

Approved _____

Date

Keith Roe
3/7/90

MINUTES OF THE House COMMITTEE ON Taxation

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

12:30 ~~xxx~~ p.m. on March 6, 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:

Bob Corkins, Kansas Chamber of Commerce and Industry
James Clark, Kansas Gas & Electric Company
Mike Reeht, AT&T
David Freeman, Peoples Natural Gas Company
Roland Smith, Wichita Independent Business Association
Bernie Koch, Wichita Area Chamber of Commerce
Mary Ellen Conlee, Kansas Association for Small Business
Dee Likes, Kansas Livestock Association
Alan Alderson, Alderson, Alderson, Montgomery & Newbery, Attorneys at Law

The minutes of March 2, 1990, were approved.

Bob Corkins, Kansas Chamber of Commerce & Industry, testified in opposition to HCR 5052, stating that the inventory tax is unfair, it hampers business growth and competitiveness, and that it should remain extinct. (Attachment 1)

James Clark, Kansas Gas & Electric, testified in opposition to HCR 5052, stating that increasing state assessed property appraisal values from 30 to 35% would add about \$4.5 million per year to the electric bills of KG&E customers. (Attachment 2)

Mike Reeht, AT&T, testified in opposition to HCR 5052, stating that it proposes a constitutional amendment that would impose an unfair and inequitable tax burden on public utilities. (Attachment 3)

David Freeman, Peoples Natural Gas Company, testified in opposition to HCR 5052, stating that it will cause the overall cost of doing business in Kansas to increase for all companies. (Attachment 4)

Roland Smith, Wichita Independent Business Association, testified in opposition to HCR 5052, stating that their position at this time is to support the reopening of the constitutional amendment and placing all the exemptions and classification of property in the hands of the legislature with the provision that these decisions would require a 60% vote in each house in order to pass. (Attachment 5)

Bernie Koch, Wichita Area Chamber of Commerce, testified in opposition to HCR 5052, stating that taxing inventories not only puts them at a disadvantage with competitors in other states, it's not a measure of wealth. (Attachment 6)

Mary Ellen Conlee, Kansas Association for Small Business, testified in opposition to HCR 5052, stating that this bill places the heaviest increased taxes on business machinery and equipment. (Attachment 7)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation,
room 519-S, Statehouse, at 12:30 a.m./~~p.m.~~ on March 6, 1990.

Dee Likes, Kansas Livestock Association, testified in opposition to HCR 5052, stating that reimposing a tax on livestock would cause severe economic harm to the livestock and grain industries specifically, and also have a broad negative impact on the entire Kansas economy generally. (Attachment 8)

Alan Alderson, Topeka Attorney, testified in opposition to HCR 5052, stating that reimposition of the inventory tax would be the most unfair and economic growth-discouraging tax ever imposed under Kansas law. (Attachment 9)

Written testimony on HCR 5052 was provided by:

Paul Fleener, Kansas Farm Bureau (Attachment 10)
Ed Schaub, Kansas Power & Light (Attachment 11)
Denny Koch, SW Bell Telephone (Attachment 12)

The Chairman concluded the hearing on HCR 5052.

Chairman Roe directed the Committee to turn to SB 332.

A motion was made by Representative Wagnon, seconded by Representative Aylward, to amend SB 332 as shown on attached balloon. (Attachment 13)
No action was taken on the motion to amend. *** See note below

The Chairman announced that the Committee will meet at 1:00 p.m. on Wednesday, March 7, 1990.

The meeting adjourned at 2:10 p.m.

NOTE: Many of the provisions of SB 467 (which has been killed by the House of Representatives) were proposed and amended into SB 332 as shown in Attachment 13. <

HOUSE COMMITTEE ON TAXATION

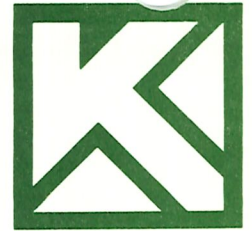
DATE 3/6/90

NAME	ADDRESS	REPRESENTING
Orin Papay	Wichita	Grant / Stanton
Alan Steppat	Topeka	KLPG - McG. II & Assoc.
Timothy N. Hageman	LAKIN	KLPG
Mike Germain	Wichita	BCAG - Wichita Division
Julio Klein	Topeka	Klein & Ebert
FRANCES KASTNER	Topeka	KS Food Dealers Assn.
Dick Deaver	Wichita	The Coleman Co.
ORRIS JONES	Topeka	-
Kara Lane	Topeka	KAR
BEV BRADLEY	TOPEKA	KS Assoc of Counties
TREVA POTTER	TOPEKA	PEOPLES NAT. GTS
DAVIDA FREEMAN	WICHITA	"
John McSwain	Topeka	observer
John Luttjohan	Topeka	Dept of Revenue
Jacque Orkes	Topeka	Ks. Ind. Auto Dealers Assn.
Kevin Allen	Topeka	Ks. Motor Car Dealers Association
ALAN COBB	TOPEKA	ANDERSON, CONLEE & ASSOC.
RH Grant	Topeka	Dept of Rev
Bob Conkins	Topeka	KCCI
Warren Fisher	Manhattan	Kansas Farm Bureau
Art Brown	KC mo	KS Lumbermen's Assn
ALAN ANDERSON	TOPEKA	WESTERN RETAIL IMPLEMENT AND HARDWARE ASS'N / KS. LUMBER DEALERS
Cindy Gilpin	Topeka	Budget

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV 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 5052

March 2, 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:

Thank you for the chance to appear today regarding HCR 5052 and its proposal to change the property tax classification amendment. My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I am here once again to present our firm objections to the reinstatement of the business inventory tax in any form.

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.

3/6/90

Attachment 1

For decades, KCCI, other affected Kansas interest groups, and impartial economic experts have recited a litany of reasons for abolishing the inventory tax. Despite the valid justifications for its repeal, and despite the collective wisdom represented in 1986 by the votes of two-thirds of this legislature and a majority of the voting public, proposals seeking to reinstate this unjust tax continue to surface. We maintain that such proposals, including HCR 5052, are misguided and shortsighted with respect to the future economic health of this state.

KCCI's membership has repeatedly affirmed its belief in this conclusion. In the last twelve months, KCCI has polled its members on three separate occasions about the inventory tax. Over 90 percent have indicated that the tax is unfair, that it hampers business growth and competitiveness, and that it should remain extinct. This belief has remained constant throughout our polling and still predominates even despite various alternative property tax proposals recently set forth.

Our latest poll focused on a comparison of the current classification amendment against two general alternatives. One alternative is to reinstate the inventory tax, phase it out, and lower the assessment rate applied to commercial realty by one-third. The other alternative we presented was to permanently reinstate the inventory tax, exempt the first \$200,000 worth of inventory held by each business, and lower the assessment rate applied to commercial realty by one-third. We asked our membership to rank these three options and to indicate if any one of them would be unacceptable under any circumstances.

After receiving approximately 600 responses to date, the results show that the present classification amendment is the first choice -- and in many cases the only choice -- of a majority of KCCI's membership. In fact, it leads the next most popular of the three options by at least a two-to-one margin across the state. We divided the state into six regions: western, north central, south central, northeast, southeast, and a four county combination of Leavenworth, Wyandotte, Johnson, and Miami. We also asked respondents to indicate the size (number of employees) and type of business they conduct. The categories of business type which we listed were: manufacturing or construction,

retail, wholesale, restaurant/tavern, hotel/motel, financial institutions or insurance, and other professional services.

These are the observations which we have been able to discern so far from our raw data:

1. The first-place votes for the status quo option outnumber the first-place votes for the next most popular option by two-to-one in five of the six regions. In the sixth region the ratio favors the status quo by three-to-one.
2. The results from each class of business type are the same as the results for the region in which the business class is located, but with the following exceptions:
 - a. southeast Kansas retailers, hotel/motel operations, and financial/insurance firms did not favor the status quo.
 - b. financial/insurance firms also in north central, northeast, and the Kansas City region did not favor the status quo.
 - c. the "other professional services" class in the northeast region and the Kansas City region did not favor the status quo.
3. The results for each class of business size were the same as the results for the region in which the business size class is located.
4. The breakdown of first-place votes for each option according to the size of responding businesses was the same for each option. Of all businesses favoring the status quo, 33% have 0-15 employees; 27% have 16-50 employees; 26% have 51-200 employees; and 14% have over 200 employees. Each of these percentages, plus or minus five percent, was the same for all businesses favoring the inventory phase-out option and for all businesses favoring the inventory threshold option.

Though these aggregate results indicate that any reinstatement of the inventory tax would be objectionable to most of our members, other figures suggest that HCR 5052 would be particularly objectionable. HCR 5052 is most analogous to the threshold option included in our poll. That option received the least support of the three. Furthermore, of the respondents which indicated that a particular option would be unacceptable under any circumstances, the threshold option was rejected one-fourth more frequently than the phase-out option and over twice as frequently as the status quo. When you consider that HCR 5052 would grant partial inventory exemptions to fewer types of businesses than would the threshold option we listed in our survey, the business support for the resolution we are discussing today drops even lower.

Again, thank you for the opportunity to speak and for your time and consideration of these issues.

TESTIMONY: JAMES T. CLARK
VICE PRESIDENT-ACCOUNTING
KANSAS GAS AND ELECTRIC COMPANY

Increasing state assessed property appraisal values from 30 to 35% would add about \$4.5 million per year to the electric bills of Kansas Gas and Electric Company customers.

KG&E's tax bill was virtually unaffected by the changes which followed the constitutional amendment and reappraisals. Our property taxes including inventory in 1988 were \$28 million, they were \$27.9 million for 1989 and are expected to be \$29.6 million for 1990. As you can see, the much discussed tax change did not benefit KG&E or its customers. This proposed increase of \$4.5 million in operating costs would necessarily be passed along to customers. Regulators generally view property taxes as a cost of service to be recovered from utility customers.

KG&E earlier had agreed to a rate increase moratorium until at least 1992 unless unexpected additional costs should occur. A tax increase of this great magnitude would doubtlessly compel the company to consider this an emergency and request a rate increase. This is particularly true in light of Corporation Commission decisions earlier this year which require the company to reduce some rates and to give back to customers funds collected as part of a fuel adjustment.

The proposed increase also would burden state citizens unfairly. While customers of an investor-owned company like KG&E would be compelled to pay a 17% tax increase in their electric bills, the thousands served by municipally owned utilities would escape the increase entirely. Careful thought is required before ordering such a discriminatory tax increase.

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Attachment 2



Mike Reecht
State Director
Government Affairs
Kansas

Capitol Tower
400 SW 8th Street, Suite 301
Topeka, KS 66603
Phone (913) 232-2128

AT&T COMMENTS ON KANSAS
HOUSE CONCURRENT RESOLUTION NO. 5052

HCR 5052 proposes a constitutional amendment that would impose an unfair and inequitable tax burden on public utilities, such as AT&T Communications, a regulated long distance carrier in Kansas. Due to this obvious discrimination AT&T Communications is opposed to HCR 5052.

Under the proposed amendment, a public utility's real and tangible personal property would be subject to taxation at 35% of fair market value. All other classifications would be assessed at a lower rate. All other industrial, commercial and rail transportation property would be subject to taxation at 25% of assessed value for real property and at 30% of assessed value for tangible personal property.

There is no reasonable distinction between AT&T Communications and other industrial and commercial concerns. AT&T Communications operates in the highly competitive long distance business and does not maintain a captive customer base. We cannot simply shift the property tax burden to our customers without risking losing them to competitors or onto private systems. For example, a large firm could purchase its own telecommunications network which would be assessed at a 25% rate while our network is assessed at 35%. Shifting the property tax burden through long distance bills is not consistent with the proposition that our tax system should operate on a uniform and equal basis.

Classification has placed utilities in a discriminatory class, assessed at a higher percentage of fair market value than other business properties. The apparent motivation underlying such a program is the belief that either the utilities "can afford it" or "they can pass it on to customers". In today's environment, utilities can no longer afford to carry this disproportionate tax burden, nor is it fair to impose it on customers. This shift of tax burden results in a regressive tax because of the essential nature of utility services. A low-income customer spends a greater proportion of his income on such essential services than does the wealthy customer. The resulting taxes hidden in utility rates fall disproportionately on the low-income and fixed-income customers. This regressive burden is aggravated by any tax system which levies a heavier tax burden on utilities than other taxpayers.

It is our recommendation that AT&T as well as other utilities be classified the same as other businesses, including commercial, industrial and manufacturing.

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Attachment 3

BEFORE THE STATE OF KANSAS
HOUSE OF REPRESENTATIVES TAX COMMITTEE

Testimony of David A. Freeman
Manager of The Kansas Pipeline System for
Peoples Natural Gas Company,
Division of UtiliCorp United Inc.
on House Concurrent Resolution No. 5052

Good afternoon, my name is David A. Freeman. I am the General Manager of the Kansas Pipeline System or KPL, whose headquarters is located in Wichita. The KPL System is a unit of the Peoples Natural Gas Company. In addition to the KPL system, Peoples distributes natural gas in several communities in southwest Kansas and is one of the divisions of UtiliCorp United Inc. whose headquarters is located in Kansas City.

I am here today on behalf of Peoples to testify on House Concurrent Resolution No. 5052. As you know, HCR No. 5052 changes the level of assessment for both real and personal property. Specifically, HCR No. 5052 decreases the level of assessment on real property to homeowners, lot owners, and others by increasing the level of assessment on personal property.

Although Peoples agrees that the Legislature should decrease the burden on homeowners, it finds that the method chosen for decreasing this burden is one to which Peoples must object. Accordingly, Peoples requests this Committee to not pass this Resolution out of Committee. Please let me explain.

As a homeowner in Kansas, I would enjoy a reduction of my property taxes. However, as a businessman who works for a utility, I have an opportunity to see and understand the adverse impact that this Resolution will have on the citizens of Kansas. The impacts that I refer to

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Attachment 4

are higher charges for goods and services, a loss of industry, and the elimination of valuable jobs.

The cause and effect of an increased personal property tax is not confined to regulated companies alone. As a result of this Resolution the overall cost of doing business in Kansas for all companies will increase, as will the cost for those services. My testimony will confine itself to my expertise as an employee of a regulated utility.

For example, Peoples calculates that HCR No. 5052, if enacted, will cause a sixteen (16) percent increase of its overall personal property taxes in Kansas. As a public utility, this tax would be deemed a legitimate business expense that could be passed on to its customers, many of whom are residential homeowners. This fact is true for all utilities in Kansas, no matter whether they are gas, electric, or telephone.

Moreover, not only will utility customers pay a higher cost for service as a result of the increased tax, they may also bear the additional expense when utilities find it necessary to file rate cases to collect the increased tax costs.

Another side effect of HCR No. 5052 is that Peoples' industrial customers may find it economical to bypass our facilities and buy directly from an interstate carrier or to switch to an alternative fuel if our cost of service is increased significantly. The loss of the industrial customers and the significant amount of contribution that they make toward reducing fixed costs would occur since an interstate carrier can spread its cost of service over a system spanning several states, while a Kansas

utility cannot. The contribution made by these industrial customers to our fixed costs would then be borne by the remaining residential customers. Again, the same would be true for all gas utilities.

In addition to a higher cost of service, this tax bill will put more economic pressure on Kansas industry at a time when other states are offering tax credits to lure business into their states. Simply put, a personal property tax increase could not only drive industrial customers off Peoples' systems, but out of our state entirely and thereby causing further increased costs to remaining customers. The point I want to stress is that industrial customers contribute a large portion to Peoples' fixed costs and thereby reduce the cost of service to residential customers.

In the same vein, a loss of industry to Kansas would mean not only higher utility bills for Kansans, but also a loss of overall employment opportunity. With a higher property tax, companies will decide not to come to Kansas or others may decide to leave Kansas which in turn reduces the number of jobs available to all Kansans. With fewer jobs available the number of those who will eventually pay the tax is also smaller. Imagine how upset one would be after losing a job and then returning home only to find higher bills, including a higher tax bill, waiting. Peoples believes that this scenario is more than pure speculation. Thus, we argue that HCR No. 6062 is not the most efficient way to collect taxes.

So, you ask, "What is our solution?" Unfortunately, Peoples does not have the perfect answer. However, it does have some suggestions. First, although not an easy pill to swallow, Peoples suggests that the Kansas Legislature impose fiscal restraint on local taxing units by either spending less or reallocating monies from other programs instead of increasing taxes.

Second, perhaps this Committee could (a) reduce the tax burden on some homeowners by offering those who have suffered a tax increase some type of tax credit, or (b) offer additional homestead exemptions for those who have had additional tax burdens shifted onto them.

Lastly, Peoples notes that many of the more vocal proponents of this Resolution are the same parties who benefited from lower tax assessments for many years prior to the changes that resulted in the current tax structure. Another approach for this Committee to take is to vote no on this bill and at the same time communicate to the proponents that the current tax structure is not as unfair as they believe. That is, a reduction in past tax benefits, which others might argue was subsidization, should not be looked upon as a significant burden to a particular class of taxpayers but rather as a levelization of assessments which includes "fair market value" as a component of that assessment. Government works for everyone on a nondiscriminatory basis and should be paid for by similarly situated taxpayers nondiscriminatorily.

To conclude, Peoples agrees that this Committee should decrease the burdens on homeowners when possible. However, the method chosen for

decreasing this burden will not achieve this goal. To remedy this dilemma, this Committee should do something besides assessing a greater personal property tax. If you want to provide tax relief for residential homeowners who have been subject to tax increases over the past few years, then concentrate on a mechanism which shifts the tax increases to those taxpayers who benefited most from the past property tax changes. Or convince the proponents of HCR No. 5052 that the current tax structure is fair. As written, HCR No. 5052 will only raise the cost of service of industry in Kansas, will reduce the amount of industry in Kansas, and thereby eliminate jobs. Therefore, since the eventual costs of this bill greatly outweigh the benefit of this bill, we request that you do not pass HCR No. 5052.

Thank you for letting me testify before this Committee. If you have any questions, I will be happy to answer them.



David A. Freeman

March 6, 1990

j/DL-16

WICHITA INDEPENDENT BUSINESS ASSOCIATION
2694 West 9th Street Suite 103 Wichita, Kansas 67203
316-943-2565 Fax 316-943-7631

March 6, 1990

STATEMENT TO: Kansas House Committee on Assessment & Taxation
SUBJECT: WIBA position on proposed legislation regarding classification
FROM: Roland E. Smith, Executive Director for the Wichita Independent
Business Association.

Mr. Chairman and members of the committee, I thank you for the opportunity to explain WIBA's position in regards to the problem of classification. I am Roland Smith, Executive Director for the Wichita Independent Business Association. WIBA is an association of over 1400 locally owned businesses in the Wichita trade area. Over 90% of our members are businesses with ten or less employees. There are 405 different types of businesses in the WIBA membership, encompassing a very wide range. The vast majority would fall in the general area of service type businesses. A few retail and manufacturing business. WIBA is different than many business organizations in that the dues structure does not take into account the size or the sales volume of the business. Koch Industries, our largest member pays the same dues as Mom and Pop in their operation, thus giving no one business the leverage in WIBA policy direction out of fear of losing their support. WIBA also does not receive any public funds so we can not be intimidated by any government entity when we challenge their budgets or public policies.

The vary structure of the WIBA membership places us in a position where we have members that benefited by elimination of the merchants and manufacturers inventory tax and a far larger group adversely affected by the 30% classification as owners or renters of industrial and commercial property. As an organization we are faced also with the problem of what policy is best for the total economic picture without scuttling a particular segment of the business community. Much of the testimony I have heard so far this session is best characterized in the statement of one conferee early in the session "Please Don't Shoot My Bear!" All the special interest groups have been very persuasive in their presentations. However, the horror stories you have heard businesses are very real when it comes to the impact on many small service oriented businesses.

Regardless of what is done this session tremendous damage has already been done to many small businesses. To wait and see and do nothing will cause even more. There needs to be a more flexible method of finding the solutions over a period of time than placing percentages and exemptions in the constitution and repeating the mistake we made in 1986 in voting for classification along with reappraisal. The lack of confidence in determining the appropriate percentages for the classes of property is apparent in all the discussions I have heard here in the legislature as well as at home.

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it is WIBA's position that you as legislators need to be in a position where the voters can hold you responsible for the decisions determining property tax classifications and exemptions on an ongoing basis that will reflect the needs of the Kansas economy. The decisions made in 1990 on classifications and exemptions may be not appropriate by 1995. The serious error in 1986 illustrates the point. To say all that is happening to the industrial and commercial property owners will come out ok over time is to admit you approve of over-shifting the tax burden to a specific class at any cost. Yes! it is true it that it will work itself out in the long run if you don't care about the casualties.

WIBA's position at this time is to support the reopening the constitutional amendment and placing all the exemptions and classification of property in the hands of the legislature with the provision that these decisions would require a 60% vote in each house in order to pass. The object of this position is to get every thing out on the table for review again and have the flexibility to change as the need arises. Many legislators feel this is a free-for-all and a too time consuming of an approach. Yes..it would be difficult... but a better opportunity to be fair and not use the constitution as a cop out for being responsible.

WIBA believes the property tax base should be broadened, also add the revenue from a broadened sales tax base by eliminating many exemptions now in place. Then directing those sales tax receipts back to the local districts where it was collected to lower the property taxes. Inventory taxes are unfair and need to be exempted if at all possible. WIBA will not support an increase in the state sales tax rate or local option taxes.

None of the propositions to place an effective lid on local budgets are workable from a practical stand point. Also they give reductions in areas where it is not needed and not enough in the most needed areas. WIBA would support a workable tax lid if presented.

It is unworkable, but the best ways really to lower local property taxes is to have residential property owners pay a larger portion of the taxes and then they would probably decide they didn't need so many services or even replace some of the local officials with persons that would cut some of the spending. This will never happen because they are the bulk of the voters. Any form of classification is a way to hid part of the tax burden by placing in on businesses so they have to raise their prices and collect it from the public indirectly. Businesses have less votes and therefore have to accept this concept.

If there are any questions I'll be glad to answer them. Thank You!

HOUSE TAXATION COMMITTEE
March 2, 1990

TESTIMONY ON HCR 5052
by
Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the committee. Thank you for the opportunity to testify on HCR 5052. I'm Bernie Koch with the Wichita Area Chamber of Commerce.

I've testified to this committee previously about our opposition to returning inventories to the tax rolls. I'll just briefly remind you that Sedgwick County's economy is heavily dependent on manufacturing, that the greatest growth in jobs is coming from existing manufacturing, and that our aircraft industry is facing stiff competition from foreign aircraft manufacturers who are heavily subsidized by their governments.

HCR 5052 puts inventory tax back on our manufacturers and increases the tax burden on industrial machinery and equipment. Our small manufacturers in particular feel that taxing inventories is unfair. It not only puts them at a disadvantage with competitors in other states, it's not a measure of wealth. When business is good, inventories can be small. When business is bad, inventories can grow. The tax becomes a burden at a time when the business can least afford to pay it. Why should we tax inventories? What's the justification?

Likewise, the proposed increase in industrial machinery and equipment comes at a time when we want to encourage our small manufacturers to replace old equipment with modern machines that will keep them competitive.

I'd like to point out something else about this constitutional amendment that doesn't have to do with manufacturing. Our second greatest growth in jobs recently has been in the telecommunications field. These are service industries that have been hurt by classification and the tax changes it's brought. These companies have a lot of highly technical equipment which would see a 50% personal property tax increase under this amendment. You could very well be increasing their property tax burden rather than providing them with relief.

In conclusion, I would ask that you be extremely careful in your deliberations. Some of these small machine

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Attachment 6

shops are operating on an extremely slim profit margin. One owner told me by phone last night significant tax increases will force some to shut down or move to another state. They sometimes think they're crazy to be located in Kansas because of the tax burden. Please don't try to help one part of the business community by hurting another.

Don't chop up the front door for firewood because the house is cold.

Thank you for the opportunity to testify.



3526 N. Oliver • Wichita, Kansas 67220
(316) 684-1540 • FAX (316) 684-5627

March 1, 1990

Mr. Tim Witsman, President
The Chamber
350 West Douglas
Wichita, Kansas 67202

Dear Mr. Witsman:

As a holding company with investments in small manufacturing companies we must compete with manufacturing companies in other parts of this country and other parts of the world. The taxes that we are required to pay have to be included in the cost of the products we manufacture. If our tax burden becomes too high, we can no longer compete and we either export the jobs or somebody in a more favorable tax climate will take the business from us.

From a historical standpoint our companies total taxes per employee have increased from \$3,149 per employee in 1986 to \$8,500 per employee in 1989, a period of four years. Twenty years ago we had no payroll or employees. Today our annual payroll is in excess of \$7,000,000 for our more than 300 employees.

The recent change brought about by reappraisal and classification has up to this point had a favorable impact on our company. Our real estate taxes have gone up 61% and our personal property taxes have gone down 75%, for a net improvement of a tax decrease of 36%.

We believe that the current law on "classification and reappraisal" will be beneficial to our companies, our employees and our community. It will assist us in our future growth plans. We believe that the inventory tax is the most regressive tax that can be placed on a manufacturer. It burdens a company in both good and bad times and can destroy a company's equity in any recessionary business climate.

Please feel free to use my comments in The Chambers presentation to the legislature.

Sincerely,

GREAT PLAINS VENTURES, INC.

C. D. Peer
President

AUTOMATION-PLUS, INC.

CONTROL SYSTEMS FOR AUTOMATION

6053 SOUTH SENECA
WICHITA, KANSAS 67217
(316) 529-2345

WICHITA AREA CHAMBER OF COMMERCE
350 West Douglas
Wichita, Kansas 67202

Attn: Mr. Tim Wittsman
Mr. Bernie Koch

This letter is written to express our concern on the pending reinstatement of the inventory tax and increase in property taxes.

We are in the business of providing engineered solutions for increasing manufacturing productivity and quality through the use of advanced technology.

To provide quick turnaround and service to our customer base we must maintain an extensive inventory of products. Our quick response to customer requirements has allowed us to compete with the large, lower priced competition coming from Tulsa and Kansas City, Missouri. A reinstatement of the inventory tax will force us to reduce our inventories and lose our advantage over the out of state firms.

In addition, to provide the systems that our customers are asking for requires a heavy investment in capital equipment. Any increase in the property tax rate on equipment will force us to pass our cost onto our customers, again weakening our position against the larger out of state firms.

Your efforts to maintain the current tax situation with respect to inventory and property are greatly appreciated.

Sincerely,

AUTOMATION PLUS, INC.
Douglas E. Wohlford
DOUGLAS E. WOHLFORD
President

Wichita Tool Company, Inc.

P.O. BOX 17278 6053 SOUTH SENECA
WICHITA, KANSAS 67217

(316) 529-2222
FAX: (316) 529-4364

February 28, 1990

WICHITA AREA CHAMBER OF COMMERCE
350 West Douglas
Wichita, Kansas 67202

Attn: Mr. Tim Witsman
Mr. Bernie Koch

This letter is in regards to the pending tax changes and their impact on our local economy and the State of Kansas. The small business owners are still trying to overcome the added expense of increased real estate taxes. A reinstatement of the inventory tax, or an increase in the property tax could thrust many businesses into bankruptcy.

We are in the business of building injection molds for the plastics industry. An inventory tax is unfair in our type of business due to the "turn-around" time factor involved in purchasing inventory items for use in the manufacture of a mold. From customer order to finished product, a mold could take anywhere from six weeks to twenty-six weeks, depending on the size and complexity. At any given time, as much as 20% of our sales could be tied-up in inventory.

To manufacture our product takes a large capital equipment investment. The recent reduction of the property tax was a welcome relief amidst the constant increases incurred in operating costs. To be competitive in today's market, businesses must be able to maintain their existing machinery while acquiring new equipment to modernize methods of increasing productivity.

Our taxation stature makes it very hard to compete with surrounding states. One of our major customers is located in Texas. To continue doing business, we must hold our pricing, unable to pass on the additional tax burden. This is a definite advantage for our competition located in other states not experiencing the recent tax increases Kansas is incurring.

To help you understand our product, enclosed you will find a picture of an injection mold producing a part for a lawnmower control. This mold was one of four sold to our customer in Texas, a sales of approximately \$150M. We can not continue to vie for this business with the tool shops located in the Texas area, as our cost of doing business continues to rise.

6-5

Wichita Area Chamber of Commerce
February 28, 1990
Page -2-

Your efforts to lower, or at least maintain the tax problems facing today's business owners will be appreciated. We need to realign our tax values for the growth and well being of our State's economy.

Sincerely,

WICHITA TOOL COMPANY, INC.

Bill Pritchard
BILL PRITCHARD
President

BP:lp



conveyor, inc.

3526 n. oliver st., wichita, kansas 67220 • (316) 688-0000

March 1, 1990

Mr. Tim Witsman, President
The Chamber
350 West Douglas
Wichita, KS 67202

Dear Mr. Witsman:

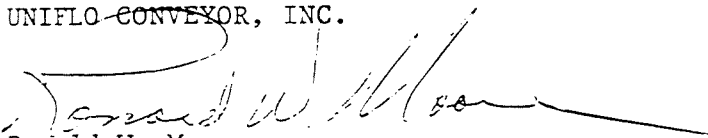
This letter is to make you aware of our Company's strong position against any possibility of restatement of property taxes on inventory.

Our Company is in a very competitive industry competing with many national and international concerns. The conveyors that we manufacture are important productivity tools used by other manufacturers and distribution services. All sales made by us either bring money into Kansas from other states or keep Kansas companies from buying equipment from out of state conveyor manufacturers.

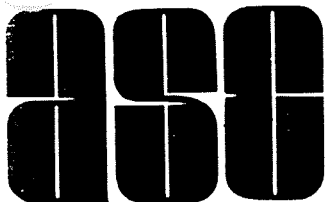
Forty three states do not have inventory taxes. With our major competitors located in states that do not tax inventories, how are we to be competitive! Like all our expenses, this tax must be added on to the selling price and increases our prices. Some Kansans finally recognized how ludicrous it was to tax inventory when our neighboring and most other states do not tax it. Let's not regress. Taxing inventory will simply add to the list of items that keep business and jobs from coming to Kansas. It may even contribute to driving current business out of Kansas. It is vitally important to this community and State to maintain a manufacturing job base.

Sincerely,

UNIFLO-CONVEYOR, INC.


Ronald W. Moore
Vice-President

/cg



AEROSPACE SYSTEMS & COMPONENTS, INC.

1620 SOUTH BROADMOOR • WICHITA, KANSAS 67207
PHONE: (316) 686-7392 FAX: (316) 686-8542

March 1, 1990

Mr. Tim Witsman, President
The Chamber
350 W. Douglas
Wichita, Kansas 67202

Dear Mr. Witsman:

All taxes are a hindrance to the growth and financial strength of small growing manufacturing companies, but the cruelest and most devastating tax of all is the inventory tax.

As a small manufacturer we have experienced the burden of paying taxes on inventory which we didn't want and which had little current value because of schedule stretch outs by our customers during a business slow down.

We paid personal property taxes (primarily on inventory) while losing money each year from 1982 to 1987. Our major stockholder, fortunately, made capital contributions to offset our losses. We survived and currently have an annual payroll of more than \$700,000 and 31 employees.

We believe the current tax law with classification and reappraisal to be a significant improvement over past tax laws for the small manufacturer. Reinstatement of the inventory tax would be a significant set back to our plans for future growth and expansion.

Sincerely,

AEROSPACE SYSTEMS & COMPONENTS, INC.

A handwritten signature in black ink that reads "Kenneth Rix". The signature is written in a cursive, flowing style.

Kenneth W. Rix
Vice President

/ts

TESTIMONY PRESENTED TO
THE HOUSE TAXATION COMMITTEE
March 2, 1990

Mary Ellen Conlee

RE: HCR 5052

Chairman Roe, members of the committee -- thank you for the opportunity to address you again regarding property taxes, reappraisal and classification. While recognizing that HCR 5052 has been presented as a compromise, it is not acceptable to the Kansas Association for Small Business, an organization which represents approximately 200 small manufacturing businesses.

The last time I testified before this committee, I spoke of the importance of the inventories tax exemption as part of any legislation which would have the support of small manufacturers. This component continues to be essential. The inventories tax places Kansas manufacturers at a disadvantage in the national marketplace. The cost cannot be passed on to the customer. As Bob Winkler, President of Mid-Central Manufacturing stated, "You can't go to your suppliers and increase your prices because you got the work on a competitive bid in the first place."

Instead, other costs of doing business would need to be reduced in order to remain competitive. For example, while profits could be reduced, if they fell below a reasonable return on investment, a manufacturer would reach a point where it would be wiser to make alternative investments. In the aggregate, the number of manufacturing jobs would decline in Kansas. On the other hand, a manufacturer could stay competitive by holding wages down, resulting in declining income in Kansas. Neither scenario defines a vibrant economy.

In addition to the unacceptable restoration of manufacturers' inventories to the tax base, HCR 5052 places the heaviest increased taxes on business machinery and equipment. A significant measure of economic growth and vitality is always capital investment. This proposal would deter that capital investment.

When asked in this committee whether the companies I represent would prefer an increase in the business machinery and equipment classification from 20% to 30% or an elimination of the 7-year straight-line depreciation, I discussed the importance of the consistency which 7-year straight-line depreciation has provided vis-a-vis the earlier concept of "trending

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Attachment 7



Kansas
Association
for
Small
Business

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

Together
We Can
Make A
Difference.

Testimony to House Taxation Committee
March 2, 1990
Page 2

factors" for valuation of machinery and equipment. While HCR 5052 maintains 7-year straight-line depreciation, an advantageous factor for manufacturing, it increases taxing levels for machinery and equipment while decreasing taxes on commercial buildings, residential property including apartments, vacant lots and non-profit benevolent and charitable associations. The overall effect of HCR 5052 would be a return to high, non-competitive taxes on manufacturing -- a return to a negative business climate for Kansas.

The choice for the small manufacturers I represent is either investment in new machinery and equipment or closing their businesses. Manufacturing technology is changing and business must keep up. Where a grinding machine, if replaced at the same level of technology, may cost \$30,000, a small CNC computerized machine, necessary to do the job at today's tolerance level, would cost \$100,000. The prime contractor now prefers to send orders on computer tape. Subcontract manufacturers which will be in business in 5 years must convert to this new expensive technology.

The modern machine shop, the support system for aircraft and farm machinery manufacturing, may be housed in real estate valued at \$200,000, while owning 2 million dollars worth of machinery and equipment. A tax system that singles out this machinery and equipment for the highest levels of taxation says "don't grow in Kansas."

The Kansas Association for Small Business understands the dilemma facing each of you as you try to devise an equitable taxing system. Nevertheless, we must oppose HCR 5052 because it attempts to solve the problems of high property taxes in Kansas by shifting the burden to manufacturing.

MEC/jw
1/HCR5052



6031 S.W. 37th Street • Topeka, Kansas 66614-5128 • Telephone: (913) 273-5115
FAX: (913) 273-3399

Owens and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

STATEMENT OF
THE KANSAS LIVESTOCK ASSOCIATION
TO THE HOUSE COMMITTEE ON ASSESSMENT AND
TAXATION
REPRESENTATIVE KEITH ROE, CHAIRMAN
WITH RESPECT TO
HCR 5052
PRESENTED BY
DEE LIKES, EXECUTIVE VICE PRESIDENT
MARCH 2, 1990

KLA appreciates the frustration that many of you are experiencing in attempting to deal with the property tax issue and we thank you for giving us this time to express our position and reemphasize our concerns.

In brief, KLA is strongly opposed to reopening the classification section of the Kansas Constitution. We believe that adjusting the assessment rates will simply exchange one set of problems for a new set of problems and we believe that some classes of taxpayers have more to lose than to gain. When Professor Fisher summarized his report to you recently, one of the most significant conclusions he revealed is that a large portion of the complaining which is being done is coming from taxpayers within various property classes who were vastly underappraised prior to reappraisal. In other words, he said that it was inevitable that these people would experience increased valuation on their property and that many of them would therefore receive property tax increases. I submit to you that this will be no different even with a new constitutional provision which overhauls property tax assessment rates.

HCR 5052 would give the legislature broad authority to exempt portions of a class and to further subclassify and to exempt various types of property. The effect of this will be tantamount to creating a "political football" which will be the subject of unnecessary struggle and controversy each and every legislative session.

Of primary concern to KLA are the provisions which seek to reimpose the inventory tax. It is our sincere belief that to reimpose a tax on livestock would cause severe economic harm to the livestock and grain industries specifically, and also have a broad negative impact on the entire Kansas economy generally.

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Please consider these points as you formulate your opinion relative to this issue:

If cows were valued at \$700 per head and assessed at 25% in a hypothetical county with a property tax levy of 100 mills, the calculation becomes $\$700 \times .25 = \175 assessed valuation \times 100 mills = \$17.50 property tax per cow annually. In the case of a livestock producer weaning 400 lb. calves from that mother cow, this tax will increase his break even by over \$4 per 100 weight.

If feedlot animals were valued \$800 the calculation becomes $\$800 \times .25 = \200 assessed valuation \times 100 mills = \$20 tax. If that tax is pro-rated for the amount of time that the animal is on feed in Kansas and we assume that period to be 120 days, the tax is \$6.67 per head or, an increase in the break even of 58¢ per 100 weight. Said a different way, Kansas cattle would have a market place disadvantage of 58¢ per 100 weight.

Kansas ranks third in the nation in cattle feeding. The number one and number two states, Texas and Nebraska, have no livestock tax. Colorado, another competing state, also has no livestock tax. I submit to you that a livestock tax - of virtually any amount - will have the effect of diverting cattle into these other states.

The cattle feeding industry has been termed "a mobile industry that deals with a transient product". Cattle feeding is a highly competitive, tightly-margined industry and the cattle will go where the total cost of feeding the animal are lowest. It is a constant struggle for Kansas feedyard owners and managers to attract cattle to Kansas and the only way I could think of to divert more cattle to our neighboring states would be to also give cattle feeders free trucking to those states. It would literally be so negative to Kansas cattle feeding that even Kansans who are part owners of Kansas feedyards would have an incentive to send cattle to other states to be fed.

Kansas markets approximately 4.2 million fed cattle per year. Kansas imports between 3-3-1/2 million cattle to be grazed on Kansas pastures and fed in Kansas feedyards. The owners of these cattle are sometimes Kansas residents and sometimes they live out of state. However, the effect is identical...they would have a strong economic incentive to never bring those cattle to Kansas but instead have them shipped to a state where cattle are not taxed. Many of these cattle owners, once acquainted with and satisfactorily served by feedyards in other states, may never return to Kansas to feed cattle. This, in turn, hurts the competitiveness of Kansas packing plants. Once we tax the cattle out of Kansas, the feedyard industry will decline. With most cattle spending between 120-150 days on feed, it only takes that length of time to move a significant portion of the cattle being fed in Kansas feedyards. If this happens, the Kansas packing industry will eventually begin to relocate.

Ironically, much of the benefit that is supposedly designed to be derived from reimposition of this tax would never really materialize. However, the total Kansas economy would be harmed in the process.

A recent study completed by Kansas State University economists makes several conclusions: 1) "Historically, the cattle feeding industry has operated on small, and quite often negative, margins. The large influxes of cattle coming into the state would likely decline if the inventory tax is enacted." "Custom feedlot operators in Kansas could find themselves unable to compete with cattle feeders in the competitive neighboring cattle feeding states of Texas, Nebraska and Colorado." "Of these 3 states, Kansas would be the only one with such an inventory tax on cattle, creating an absolute cost disadvantage for Kansas feedlots."

2) "The phenomenal growth rate that the Kansas beef industry has enjoyed will not continue and may decline in the presence of the proposed inventory tax, especially over a period of several years." "Indeed, signs are appearing that the growth rate of the Kansas beef industry is already beginning to level off even in light of the removal of the livestock personal property tax that was in place in Kansas through 1988." "Nebraska's cattle feeding sector has increased in recent years and the announcement of IBP to open a 4,000 head per day cattle slaughtering plant in Nebraska is likely to provide further impetus for growth there." "The cattle industry in Kansas is just now maturing and the proposed inventory taxes could induce shifts in the cattle industry towards neighboring states." 3) "Clearly, any reduction in the size of the Kansas cattle and meat processing industries would have a negative effect on the Kansas economy." "It is important to note that the impact on the total Kansas economy will be much larger than the impact on the cattle production and meat processing industries alone." "For example, if the value of fed cattle output declined by only \$34 million (roughly 1% of the 1989 value of fed cattle marketings in Kansas), total output in the Kansas economy would be expected to decline by an upper limit of \$98 million in short run." "A reduction in the size of the fed cattle industry would also induce a relatively large decline in Kansas total household income."

I hasten to add this tax would also negatively impact the swine and sheep industries in a similar way. It appears to us that if you view the reimposition of the inventory tax as a solution, it is extremely possible you will have created a solution that was worse than the problem.

ALDERSON, ALDERSON, MONTGOMERY & NEWBERY

ATTORNEYS AT LAW

1610 S.W. TOPEKA AVENUE

P.O. BOX 237

TOPEKA, KANSAS 66612-1840

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(913) 232-1866

MEMORANDUM

TO : MEMBERS OF THE HOUSE COMMITTEE ON TAXATION
FROM : ALAN F. ALDERSON, WESTERN RETAIL IMPLEMENT AND HARDWARE ASSOCIATION
and KANSAS LUMBER DEALERS ASSOCIATION
RE : HOUSE CONCURRENT RESOLUTION NO. 5052
DATE : MARCH 2, 1990

I appear today on behalf of the implement dealers, hardware dealers and lumber dealers of Kansas, in opposition to House Concurrent Resolution No. 5052. Although members of each Association are generally opposed to reopening classification amendment at all, our opposition is more particularly directed to the reimposition of the merchants inventory tax.

Notwithstanding the provisions of HCR 5052 which would tax merchants inventory at an effective rate of 10%, the members of the Association are opposed to the reimposition of inventory taxes in any amount. Substantial business planning has been done in reliance on the elimination of the inventory tax -- probably the most unfair of all property taxes -- and many dealers have begun to carry substantially larger inventories on their lots because of the constitutional provision exempting inventory from all taxation.

Therefore, any reimposition of the inventory tax could have a more substantial impact than under the prior law. Furthermore, statutes which exempted farm machinery and equipment already taxed in a prior year have now been repealed. So have the statutes which required manufacturers' rebate and discount programs had to be taken into account in the valuation process. There is no assurance that these measures would be reenacted, thereby further amplifying the negative effect of this proposal.

A recent survey of the Western Association's members shows that the average inventory held by Kansas implement dealers consists of nearly 1.2 million dollars in new equipment, used equipment and parts. That Association has estimated that between ten and fifteen percent of existing dealers would go out of business if the tax was reinstated at its original rate.

In summary, members of the Western Retail Implement and Hardware Association and the Kansas Lumber Dealers Association urge you to defeat HCR No. 5052 because, if for no other reason, it contains a provision for the reenactment of the most unfair and, economic growth-discouraging taxes ever imposed under Kansas law. The business community in Kansas is entitled to rely upon what was decided by a vote of the people in 1986 without having to constantly fear the reimposition of the inventory tax.

I would be glad to answer any questions you might have.

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Attachment 9



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: H.C.R. 5052 ... a proposition to amend the classification section of Article 11 of the Kansas Constitution

March 2, 1990
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. We appreciate the opportunity to make very brief comments to your Committee today. We appear before you to express our opposition to H.C.R. 5052.

Mr. Chairman, and Members of the Committee, we have described for you in earlier testimony, on other propositions to amend the classification section of the Constitution, the part we had in testifying on and being party to the limited classification amendment which was approved by this Legislature, by the required two-thirds majority, in 1985. The objective at the time was to protect two classes of property ... agricultural land and residential property ... from a massive shift of tax **to those properties** that would certainly have been expected if reappraisal took place and all properties, when reappraised, were taxed under the so-called "uniform and equal" provisions of the Constitution as it existed at the time.

Statutorily all properties were supposed to have been at 30 percent of fair market value. For reasons that have been

*3/6/90
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discribed countless times in committee hearings very few properties were at 30 percent of fair market value. In 1985 agricultural land was at 6 to 8 percent. Residential properties were from 8 to 10 percent and without benefit of a lower assessment rate in the classification amendment which was adopted the tax load would have, in fact, shifted to those properties from other classes of properties.

At our annual meeting in Wichita on Dec. 3-5, 1989 our delegates adopted the policy position you find attached to our testimony. The delegates ... farmers and ranchers ... represented 105 counties. They examined this issue thoroughly and at length. They discussed and debated, then adopted the policy you see. Within that policy, you will find a statement: "Appropriate appraisal procedures in existing laws were not used." Our delegates felt then, and continue to believe, that accurate appraisals on all types of property can be achieved. They simply believe those appropriate factors were not used, and because of that some wide variations in appraisal values were developed.

Our policy position suggests "the appraisal process should be the focus of legislative directives" to correct the problems. Our members also stated clearly: **The classification amendment should NOT be resubmitted.**

Based on our policy position, Mr. Chairman, and Members of the Committee, we address these comments in opposition to H.C.R. 5052. We recognize this measure is intended to make modest shifts in some cases and major policy decisions in others. We suggest this resolution is unnecessary. We suggest corrective measures can be determined and equitable results achieved in other ways.

Thank you for the opportunity to appear.

Property Classification and Reappraisal

The Kansas Legislature in 1985 adopted, by the required two-thirds majority, and voters in Kansas approved by an overwhelming majority, a proposal to amend the Finance and Taxation Article (Art. II) of the Kansas Constitution to provide limited classification of real and personal property for assessment and taxation purposes. The proposed amendment was designed to ensure against an unfair shift of status quo taxes, and was intended to provide for equitable taxation within and among the various classes of property.

The anticipated equity did not occur, largely because appropriate appraisal procedures in existing law were not used. In many cases undocumented and unsubstantiated county index and depreciation schedules used in valuation were allowed by the Property Valuation Department (PVD), without regard for the inequities that this procedure would cause between counties. Quality control of each county's appraisal procedures should be required.

The appraisal process should be the focus of legislative directives. In order to achieve a valid state appraisal, the indexes used by counties in Computer Assisted Mass Appraisal (CAMA) should be uniform statewide, with allowance for any slight deviations. Further, the depreciation schedules should also be uniform county-to-county within acceptable deviations.

Appeals, tax payment under protest and new valuation notices under the annual maintenance reappraisal which do use all appropriate factors in K.S.A. 79-503a, will also help bring about equity.

The classification amendment should NOT be resubmitted. The constitutional provisions should remain intact and the appraisal process should be the focus of legislation and directives to the PVD, county appraisers and firms contracted to conduct appraisals.

County Boards of Equalization should be given the right to protest to the Board of Tax Appeals on behalf of their counties any valuation of state assessed property.

We urge Farm Bureau members in all counties to work with their county appraiser to determine the fairness and equity of their appraisal with the county and between counties.

Reappraisal legislation and the classification amendment to the Kansas Constitution have provided for appraisal of agricultural land on the basis of its income-producing capability. The legislation set forth an equitable procedure for determination of net income and an appropriate capitalization rate for agricultural land. These factors and procedures must be retained to assure equity and stability in valuation of agricultural land.

The reappraisal statutes require annual updating of the appraisal and valuation of taxable property. The cost associated with this annual updating should not be borne entirely by the counties. We suggest that 50 percent of this additional expense be paid by the state.



To: House Assessment and Taxation Committee Members

From: Ed Schaub, KPL Gas Service

Date: March 5, 1990

Re: HCR 5052

The attached provides information particular to KPL Gas Service's tax situation and the impact on our customers. We acknowledge that we experienced a decrease in property taxes as a result of the constitutional changes approved by the voters in 1988. This will be transitory reduction as we fully anticipate that mill levies will again rise to meet the demand for local services.

However, I call your attention to actions taken by the 1989 Kansas legislature which fundamentally changed the manner in which all natural gas distribution companies do business in Kansas. Gas utilities previously never were responsible for the customer service lines which took gas from the Company-owned gas meter to the customer's house. These customer service lines were installed by others and were not part of the gas companies' property or responsibility.

The 1989 legislature mandated that gas distribution companies assume responsibility for those service lines. We, and our competitors, are engaged in systematically checking those lines for safety and integrity. We are replacing those customer service lines as appropriate and necessary to protect the people of Kansas. We envision KPL Gas Service will spend 10 years and \$400 million replacing lines for which we previously had no responsibility. Such a massive customer service undertaking benefits from the small property tax savings experienced by the Company. As a result of lower mill levies in many of the 80 counties in which we do business, we can apply those "savings" to the line replacement costs.

It is not popular to believe utilities when they object to increases in their costs of doing business, after all, "the utility just passes it through to the customer." The attached information sheets detail how our customers, and the Company, will suffer consequences if HCR 5052 is adopted. I encourage you to consider the impact HCR 5052 would have on all utilities and their customers.

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Attachments

3/16/90
Attachment 11



RESPONSE TO HCR 5052

BACKGROUND

Utilities are state, not locally, assessed. Each year the director of Property Valuation Division (PVD) of the Kansas Department of Revenue appraises a utility's fair market value based on the following factors called indicators of value:

1. Net operating income, which is income before interest on borrowed money is subtracted. It is capitalized on the basis of the cost of borrowing money and by market indicators of risk (egs., Dunn & Bradstreet, etc.) and includes the PVD's estimation of what a reasonable investor would expect as a return on his/her investment. In the PVD's calculations, this "earnings" indicator is the most important factor in arriving at market value.
2. Original cost.
3. Original cost less depreciation.
4. Market value of stock and debt.

KPL's property tax bill went down from 1988 to 1989:

1988: \$37.1 million
1989: \$31.8 million
Total \$ 5.3 million reduction

About \$500,000 of the \$5.3 million savings was put back on the tax rolls when the 1989 Special Session passed HB 2004 (the bill that disallowed utilities the inventory exemption for manufacturers and merchants). Hence, the net tax savings from 1988 to 1989 was:

\$ 4.8 million

There are two primary reasons KPL's property taxes went down:

- The most overlooked reason KPL's assessed valuation dropped from 1988 to 1989 was that our earnings were down due to mild weather. About \$400,000 to \$500,000 of our savings is attributable to depressed earnings (see #1 indicator of value above). We estimate that even if the state's tax base had not been increased by classification and reappraisal, our tax would have gone down a little because of a lower assessment due to depressed earnings.
- Statewide mill levies went down on the average. Since KPL operates in over 80 counties, and levies went down on the average, our taxes went down with them. This drop in levies accounted for most of our property tax reduction.

-more-

Utility property was assessed at the full 30 percent of appraised value permitted by the constitution. Utilities have been and still are assessed at the state's highest level.

The drop in taxes for 1989 reversed a five-year trend of escalating taxes for KPL. From 1983 to 1988, KPL experienced a 65.5 percent increase in property taxes for electric property and 54.8 percent for gas property, while our assessment increased 29.3 percent and 34.8 percent respectively. In dollars, our total property tax liability went from \$22.8 million in 1983 to \$37.1 million in 1988.

1983 was a benchmark year for KPL, because it represents the completion of all major construction of generating units at Jeffrey Energy Center. In other words, we have not had any major construction during the period our taxes on electric property increased 65.5 percent.

THE EFFECT OF TAX INCREASES ON UTILITIES

Unregulated businesses have options to deal with increased taxes. Their earnings potential is less restricted than ours, because they have the ability to immediately increase the price of their products or services. Our earnings - the rate of return permitted to our shareholders - are capped by the Kansas Corporation Commission (KCC). If we exceed our revenue requirements, plus our allowed rate of return on equity, we pay it back to our customers.

Tax reductions are not windfalls for utilities. In the regulated utility business, when everything else is equal, upward and downward changes in taxes are normally passed on to customers. For example, when KPL benefitted from 1986 federal income tax reform, we were one of the first utilities in the region to voluntarily return the \$40 million in tax savings to our customers in the form of reduced electric and gas rates.

Likewise, any increase in our taxes puts pressure on rates to go up. The "pass through," however, is not dollar for dollar when taxes go up, because utilities have to borrow money to pay the taxes and let interest expense accrue until a rate case can be prepared and then heard by the KCC. This lag between tax payment and recovery through rates ultimately costs customers. Besides recovering borrowed money and interest, we must also earn enough rate of return on equity to attract shareholders to loan us the money in the first place. All this adds up to higher utility bills.

KPL's wage and interest expenses have increased over the past few years. Our property tax reduction has helped offset these increased costs of doing business as we approach the end of a moratorium on rate cases. But, increased taxes would increase our overall revenue requirements in the future.

THE EFFECTS ON OUR CUSTOMERS

The effects of increased taxes would be dramatic for our neediest customers. The Low Income Home Energy Assistance Program (LIHEAP), a federal program to assist poor persons pay their utility bills, has been cut over \$700 million over the past five years. The Bush administration's recommendation for FY91 is almost 25 percent below the FY90 appropriation. And, the program itself is up for reauthorization this year.

With supplementation from oil overcharge money, our customers in Kansas who qualified for LIHEAP funds received about \$6.7 million in energy assistance in 1988. These are some of the state's neediest citizens - those with annual household incomes of \$6,940 or less. Average benefits per household are about \$210. Nearly half the recipient families have at least one elderly member. To compound the problem, the \$6.3 million share of oil overcharge revenues is expected to run out during 1991.

Reductions in energy assistance programs, coupled with rising rates due to tax increases, do not bode well for customers who already have a hard time making ends meet. Our trend in collections shows a measure of their difficulty. The number of customers in arrears has increased 14 percent from January 1989 to January 1990 and continues to rise. The amount of dollars in arrears has risen 46 percent in the same period or about \$5.7 million.

Tax increases for us, and the subsequent rate increases, result in higher utility bills than would otherwise occur. Naturally, these increases have the greatest impact on those least able to pay.

TESTIMONY BY
SOUTHWESTERN BELL TELEPHONE COMPANY
HCR 5052
BEFORE THE HOUSE TAXATION COMMITTEE

MARCH 6, 1990

Mr. Chairman and members of the Taxation Committee. I am Denny Koch, Public Affairs Manager for Southwestern Bell Telephone Company. My testimony today is in opposition to HCR 5052 which proposes to amend the constitution relating to the system of taxation, classification and exemptions.

As you are aware, the basis of appraisal for a unit of property is fair market value. From this value, an assessment level or tax base is determined. It is our opinion that the Division of Property Valuation uses generally accepted appraisal procedures in valuing utility property, even though in their final analysis Southwestern Bell's value has been maintained at the upper limit of the range of reasonableness. 1989 was no exception, as our overall value in the state increased 2.51 percent over the prior year.

There are some things to remember about utility taxes and in particular Southwestern Bell's taxes.

Utility assessment levels were at 30% of current market value even during the period when residences were at approximately 8% of current market value, farms at 4 or 5% and commercial property at 10 to 15% of market value. This, during a period when our state constitution called for uniform and equal assessment and taxation. At one time, Southwestern Bell alone paid 3.35% of all property tax in Kansas. It's obvious it did not enjoy 3.35% of all Kansas wealth which is the basis of property tax.

SWBT's property tax changes in 1989 were the result of reduced levies. No reduced value was experienced nor any property exempted as a result of inventory exemptions, nor was any attempt made to claim an exemption by SWBT.

Our property taxes increased annually at an average of approximately \$1.9 million between 1984 and 1988. As a capital intensive company investing significant new dollars in the state on an annual basis, this is expected. Our recently approved TeleKansas plan will intensify this additional expenditure.

In Kansas, increased value normally causes increased taxes as mill levies tend to increase annually. In 1989, the year of reappraisal and classification, increased mill levies were not the norm. As a general rule across the state, major tax base expansion was experienced in the more populated areas with the less populated areas incurring very little if any increase in tax base as a result of reappraisal and classification. As such, we

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paid less tax in some counties and more tax in others when compared with 1988. However, all these changes were based upon the current constitution and assessment of Southwestern Bell's property at 30% of current market value.

The TeleKansas proposal approved by the Kansas Corporation Commission on February 2, 1990, includes, along with the \$22 million rate reduction for Kansas customers, a network modernization program worth approximately \$160 million in new digital and fiber optic technology construction throughout the state, much of it in the rural communities of the state. This investment will substantially increase the Company's ad valorem tax liability, again, predicated upon continuation of the existing 30% assessment ratio. In addition, such investment should bring over \$6 million in additional sales tax revenue to the state. Any change in the assessment ratio upward to 35% would necessitate a reevaluation of the current TeleKansas rate structure which already reflects SWBT's property tax liability going forward.

Because SWBT as a public utility has traditionally been subject to full annual statewide reassessment by the Director of Property Valuation, and because the recent TeleKansas rate reductions are consistent with current tax changes, SWBT would be opposed to any increase in the assessment ratio of utilities to 35% as proposed by HCR 5052. The inequity is obvious and, in this case, unjustified. As TeleKansas is implemented, SWBT will continue to face a higher tax liability at the full 30% ratio. This is traditional and SWBT is not opposed to a continuation of this 30% ratio. However, even if HCR 5052 retained a 30% utility assessment ratio, other aspects of HCR 5052 would tend to increase mill levies as the tax base decreases for other properties.

At the same time, SWBT also recognizes that there have been some misgivings about the results of the recently completed statewide reassessment process, in part due to the valuation process itself, in part due to other "exemptions" in the constitution (inventories) that do not and did not apply to SWBT or impact its utility rates. SWBT does not, however, endorse a Bill that proposes to remedy these other misgivings by penalizing one single taxpayer class, public utilities - a class that has not caused, nor unfairly benefited from those misgivings.

[As Amended by House Committee of the Whole]

As Amended by House Committee

As Amended by Senate Committee

Session of 1990

To House of Representative
3/6/90
Attachment 13

SENATE BILL No. 467

*** See note on page 2 of minutes concerning SB 332.

By Senators Thiessen and Martin

1-12

13 AN ACT relating to property taxation; concerning notification of
14 property valuation changes; ~~concerning the contents of property~~
15 ~~tax statements;~~ amending K.S.A. 79-1460 and ~~[79-2001 and]~~ re-
16 pealing the existing section [sections].
17

79-1488 and

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

19 Section 1. K.S.A. 79-1460 is hereby amended to read as follows:
20 79-1460. (a) The county appraiser shall notify each taxpayer in the
21 county annually on or before April 1 for real property and May 1
22 for personal property, by mail directed to the taxpayer's last known
23 address, of any change in the classification or appraised valuation of
24 the taxpayer's property, except that, in the year in which val-
25 uations for real property established pursuant to the program
26 of statewide reappraisal are first applied as a basis for the levy
27 of taxes, such notice in the case of real property shall be mailed
28 on or before March 1 *if such change in appraised valuation*
29 *increases or decreases the value of any such property by 10%*
30 *or less; no such notice need be mailed unless requested by the*
31 *taxpayer for tax year 1990, such notices shall be mailed on or*
32 *before May 1 and the valuation for all property other than irrigated*
33 *land devoted to agricultural use shall not be changed and notices*
34 *need not be sent unless an requested by the taxpayer or a substantial*
35 *increase or decrease in the appraised valuation of the property occurs*
36 *due to a specific review thereof, including a physical inspection and*
37 *contact with the owner thereof or such owner's representative by*
38 *the county or district appraiser. For the purposes of this section*
39 *and in the case of real property, the term "taxpayer" shall be deemed*
40 *to be the person in ownership of the property as indicated on the*
41 *records of the office of register of deeds or county clerk. Except*
42 *for the year in which valuations for real property established*
43 *pursuant to the program of statewide reappraisal are first ap-*

April 15 for real property

real

~~a change in valuation and notice thereof is~~

an

real

provided that no such inspection shall be required to change the valuation of irrigated land devoted to agricultural use

1 plied as a basis for the levy of taxes; Such notice shall specify
 2 separately both the previous and current appraised and assessed
 3 values for the land and buildings situated on such lands. In the year
 4 following the year in which valuations for tangible property estab-
 5 lished under the program of statewide reappraisal are applied as a
 6 basis for the levy of taxes, and in each year thereafter, such notice
 7 shall include the most recent county sales ratio for the particular
 8 subclass of property to which the notice relates, except that no such
 9 ratio shall be disclosed on any such notices sent in any year when
 10 the total assessed valuation of the county is increased or decreased
 11 due to reappraisal of all of the property within the county. Such
 12 notice shall also contain a statement of the taxpayer's right to appeal
 13 and the procedure to be followed in making such appeal. Failure to
 14 receive such notice shall in no way invalidate the classification or
 15 appraised valuation as changed.

16 (b) Prior to January 1, 1980, the county appraiser shall notify
 17 each owner of improved real estate upon forms devised and
 18 provided by the director of property valuation of the criteria
 19 upon which the valuation of such property was obtained, except
 20 that the director may waive the provisions of this sentence in
 21 any case where a county appraiser has substantially complied
 22 therewith or in any other case deemed necessary.

23 ~~[Sec. 2. K.S.A. 79-2001 is hereby amended to read as follows:~~
 24 79-2001. As soon as the county treasurer receives the tax roll of
 25 the county, the treasurer shall enter in a column opposite the
 26 description of each tract or parcel of land the amount of unpaid
 27 taxes and the date of unredeemed sales, if any, for previous years
 28 on such land. The treasurer shall cause a notice to be published
 29 in the official county paper once each week for three consecutive
 30 weeks, stating in the notice the amount of taxes charged for state,
 31 county, township, school, city or other purposes for that year, on
 32 each \$1,000 of valuation.

33 ~~[Each year after receipt of the tax roll from the county clerk~~
 34 ~~and before December 15, the treasurer shall mail to each taxpayer,~~
 35 ~~as shown by the rolls, a tax statement which indicates the taxing~~
 36 ~~unit, assessed value of real and personal property, the mill levy~~
 37 ~~and tax due. In addition, with respect to land devoted to agricultural~~
 38 ~~use, such statement shall indicate the acreage and legal description~~
 39 ~~of each tract of such land. The tax statement shall also indicate~~
 40 ~~separately each parcel or tract of real estate which is classified~~
 41 ~~separately for property tax purposes. The tax statement also may~~
 42 ~~include the intangible tax due the county. All items may be on one~~
 43 ~~statement or may be shown on separate statements and may be on~~

B-2

Sec. 2. K.S.A. 79-1448 is hereby amended to read as follows:

13-5

1 a form prescribed by the county treasurer. The statement shall be
2 mailed to the last known address of the taxpayer or to a designee
3 authorized by the taxpayer to accept the tax statement, if the de-
4 signee has an interest in receiving the statement. When any state-
5 ment is returned to the county treasurer for failure to find the
6 addressee, the treasurer shall make a diligent effort to find a for-
7 warding address of the taxpayer and mail the statement to the new
8 address. All tax statements mailed pursuant to this section shall be
9 mailed by first-class mail. The requirement for mailing a tax state-
10 ment shall extend only to the initial statement required to be mailed
11 in each year and to any follow-up required by this section.]

12 Sec. 2 [3]. K.S.A. 79-1460 is [and 79-2001] hereby repealed.
13 Sec. 3 [4]. This act shall take effect and be in force from and
14 after its publication in the Kansas register.

and 79-1488

79-1448. Appeals by taxpayers from clas-
sification or valuation of property; adjustments
in classification or valuations by county board
of equalization. Any taxpayer may complain or
appeal to the county appraiser from the clas-
sification or appraisal of the taxpayer's property
by giving notification of such dissatisfaction to
the county appraiser within 21 days of the mail-
ing of the valuation notice. The county ap-

10

praiser or the appraiser's designee shall arrange
to hold an informal meeting with the aggrieved
taxpayer with reference to the property in
question. The county appraiser may extend the
time in which the taxpayer may informally ap-
peal from the classification or appraisal of the
taxpayer's property for just and adequate rea-
sons. In no event shall an informal meeting
regarding real property be scheduled to take
place after May 1, 1989, and April 1 of all
years thereafter, nor shall a final determination
be given by the appraiser after May 15, 1989,
and April 15 of all years thereafter. Any tax-

or April 25, 1990,
in all cases where
no valuation notice
was mailed

~~Feb 1 1990~~

5

payer who is aggrieved by the final determi-
nation of the county appraiser may appeal to
the hearing officer or panel appointed pursuant
to K.S.A. 79-1602, and amendments thereto,
or, only in cases where no hearing officer or
panel has been appointed, to the county board
of equalization in the same manner as appeals
are made to such board under K.S.A. 79-1606,
and amendments thereto, and such hearing of-
ficer, panel or board, for just cause shown and
recorded, is authorized to change the classifi-
cation or valuation of specific tracts or individ-
ual items of real or personal property in the
same manner provided for in K.S.A. 79-1602
et seq. and amendments thereto. Any taxpayer
who is aggrieved by the final determination of
a hearing officer or panel may appeal to the
county board of equalization in the same man-
ner as appeals are made to such board under
K.S.A. 79-1606, and amendments thereto.
Each step in the county's established informal
and formal appeal process must be completed
before the taxpayer may appeal to the next
level except as provided in K.S.A. 79-1609,
and amendments thereto.