by the poll of the Wichita Eagle published Sunday, January 14, 1990, 81% of the Kansans polled said that the new property tax system needs to be overhauled. Fifty-one per cent said that a one time state grant to business owners for tax relief is not the way to go.

We acknowledge that, even if a new property tax amendment gets passed this year, it will take at least a year to be implemented and so we need a commercial circuit breaker to get small businesses through to the time when a new property tax amendment can go into effect. We offer our comments today based on the premise that the first priority should be a new property tax constitutional amendment for the people to vote on at the soonest opportunity.

A commercial circuit breaker helps out the small and non-inventoried businesses who are faced with the dilemma of being able to pay their taxes and/or are able to stay in operation after they pay their taxes. Recognizing this is a tight fiscal year for the entire state budget, we know that you cannot help all people. We ask that you help as many people as you possibly can, with as much money as you can, within the tight fiscal constraints which you face.

1/23/90
Attachment 3

QUALIFICATIONS FOR CIRCUIT BREAKER

We strongly urge you to adopt a circuit breaker for those businesses who receive a tax increase which is "passed through" from a lessor to a lessee, in addition to those businesses who own their own buildings.

Many new and fledgling businesses, as well as established small businesses are tenants in strip centers or in leased space on main street. Until the introduction of HB 2670, none of the circuit breaker proposals addressed this problem of small businesses who would experience major cost increases because the lessors' tax bills had increased dramatically. We feel any circuit breaker bill must provide for the ability of businesses in these types of leases to get relief if they have 100% or more increase in property tax, just the same as if they were the owners of the property.

We agree that the property taxpayer must have a "net" increase of 100% or more, after any reductions for personal property tax. Such a restriction is a reasonable way to reduce the overall costs of the circuit breaker.

We believe an effective tax rate test is an unnecessary, and unfair test for taxpayers to meet. These effective tax rate qualifications require a taxpayer to be an extreme in the county or state in order to get circuit breaker relief. These qualifications leave behind the taxpayers, who, because of the method of appraisal by their county over the past 20 years; or because of the appraisal methods of the contracting appraisal firm; or because of the budgeting process of their local units of government; have an effective rate which, compared to others doesn't look too bad, but which is individually very devastating. We urge you to delete any effective tax rate qualifications from the formula.

While we recognize that the line for relief must be drawn somewhere, the \$50,000 of net income may be too restrictive. Small businesses with \$60,000 or even \$100,000 of annual net income provide jobs and create revenue for the state that stands to be lost by severe property tax increases which force them to lay

off personnel, cut back their business, or merely close. We ask that if a net income requirement is necessary for the bill that it be raised as high as possible.

The amount of the circuit breaker relief per taxpayer is a difficult question to approach. As we said at the beginning of our testimony, we hope that you will look to give the maximum relief possible. For many of these businesses, \$5,000 only goes a short way towards paying their \$20,000 to \$30,000 increases. We ask that you look closely at increasing the amount of circuit breaker money beyond the \$5,000.

FUNDING FOR THE CIRCUIT BREAKER

Keeping in mind the tight fiscal budget, we feel that the accelerated payments which have been proposed are a good basis for the funding of the circuit breaker.

Beyond the accelerated payments, we believe the excise tax, as modified in HB 2670, is a viable method for funding. If we could rewrite the reappraisal/classification process, many people would agree, we should have phased in the inventory and livestock exemptions over a period of years. The use of excise taxes on inventories during this interim period, before a new constitutional amendment can be put in place, could return some of the revenue to the people who have been hardest hit by the shift away from personal property on to real estate. We believe that the amendments to the excise provisions, which have been made since the special session proposal, such as the \$250,000 exemption and the exclusions, make the excise tax option more palatable, and thus more viable than when first presented.

We believe that economic development money this year, should be in the businesses we have in Kansas which stand to lose the most because of this tax crisis. Therefore we urge you to use any economic development funds available, for circuit breaker relief.

SUMMARY

In summary, we hope that you provide a commercial circuit breaker only in conjunction with long term property tax relief, in the form of a constitutional amendment, not in place of it. We recognize the tight fiscal issues which face you and we ask that you give the most relief you can to the largest amount of businesses. We offer the above comments as guidelines. We will be glad to work with you to fine tune the proposal.



KANSAS RESTAURANT ASSOCIATION

359 SOUTH HYDRAULIC • P.O. BOX 235 • WICHITA, KANSAS 67201 • (316) 267-8383

MY NAME IS GEORGE PUCKETT AND I REPRESENT THE KANSAS RESTAURANT ASSOCIATION, A STATEWIDE GROUP OF APPROXIMATELY 950 FOODSERVICE AND HOSPITALITY INDUSTRY BUSINESSES. IN LIGHT OF DEVASTATING COMMERCIAL REAL ESTATE TAXES NOW FACING MANY RESTAURANTS AND OTHER SMALL BUSINESSES DUE TO CLASSIFICATION BEING SET BEFORE REAPPRAISAL FIGURES WERE IN AND UNDERSTOOD, THE KRA SUPPORTS BOTH HB 2620 AND HB 2632. A CIRCUIT BREAKER IS URGENTLY NEEDED IF SERVICE ORIENTED, SMALL OR NO INVENTORY BUSINESSES ARE TO CONTINUE TO EXIST OR NEWLY ESTABLISH IN KANSAS. SMALL BUSINESS IS PAYING MORE THAN ITS FAIR SHARE REGARDING COMMERCIAL REAL ESTATE TAXES. EITHER MEASURE WOULD PROVIDE IMMEDIATE TAX RELIEF AND PREVENT MANY BUSINESSES FROM GOING UNDER WHILE A LOGICAL, PRACTICAL, AND PERMANENT SOLUTION IS OBTAINED.

THE KRA WOULD HONOR THE MAJORITY VOTE ON EITHER OF THESE MEASURES, JUST SO LONG AS TAX RELIEF IS OBTAINED. A MOST IMPORTANT FACTOR, HOWEVER, IS TO PROVE MEDIA STORIES INCORRECT THAT A CIRCUIT BREAKER MIGHT NOT BE OBTAINABLE BECAUSE OF PARTISAN POLITICS, OR BECAUSE BOTH HOUSES WON'T AGREE ON THE METHOD OF FUNDING A CIRCUIT BREAKER TO EASE THE TAX BURDEN NOW UPON MANY SMALL BUSINESSES. AFTER SUPPORTING A MORATORIUM ON THE MATTER DURING THE 1989 SESSION, WE WERE TOLD IF THERE WERE ANY UNEXPECTED PROBLEMS THAT MIGHT SURFACE IN NOVEMBER (AFTER TAX STATEMENTS WERE SENT OUT) THEY COULD BE QUICKLY CORRECTED AT THE BEGINNING OF THE 1990 SESSION TO ASSURE FAIR AND EQUAL TAXATION FOR ALL BUSINESS. SMALL BUSINESS IS URGENTLY AWAITING FULFILLMENT OF THAT PROMISE. THANK YOU.

1/28/89
Attachment 4