

Approved _____

Date

2/14/90

MINUTES OF THE House COMMITTEE ON Taxation

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

9:00 a.m. ~~pm~~ on February 13, 1990 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

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

Conferees appearing before the committee:

Representative Bill Wisdom
Representative Bill Reardon
Linton Bartlett, City of Kansas City, Kansas
Ruth Schrum, Landlords of Manhattan Steering Committee
Mary Ellen Conlee, Kansas Association for Small Business
Dan Carlson, Kansas Independent Automobile Dealerz Association
Pat Barnes, Kansas Motor Car Dealers Association
Lucky DeFries, Johnson County Apartment Owners

Linton Bartlett, City of Kansas City, Kansas, testified in support of HCR 5043, stating that the City believes the exemption of merchants' and manufacturers' inventories from the tax rolls has played a significant role in causing very large tax increases for many commercial and residential property owners. (Attachment 1)

Representative Bill Wisdom testified in support of HCR 5043, stating that it would ease the tax burden of all homeowners and be especially beneficial to home owners with homes valued in the lower brackets. (Attachment 2)

Representative Bill Reardon testified in support of HCR 5043, and presented information compiled by the Wyandotte County Appraiser and a chart from a Kansas City newspaper on the impact of Reappraisal in Wyandotte County. The newspaper article showed that two-thirds of the businesses in Wyandotte County had an increase of 100 percent or more. Representative Reardon stated that this shows an economic development problem in Wyandotte County. (Attachment 3)

Ruth Schrum, Landlords of Manhattan, testified in opposition to HCR 5043, stating that it would cause rents to be raised all over the state, which would be a burden to amny who can't afford higher rents. (Attachment 4)

Mary Ellen Conlee, Kansas Association for Small Business, testified in opposition to HCR 5043, stating that the elimination of the inventories tax increases the competitiveness of thousands of small retail and manufacturing businesses in Kansas. (Attachment 5)

Dan Carlson, Kansas Independent Automobile Dealers Association, testified in opposition to HCR 5043, stating that the addition of motor vehicle inventory to classification will undoubtedly result in immediate economic consequences in terms of financial hardships, closing of automobile facilities, and further reduction of the work force. (Attachment 6)

Pat Barnes, Kansas Motor Car Dealers Association testified in opposition to HCR 5043, stating that repealing all forms of inventory tax made Kansas dealers much more competitive with car dealers in the surrounding states. Missouri, Colorado, Nebraska and Oklahoma all no longer tax motor vehicle inventories. (Attachment 7)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation,
room 519-S, Statehouse, at 9:00 a.m.~~p.m.~~ on February 13, 1990

Lucky DeFries, Johnson County Apartment Owners, testified in opposition to HCR 5043, stating that they are in opposition to the proposed increase on apartment buildings from 12 percent to 20 percent.

Written testimony was provided by:

Bob Corkins, Kansas Chamber of Commerce and Industry (Attachment 8)
Karen France, Kansas Association of Realtors (Attachment 9)

The minutes of February 12, 1990, were approved.

The meeting adjourned at 10:45 a.m.

HOUSE COMMITTEE ON TAXATION

DATE 2/13/90

NAME

ADDRESS

REPRESENTING

NAME	ADDRESS	REPRESENTING
Stella Hochhaus	Manhattan	Legislature
Ruth A. Schrum	Manhattan	Landlords of Manhattan ^{and} and ^{Leary Co.}
Neil E. Schrum	Manhattan	" " " - ^{and subject} and subject ^{own property}
Mary Ellen Cude	Wichita	Ks Assoc for Small Business
CHUCK STUART	TOPEKA	United School Admin
Robert Anderson	Ottawa	McCort Oil & Gas
Helen Stephens	Prarie Village	BV # 229
Luck DeFries	Topeka	Johnson Co. Agr. Owners
Ann McBride	Terreha	observer
Wanda Woodman	KC Mo	KCPK
Dorlene	Topeka	Kan. Motor Car Dealers Assn.
Ken Robertson	Topeka	not looking Assn.
PAT BARNES	TOPEKA	Ks. Motor Car Dealers Assoc.
Ann Bennett	Topeka	US 501 #
Dan Carlson	Topeka	US Ind Automobile Dealers Assoc
Jacqueline Decker	Topeka	Ks. Ind. Auto Dealers Assn.
ALAN Steppat	Topeka	KRPG - Pete McBill & Assoc.
David Atkins	Lawrence	Rep. Ellen Samuelson - Intern
Bernie Koch	Wichita	Wichita Area Chamber
Mike Germain	Wichita	Boerj. Commercial Treasures - Wichita Division
Bill Thomas	Topeka	Santa Fe Railway Co.
Lyn Polps	Topeka	K-NEA
Craig Grant	Topeka	K-NEA

HOUSE COMMITTEE ON TAXATION

DATE 2-13-90

NAME ADDRESS REPRESENTING

NAME	ADDRESS	REPRESENTING
Don Lindsey	0 SANITARIUM	UTU
Paul E. Fleener	Manhattan	Kansas Farm Bureau
Anne Smith	Topoka	Ks. Assoc. of Counties
John Tarkenton	"	KAC
Alvin Lyonic	TOPEKA	KPL
Ralph Leach	R3 Lawrence	KFT
Warren R. Wolf	Topoka	Ks. Farm Fair Trustees
Jack Blaine	Wichita	PH Eastern
Russ Bishop	Houston	Panhandle Eastern
John D. McNeal	Topoka	self
George Barbee	Topoka	Barbee & Associates
Bill Curtis	Topoka	Ks. Assoc. of School Bds.
Karen FRANCE	Topoka	KAR
Milo Miller	Topoka	City of Topoka
Rich McKee	Topoka	KLA
Bob Corkins	Topoka	KCCI
Jake Raenbantz	Kinsley	-
Al Corbin	Geo	Lawrence's Chamberlain
Linton Bartlett	Kansas city, KS	City of Kansas City
Wendell Strom	Topoka	CCTF - AARP
HAROLD P. TIS	TOPEKA	KCOA

ISSUE #1:

Reappraisal and Classification

SUMMARY:

The City of Kansas City, Kansas, is very concerned about the impacts of reappraisal and classification on the taxpayers of Kansas City and Wyandotte County. The City believes that the exemption of merchants' and manufacturers' inventories from the tax rolls has played a significant role in causing very large tax increases for many commercial and residential property owners. In Wyandotte County, 17%, or \$74.2 million, was removed from the tax base due to the inventory exemptions. The other classes of property owners are therefore forced to make up for this shrinkage of the tax base through higher property taxes. Many of our citizens are low-income or senior citizens on fixed incomes, and they can't afford even modest increases in their tax bills. Also, many commercial property owners have seen tax bills increase anywhere from 75% to over 500%. Such increases will have severe negative impacts on many businesses, and some will have to close or move across the state line.

The City of Kansas City supports a meaningful circuit breaker program to help both commercial and residential property owners who have experienced large increases in their tax liability. All funding sources should be considered for this program including highway sales tax revenue and an inventory excise tax as debated in the 1989 Special Session.

A circuit breaker program is, however, only a stop-gap measure which will only lead to false hope if permanent, long-term solutions are not enacted by the Legislature. The City of Kansas City supports a constitutional amendment which would restore merchants' and manufacturers' inventories to the tax rolls and reduce the taxes on real property. Further, the City strongly urges the Legislature to consider alternative sources of revenue which would allow local units to reduce their over-reliance on the unpopular property tax. (See Issue 3, Page 3.

ACTION & COMMENTS:

Many bills are anticipated on this issue; support those beneficial to the City.

See Appendix B for a City Council resolution.

2/13/90
Attachment 1

RESOLUTION NO. 37061

WHEREAS, in November 1986, the citizens of the State of Kansas voted to approve a proposition to amend Section 1 of Article 11 of the Kansas Constitution mandating that the Kansas Legislature provide a uniform and equal basis of valuation and rate of taxation for all property subject thereto within the State; and

WHEREAS, constitutional amendment set forth classifications of property for the purpose of assessment and the percentage of value prescribed for the purpose of taxation within said classification; and

WHEREAS, said constitutional amendment required that all property subject to taxation be reappraised for a determination of value and for uniformity as to all property included in each classification; and

WHEREAS, said reappraisal has now been completed and taxes levied in accordance therewith; and

WHEREAS, said reappraisal and reclassification has resulted in an unacceptable shift in the tax burden imposed on many citizens of Kansas City, Wyandotte County, Kansas, for their homes; and

WHEREAS, said reappraisal has forced unwarranted and unacceptable increases upon commercial property within the

community which will have severe negative impact on many business and cause the relocation of others outside the State if said taxes are required to be paid as levied.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF KANSAS CITY,
KANSAS:

1. The Kansas Legislature is strongly urged to seriously consider and investigate alternative solutions for the generation of revenue that will reduce the burden taxation on real property and to undertake in a cooperative spirit without regard to political party or philosophy their deliberations on this subject in order to reach decisions that are fair to all citizens of this State; and

2. The Legislature is further urged to restore immediately the tax on manufacturer's inventory with the resulting revenue used to reduce the taxes on real property for this year and all future years.

ADOPTED BY THE COUNCIL OF THE CITY OF KANSAS CITY, KANSAS,

THIS 7th DAY OF Dec., 1989.

Tom G. Roberts
City Clerk

Approved as to form :

Harold T. Walker
City Attorney

Rep Wisdom

Wyandotte County House delegation proposes tax relief for homeowners

There seems to be a consensus among the people and the legislature that the present tax crisis was created by the classification amendment which caused a shift of the tax base toward homeowners.

Therefore, the Wyandotte County Delegation have introduced House Concurrent Resolution No. 5043, sponsored by Representatives Reardon, Dillon, J.W. Long, Johnson, Jones, Peterson, Ramirez, Turnbaugh, Watson and Wisdom, to amend Section 1 of Article 11 — the classification amendment — of the constitution of the State of Kansas.

This amendment would shift the tax base away from homeowners by repealing the exemption of inventories and by striking the accelerated depreciation clause for commercial and industrial machinery and equipment.

It would ease the tax burden of all homeowners and be especially beneficial to homeowners with homes valued in the lower brackets. The amendment would exempt from taxation the first \$5,000 of the appraised value on real property used for residential purposes and real property used for commercial and industrial purposes.

This resolution if approved by two-thirds of the members of both Houses would be submitted to the electors of the state for approval or rejection at a special election to be held on May 1, 1990 and would govern the assessment and taxation of property on and after January 1, 1990.

Changes proposed by HCR 5043

Class 1: — which consists of real property, would have seven, currently there are four, subclasses.

1.) Real property used for residential... comprised of not more than four residential units would be assessed at 10% of its value. The current assessment is 12%. This would be a reduction of 2%.

2.) Land devoted to agricultural use... valued on the basis of agricultural income and assessed at 30%. No change.

3.) Vacant lots would be assessed at 10%. The current assessment is 12%. This would be a reduction of 2%.

4.) Real property used for commercial and industrial use and residential property not included in paragraph 1.) would be assessed at 20%. The current assessment is 12% on residential property that falls into this category. This would be an increase of 8%.

5.) Real property owned and operated by a taxpayer organized for profit purposes would be assessed at 12%. The current assessment is 30%. This would be a reduction of 18%.

6.) Public utility real property, except railroads would be assessed at 30%. No change.

7.) All other urban and real property not otherwise specifically subclassified at 30%.

Class 2: — which consists of tangible personal property, would have seven, currently there are six, subclasses.

1.) Mobile homes used for residential purposes would be assessed at 10%. The current assessment is 12%. This would be a reduction of 2%.

2.) Mineral leasehold interests would be assessed at 30%. No change.

3.) Public utility tangible personal property, except railroads... would be assessed at 30%. No change.

4.) All categories of motor vehicles not defined and specifically valued and taxed pursuant to law enacted prior to January 1, 1985 would be taxed at 30%. No change.

5.) Commercial and industrial machinery and equipment would be assessed at 30%. The current assessment is 20%. This would be an increase of 10%. Note — the accelerated depreciation clause would be struck.

6.) Inventories of merchants and manufacturers would be assessed at 30%. Note — this repeals the current exemption.

7.) All other tangible personal property not otherwise specifically classified would be assessed at 30%. No change.

Other changes:

1.) Exemptions would remain the same except merchant's and manufacturer's inventories would be struck.

2.) The first \$5,000 of the appraised value of all property in paragraphs 1.) and 4.) of Class 1 shall be exempt from taxation.

*2/13/90
Attachment 2*

OFFICE OF
LARRY J. CLARK CAE
COUNTY APPRAISER
913/573-2889



WYANDOTTE COUNTY COURTHOUSE
KANSAS CITY, KANSAS 66101

February 3, 1990

To: Wyandotte County Legislators
From: Larry Clark, County Appraiser
Subject: HR 5043

In summary, the estimates calculated by this office show a favorable shifting of the property tax burden in terms of residential property up to 4 units and commercial real estate.

This report's preliminary findings regarding the possible impact of House Resolution 5043 on the property tax base in Wyandotte County. In order to carry out this responsibility certain assumptions had to be made and limiting conditions understood. County real estate files have been loaded onto a tape medium for use in a software package called SPSSX (Statistical Package for the Social Sciences). Using this software valuation and tax calculations can be made on those files without affecting the data base directly and the variety of scenarios which can be tested is very broad.

Mixed use property such as parcels having both agricultural and residential or both residential and commercial components are not subject to easy value calculation. For this study the assumption was made that there were not a sufficiently large sample of this type of property to adversely the outcome.

Due to the time factor and the lack of good definition involved there was no attempt made to identify "real property which is owned and operated by a taxpayer organized for not for profit purposes". They were left in the commercial category.

Valuation figures for inventory were drawn from the 1988 personal property files since none of that property was reported in 1989. It is assumed they will be the same for 1990.

It is assumed that railroad property will be assessed at the 20% rate established for commercial property by this resolution. However, there was not sufficient time to break out just the railroad valuation and it likely considering the Nebraska court decision that all utilities will receive treatment consistent with that of the railroads. Therefore all state assessed property was assessed at 20% of full value by dividing the 1989 assessed value by 0.3 and multiplying the result by .2.

2/13/90
Attachment 3

The final assumption was that the total amount of taxes to be levied in the county would remain the same as in 1989. The tax level used was \$93,213,402 for 1989 and 1990 under HR 5043. Final comparisons were based on the property tax differential represented by \$40,000 residential and commercial real estate parcels and the aggregate tax levy. The latter was calculated by dividing the total taxes to be generated in the county by the total valuation and was used to avoid the difficulty of accounting for differences between the composition of the tax base in different taxing districts.

Based on these assumptions the tax bills for residential and commercial parcels in 1988, 1989 and under provisions of HR 5043 are shown below.

	<u>Residence</u>	<u>Commercial</u>
1988	\$551	\$ 788
1989	\$759	\$1,897
HR 5043	\$624	\$1,248

These tax bills were calculated as by multiplying the total valuation by the assessment level and then by the aggregate mill rate as follows:

Residential

1988	$\$40,000 \times .07 = 2,800 \times .196927 = 551$
1989	$\$40,000 \times .12 = 4,800 \times .158046 = 759$
5043	$\$40,000 - 5,000 = 35,000 \times .1 = 3,500 \times .178275 = 624$

Commercial

1988	$\$40,000 \times .1 = 4,000 \times .196927 = 788$
1989	$\$40,000 \times .3 = 12,000 \times .158046 = 1,897$
5043	$\$40,000 - 5,000 = 35,000 \times .2 = 7,000 \times .178275 = 1,248$

The mill rate under this proposal is expected to increase somewhat due to an overall loss in valuation of approximately \$66.9 million. An estimated \$89.4 million in assessed value will be added to the appraisal roll due to the activation of merchants and manufacturers' inventories and reverting back to the former method of valuing machinery and equipment. Losses in real estate valuation are divided as follows:

Exemption of first \$5,000 of appraised value	\$27.6 million
Reduction in assessment levels	\$128.7 million

The estimated impact on individual taxpayers is difficult to predict but some generalizations may be made. The first chart shows two pies which show the division of the tax base in 1989 and under the changes proposed under HR 5043. For example, Other property (primarily commercial and industrial real estate) is reduced as a part of the appraisal roll from 35.7% currently to 26.3%, while the position of all Residential property is reduced from 43.8% to 36.4%. The second chart shows actual computed property

tax figures for residential and commercial real estate parcels in 1988, 1989 and under HR 5043.

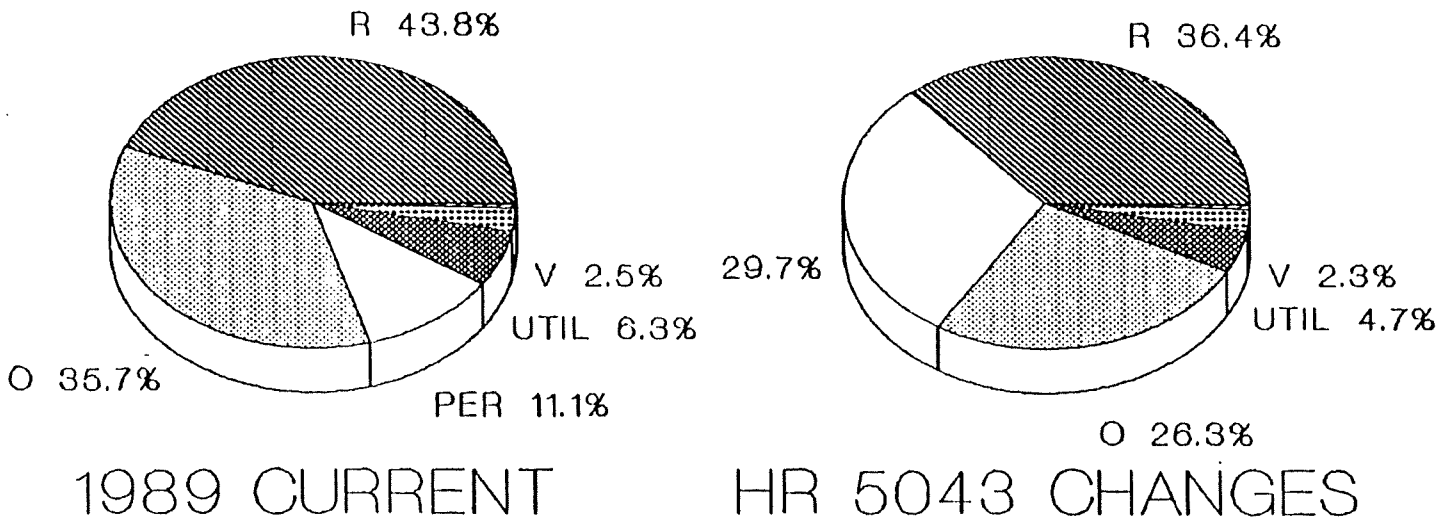
The third chart was developed by computing the tax load from residential property at \$10,000 appraised value increments for 1989 and under HR 5043. Percent savings are shown on top of each bar. The median appraised value of all residential urban parcels in Wyandotte County is \$36,400.

Using the median appraised value of all other urban real estate parcels of \$73,000, the fourth chart shows the possible impact on businesses as inventories are added back. That impact depends on the percent of total valuation residing in inventories as those percentages are shown on the chart. There appears to be a break even point reached when the assessed value of inventories is equal to 37% of the combined value of inventories and real estate. This does not attempt to account for the additional machinery and equipment valuation to be experienced under HR 5043, which would tend to lower the break even point.

In summary, these are estimates and should be considered only as showing trends that would be caused by the proposal. While those trends are fairly clear, they rely on the accuracy of assumptions of future activity, such as the consistency of inventory reporting, and an admittedly hasty study. All figures should be used with these points in mind.

If I can be of further assistance, don't hesitate to call.

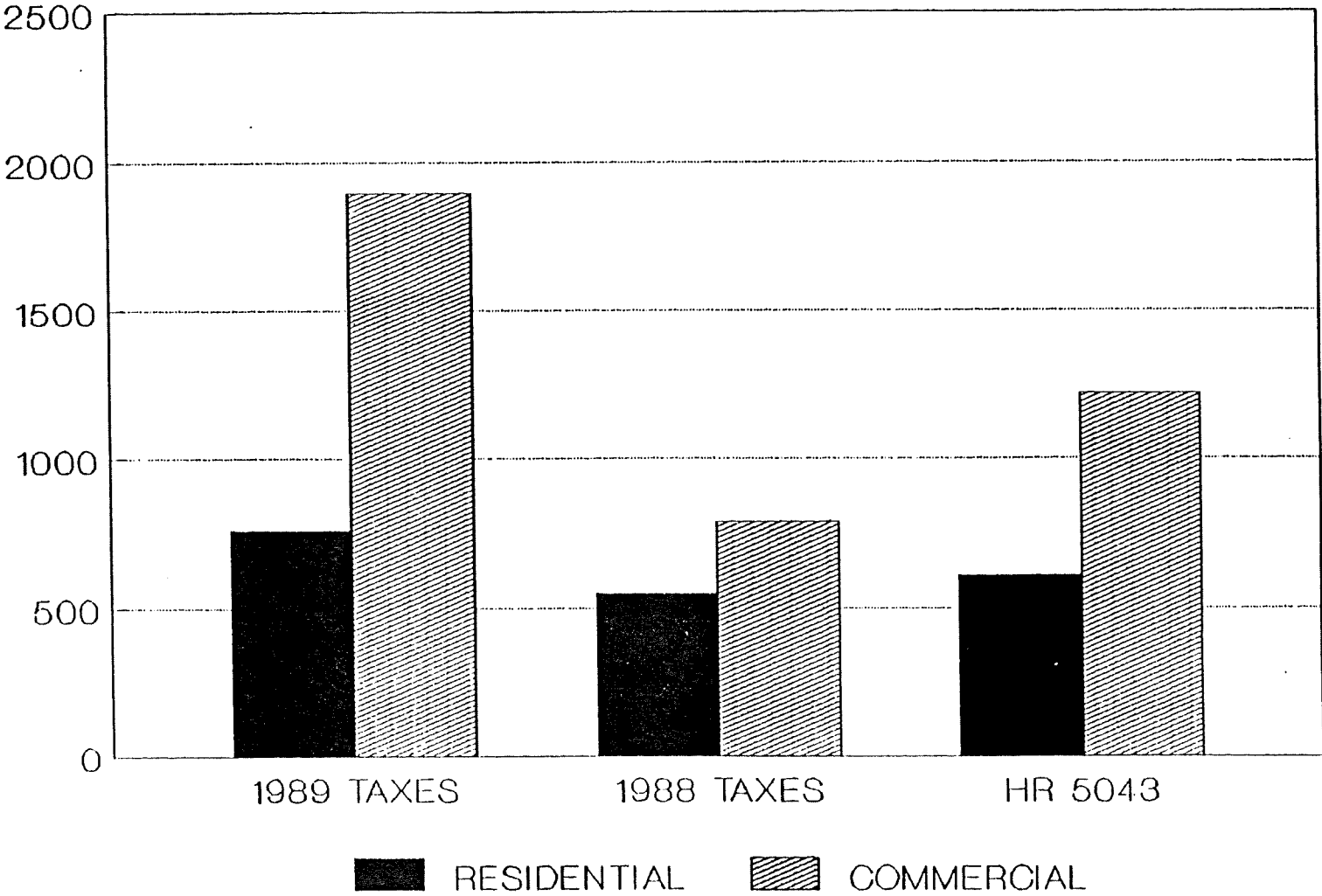
HOUSE RESOLUTION 5043 WYANDOTTE COUNTY IMPACT



A comparison of 1989 and HR 5043

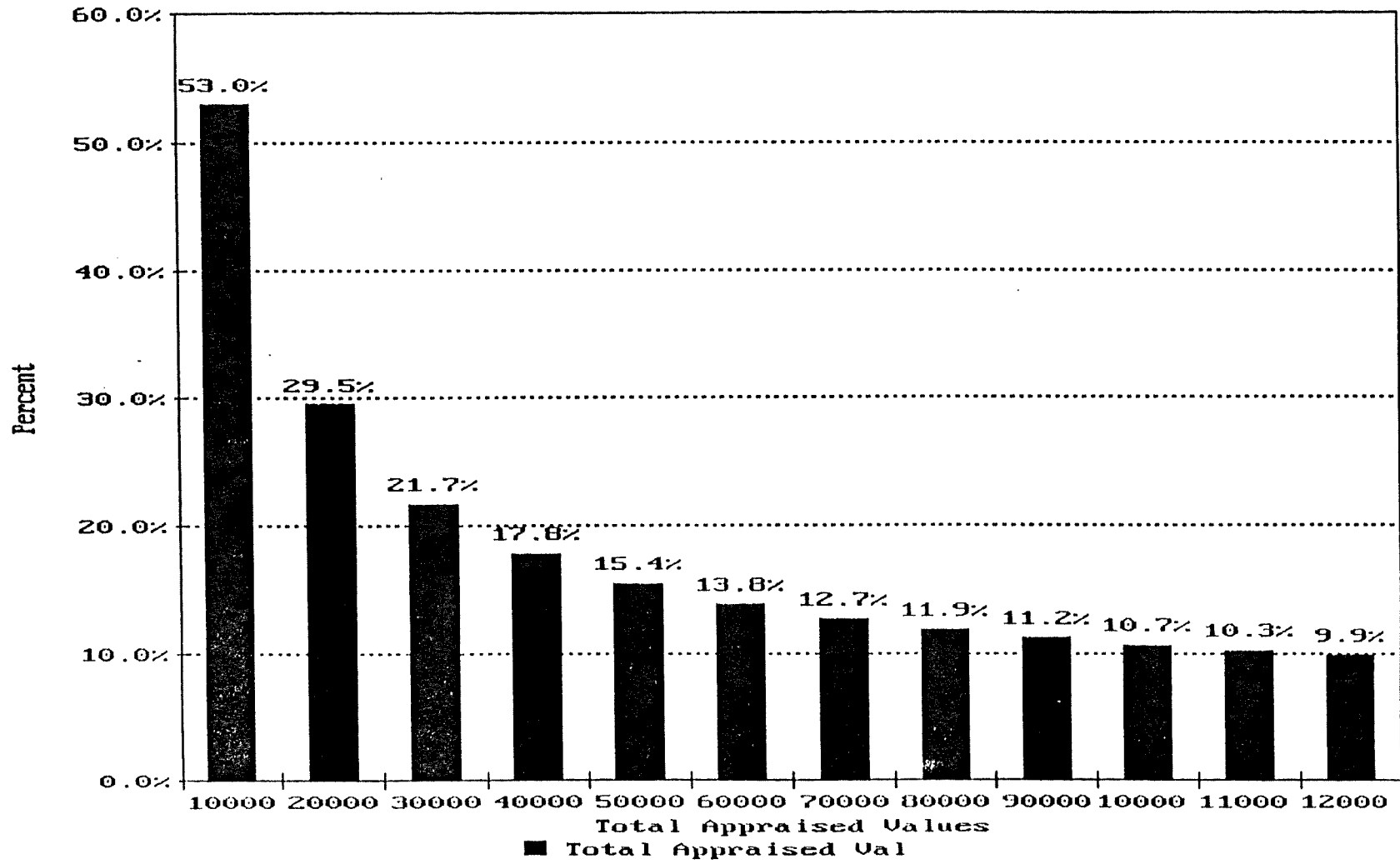
3-4

TAXES ON \$40,00 RES AND COM



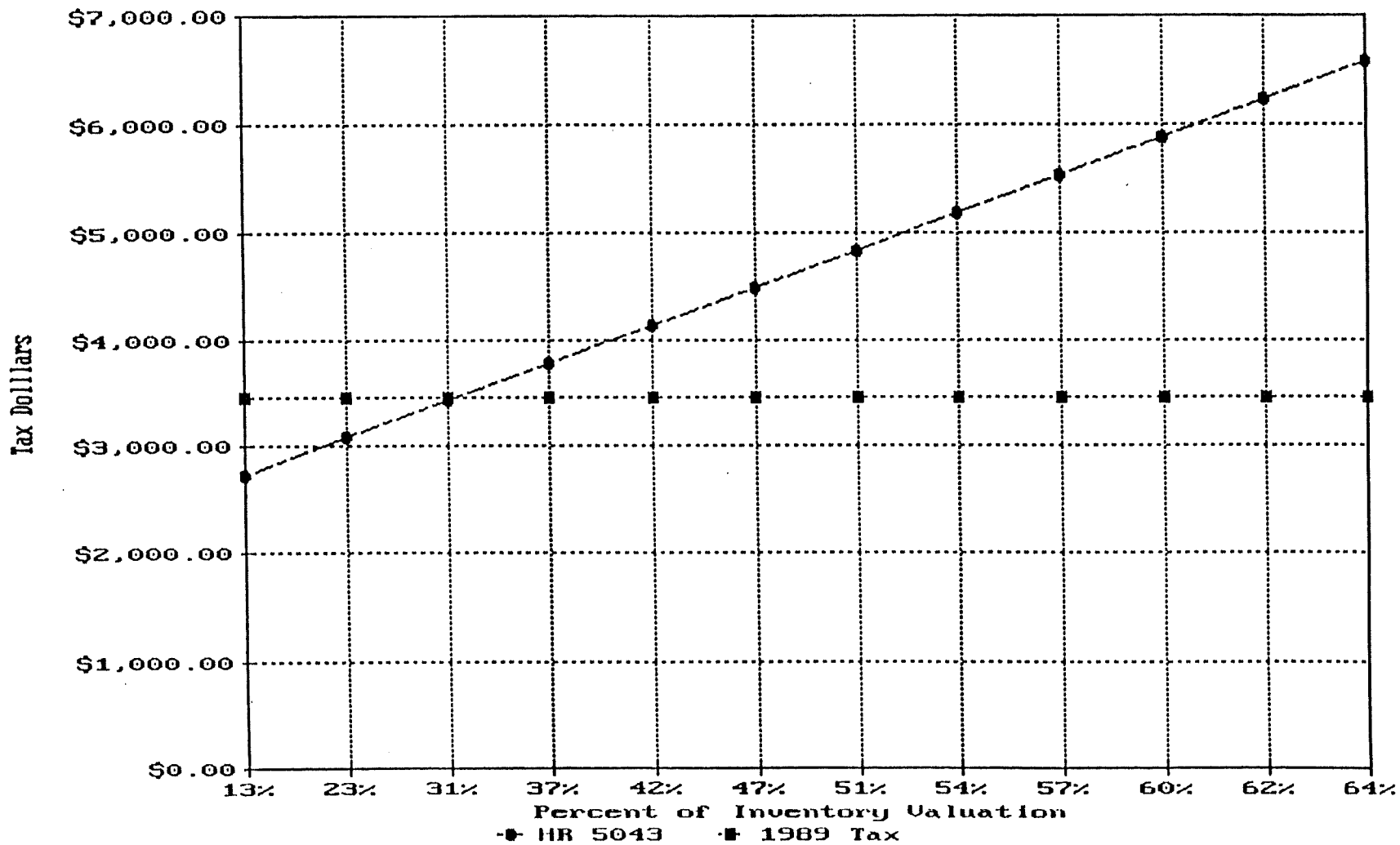
3-5

Percent Savings by Total Appraised Val
Residential Property Under HR 5043



9-8

**Property Taxes on Commercial Property
Inventory Added in \$2,000 Increments**



3-7

The revolt begins

Area businesses d by '90 tax bills

Donnor
horst

reappraisal means higher tax bills for many Wyandotte County home-owners in Kansas City, Kan., Mayor Joe Steininger said. Steininger compared the horror stories of small business owners who are seeing their property assessed at a value far below fair market value, commercial property assessed at 30 percent. Steininger is concerned that the additional tax bill business owners could cripple the backbone of the city, Steininger said. "Reappraisal and pop places pump a lot of tax into the city," Steininger said. "Reappraisal affects the big boys because they have the option, and the homeowner is only getting 12 percent. It's the small business getting it on the chin." Steininger said that things rolling and this could kill the city, Steininger said. Mayor David T. Isabell, who said that he has a new sense of optimism about the city, also is worried. "I have a sense of optimism and hope in the city," Isabell said. "With everything from development in Fairfax (industrial development along) Inter-10, we are poised for explosive growth. The reappraisal issue doesn't damage

See Tax, pg. 3, col. 1

REAPPRAISAL IMPACT IN WYANDOTTE COUNTY

Percentage of tax bill change 1989 to 1990	Urban residential property		Urban commercial property	
	Total number parcels	Percentage of all residential	Total number parcels	Percentage of all commercial
Decrease 50% or less	277	.6%	12	.4%
Decrease 50 or more	234	.5	21	.7
Decrease 40 or more	386	.8	18	.6
Decrease 30 or more	918	1.9	20	.7
Decrease 20 or more	1,725	3.5	22	.7
Decrease 10 or more	2,924	5.9	48	1.6
Increase 1 to 10	4,678	9.5	43	1.4
Increase 10 to 20	5,873	11.9	55	1.8
Increase 20 to 30	6,241	12.6	75	2.5
Increase 30 to 40	5,569	11.3	78	2.6
Increase 40 to 50	4,531	9.2	96	3.2
Increase 50 to 60	3,708	7.5	107	3.6
Increase 60 to 70	2,899	5.9	115	3.8
Increase 70 to 80	2,192	4.4	102	3.4
Increase 80 to 90	1,660	3.4	115	3.8
Increase 90 to 100	1,237	2.5	110	3.7
Increase 100 to 200	3,382	6.8	997	33.3
Increase 200 to 300	424	.9	477	16.0
Increase 300 or more	561	1.1	479	16.0
	49,419	100.0%	2,990	100.0%
Average	30% to 40% range		80% to 90% range	
Median	30% to 40% range		100% to 200% range	

Star chart



and complaints from citizens about tax bills. Piner residents plan to present the complaints to officials at a forum Saturday. See story on page 3. (staff photo by Todd...)

TESTIMONY FOR HOUSE TAXATION COMMITTEE CONCERNING HOUSE CONCURRENT RESOLUTION

No. 5039 and HOUSE CONCURRENT RESOLUTION No. 5043

GOOD MORNING:

My name is Ruth A. Schrum of Manhattan. I am here today speaking for the Landlords of Manhattan as a member of their Steering Committee. I have also been asked my Jack Wahle, Chr. of the Board of the Geary County Landlords Assoc. to represent them. I am also representing my husband Neil and myself, and we own the Lamplighter Apt. in Manhattan. We have been in business since 1970. Our associations represent both large and small operators. Our associations feel that housing is not a luxury in America but it is a necessity. Our members supply this housing necessity and hope to make a profit from it. The apartment housing businesses provide shelter, comfort, and protection for all people. Our businesses provide opportunities for banks and loan companies, insurance companies and real estate companies. We provide jobs for architects, carpenters, plasters, painters, bricklayers, plumbers and electricians to name only a few. In Manhattan, we serve the housing needs of all including the Kansas State University student, and the Fort Riley military family. In Junction City, we serve the needs of all which includes many retired and active duty Fort Riley military families. The future economic development of apartment building is in jeopardy in these communities and I am sure in cities across the state if a Constitutional amendment is going to impose a 67 percent increase on our taxes.

One citizen should not be treated any differently than another as to residential property and this increase tax would do just that. Apartment living is a wave of the future because of the difficulties in financing private home purchases and the shortage of land in cities. Will this 20% rate increase my taxes? It certainly will and will cause me to rethink a building plan that we were planning to execute this summer to provide more housing.

Many people feel apartment owners make a lot of money but people saying that donot understand the business and the costs relating to it. Let me give an example of what is facing the apartment owner in Manhattan very soon.

A. We have had three 25% increases in water rates and a 15 % this year. This makes a 90% increase in the apartment water bill and also there has been increases in trash collection rates from private vendors.

2/13/90 attachment 4

- B. A bond issue to expand USD 383 schools this April for \$15, 000,000. and this was only the minimum costs for meeting the Board of Educations hopes.
- C. The Riley County Commissioners must build a new City Jail and a new landfill in conjunction with several counties.
- D. The City of Manhattan wants to establish building inspections for apartments with high fees for each apartment and the application of National Building Codes and other city ordinances which could close down apartments and cost other excessive costs in repairs.
This is what is facing us, and it is costing many anxious mementos for many owners.

I know other areas have the same challenges concerning their apartment businesses, so what we need is relief not grief and a different tax mix that will fund our schools and de-emphasize property tax for that purpose. According to Money Magazine, January 1990 issue, Kansas rank 28th in the nation as to the size of the tax bill they hand their citizens.

I donot envy your position in solving this dilemma, but I thank you for the opportunity to express these feelings and concerns.

We do not wish to raise the rent on all apartment renters in our cities. But most assuredly it will cause that effect in our cities and over the state. In conclusion, I would like to stress that our associations feel that we should have the classification of residential property. That's all we have ever been. To call us commercial to raise our taxes is an injustice. For those who say to us, and many city officials have, just add increases to your apartment rents. What is the fairness to other^s here. However, we have no other recourse, but we are adding a burden to many who cannot afford to pay high rents. Do we need a constitutional amendment to raise **rents** in Kansas? Please, carefully think over this decision. May I thank you on behalf of both Associations and myself.

Ruth A. Schrum
720 Midland
Manhattan, Kansas
913-539-3928
February 13, 1990



Kansas
Association
for
Small
Business

HOUSE TAXATION COMMITTEE

February 13, 1990

Re: HCR 5039 and HCR 5043

Chairman Roe, members of the committee, I am Mary Ellen Conlee, Executive Director of the Kansas Association for Small Business. Much has been said about the impact of reappraisal and classification on the small businesses of Kansas. For the past five years the KASB has represented its members, 200 companies in or serving manufacturing, in support of an improved business climate, believing that a strong industrial sector fuels the economy. Critical to that purpose has been the elimination of the merchants' and manufacturers' inventories tax. The two proposed amendments before you today are a step back from that goal. HCR 5039 phases out inventories taxes over 5 years and HCR 5043 places inventories back in the tax base at 30%.

The Kansas Association for Small Business strongly opposes the reinstatement of the inventories tax. During the development of the classification amendment 5 years ago, manufacturers understood

532 No. Broadway
Wichita, KS 67214
316 267-9984

Together
We Can
Make A
Difference.



2/13/90
attachment 5

that lower classification levels (12%) placed on homes and higher classification levels (30%) placed on commercial and industrial property meant higher property taxes for business. For that reason, business took this opportunity to address a long standing problem in the Kansas tax structure.

THE PROBLEM: The inventories tax had disadvantaged Kansas manufacturers in the national marketplace. Inventories are not a measure of the true value of a business. There are, instead, a component part of certain kinds of businesses. For example, the hardware store must maintain a full, expensive inventory to service customers while a restaurant uses up its inventory daily. The inventory tax, therefore, became a penalty tax for owning certain businesses.

For a manufacturing company, inventories are a combination of raw materials, work in progress, component parts and finished goods. The value of inventories result from business decisions unrelated to the income of a particular business. For example, high raw materials inventory may result from sound purchasing policies or from the varying delivery demands of customers. In a state with inventories tax, sound purchasing decisions based on volume discounts would need to be tempered by an analysis of the tax implications. In a different scenario, if a customer is managing inventory carefully, or has an inadequate cash flow, the subcontract manufacturer may be asked to hold finished goods--i.e.: higher inventories and higher taxes. Further, if a customer delays a purchasing decision, one of our companies may have to hold raw materials awaiting a new delivery date, i.e.: higher inventories and higher taxes.

A sluggish economy increases both raw materials and finished goods inventories. Therefore, the manufacturer and the retailer as well, pay an inventory tax penalty. The taxation of inventories is not equitable taxes for all businesses. It is an additional tax for certain kinds of businesses.

The Kansas Association for Small Business asks each of you to maintain a commitment to the elimination of the property tax on inventories. This was a sound decision by the Kansas Legislature in 1985, and by the people in 1986. The elimination of the inventories tax increases the competitiveness of thousands of small retail and manufacturing businesses in Kansas.

KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

1115 WESTPORT SUITE E • MANHATTAN, KANSAS 66502 • 913-776-0044



TO: HOUSE COMMITTEE ON TAXATION

SUBJECT: HOUSE CONCURRENT RESOLUTION NO. 5043

Mr. Chairman and members of the Committee:

My name is Dan Carlson, President of the Kansas Independent Automobile Dealers Association representing 332 used car dealers in the state of Kansas. I am here today to testify in opposition to House Concurrent Resolution No. 5043.

We do know that there is a very large taxation problem in our state, but we believe that a constitutional amendment change adding inventories needs further study and consideration.

The addition of motor vehicle inventory to classification will undoubtedly result in immediate economic consequences in terms of financial hardships, closing of automobile facilities, and further reduction of the work force which today numbers in the thousands. This comes at a time when the automobile industry today is facing one of the most severe depressions in its history due to foreign competition and higher interest rates.

We do appreciate the seriousness of the problem, but we would ask that a more comprehensive study be made before anything hasty is done.

Thank you for your time.

Individually we struggle to be heard—Collectively we cannot be ignored.

2/13/90 Attachment 6

STATEMENT BEFORE THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION
BY THE KANSAS MOTOR CAR DEALERS ASSOCIATION
TUESDAY, FEBRUARY 13, 1990

Re: Property Tax Classification Proposals

Mr. Chairman, members of the committee, I am Pat Barnes, legislative counsel for the Kansas Motor Car Dealers Association. Our trade association represents 330 franchised new car and truck dealers in Kansas.

As might be expected, we do not oppose the concept of property tax relief, review or equality. We do, however, have to oppose the inclusion of inventory in a property tax base such as the proposals with which we are dealing. I think you have all heard the criticism that we rely too much on property taxes, and an inventory tax is no different from that type of tax. Inventory taxes are inequitable. Inventories maintained by car dealers, including vehicles, parts, paint and other products, can exceed ten million dollars. Inventories are generally heavily financed. Taxing an inventory is not only taxing debt, but it is also taxing one business at a greater rate than a business of equal value which is not inventory intensive.

Repealing all forms of inventory tax made Kansas dealers much more competitive with car dealers in the surrounding states. Missouri, Colorado, Nebraska and Oklahoma all no longer tax motor vehicle inventories. Putting us back into the equation will be the best thing you could do for those states because we can't afford these taxes.

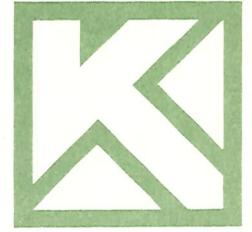
You may ask what alternative do we leave for you. Our answer is simply a broader base tax, or combination of such taxes, which would include income and sales taxes.

Thank you for the opportunity to appear today. I would be happy to address any questions you may have for me.

2/13/90 Attachment 7

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

HCR 5043

February 13, 1990

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Bob Corkins
Director of Taxation

Mr. Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Rather than present oral testimony to your committee on this proposal, I would like to briefly summarize our position and provide reference to other testimony of KCCI's for further elaboration on these issues.

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.

2/13/90

Attachment 8

KCCI opposes HCR 5043 for two primary reasons. First, it proposes to amend the present classification system -- a move which we believe is unwise and disadvantageous to the state's business community as a whole. The ultimate effects of reclassification are unknown and could only serve to benefit one class of taxpayers at the expense of another.

Second, KCCI opposes the reinstatement of the business inventory tax to any extent. The tax is arbitrary, inequitable, and it discourages economic growth. For details on these issues, I recommend that you refer to the written testimony KCCI presented regarding HCR 5039 on February 7, 1990, before your committee.

Thank you for your consideration.



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: FEBRUARY 13, 1990
SUBJECT: HCR 5043

Thank you for this opportunity to testify. On behalf of the Kansas Association of REALTORS®, I appear today not to support or oppose the concepts which HCR 5043 proposes, but to say that we do not believe it is the answer to the existing tax problems.

What has been proposed in this amendment might have been preferable over what was passed in 1985. However, we believe that in 1990, the answer to the property tax crisis which we face is not just a mere reworking of the classifications or the assessment rates. The answer lies in putting caps on the amount of property taxes which can be assessed against real estate and looking for alternative means for funding local government budgets.

Of the hundreds of people we have talked to across the state, one common theme which we have heard is, that property taxes are too high because they are used to pay for too many things.

Since 99% of all property tax dollars are spent at the local level, we feel the property tax burden should be reduced from 1989 levels and the local units of government should be given all avenues to finance their budgets to replace the property tax revenue. The local units should have more options for

2/13/90

Attachment 9

funding their budgets than they are now given by the state--this means sales tax, income tax, earnings tax, or whatever form of taxation the local units deem is appropriate and which is approved by a vote of the people.

We believe that, in conjunction with these local options, the next amendment which the people of Kansas should have a chance to vote for or against, is a constitutional cap on taxes at an effective rate of 1% for homes and 1½% for commercial and agricultural properties, with a cap on annual increases of no more than 3% each year. Without a constitutional cap on property taxes, when budgets get lean in later years, the local units will be tempted to go back to property taxes and start the vicious cycle again.

We believe the next constitutional amendment which goes on the ballot will need to be as simple and straightforward as possible. Taxpayers are going to need to look at the amendment, understand it and reasonably know how much their property tax will be, or they will not vote for it. At the same time, it must be a workable solution for the state. We believe that, while there are specific details to be worked out on our solution, it is a simple, workable solution to the problem.

We stand ready to assist you in developing the appropriate amendment.