

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by SENATOR DAN THIESSEN at
Chairperson

11:00 a.m. on Thursday, March 22, 1990 in room 313-S of the Capitol.

All members were present except:

Committee staff present:

Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Senator "Bud" Burke, President of the Senate
Senator Jack Steineger
Ed Eilert, Mayor, City of Overland Park, KS
Harry P. Drake, Director of Property Management-Jones and Company
Stephen J. Craig, President-Linguist & Craig-Hotels & Resorts
Kay Neis, 3rd District County Commissioner-Wyandotte County
Larry Clark, Wyandotte County Appraiser
Walter R. Jacobs, President and Owner of the Walter Jacobs Company
Nancy Bigsby, City Finance Director of Kansas City, KS
Joseph Steineger, Jr., Mayor, Kansas City, KS
Roland E. Smith, Executive Director of Wichita Independent Business Association

Chairman Thiessen called the meeting to order at 11:10 a.m. and said we would be hearing from **PROPOSERS** on SCR1642 and he recognized Senator Paul "Bud" Burke, President of the Senate.

SCR1642: A PROPOSITION to amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property.

Senator Burke, President of the Senate said he served on this committee for 16 years and he certainly was not going to pre-judge the mechanics of the committee's process. He said, he would speak of the particular details of legislation, to the general philosophy, that he hopes the committee will share with him.

He said, the amendment that passed by the vote of the people in 1986, he thought inadvertently there were shifts that occurred, that perhaps the people were unaware of and he thinks there is a need to correct some of these errors.

SCR1642 is the collective concensus of it's 15 sponsors, but he said, he thought throughout SCR1642, is the philosophy that we need to correct some of the injustice.

He said, we protected agriculture, exempted inventories and gave a major break to machinery and equipment, three very important segments of our business economy.

We left commercial property holding a great load and industrial property coming down, almost equal, and it was not our intent in anyway to punish or restrict the growth of this very important segment of our economy, but rather to equalize in some fashion.

We hope this committee by backing into the numbers, can make adjustments you find appropriate, with the help of staff to adjust machinery and equipment and the other components of this classification amendment.

Senator Jack Steineger said SCR1642 is the lowest exceptable compromise many members of the House and Senate have been able to agree on.

He said a bipartisan group of Representative's and Senator's started working last October. He passed a memorandum, by the Research Department dated March 20, 1990 to the members which explains in detail what SCR1642 does. (ATTACHMENT 1)

He said their first objective was to try to return each class of property to paying what it paid in 1988. Passage of this resolution will tend to eliminate perhaps 40% of SDEA and the only realistic way to fix the SDEA formula is with substantial amounts, of new money put in the SDEA Program. So if you can solve 40% of the SDEA problem with this resolution on that point alone, it deserves serious consideration.

Ed Eilert, Mayor of the City of Overland Park, KS said, in the reallocation of the

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

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CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

room 313-S, Statehouse, at 11:00 a.m./p.m. on Thursday, March 22, 1990.

tax burden among classes of property, some shifts were expected. However, it was not until this past fall, when property tax bills arrived in mailboxes, that the full impact of this amendment was understood by the public. Horror stories of 200, 300 and 400 percent increases in taxes were not uncommon, and only point out the magnitude of the flaws and inequities within the system.

Clearly, it is evident that much of the proposed legislation fails to get at the root of the problem and address the deficiencies in the classification amendment, that is the significant shift of the tax burden from personal property, machinery and inventories to commercial and residential taxpayers.

Our conceptual support for SCR1642 is based upon the fact that it revisits the classification amendment and addresses many of the deficiencies created by the 1986 amendment. It has been their contention all along that this is the best approach toward righting the wrongs therein. (ATTACHMENT 2)

Harry P. Drake, Director of Property Management for Jones and Company said, he is responsible for the management of 15 office buildings, and their total taxes in 1988 were \$995,660. and in 1989, the taxes on these properties rose to \$3,071,548., the tripling of taxes received a great deal of negative attention from the more than 400 tenants located in the 15 buildings, he manages.

He said, according to a Kansas City tax consultant, taxes in south Kansas City, MO average approximately 2.5% of value. If the KS assessment for commercial property were reduced from 30% to 20%, their taxes as a percentage of value would be reduced to approximately 2.4%. This reduction would allow them to maintain a competitive position with their counterparts across the state line. With an abundance of office space readily available in MO there is a serious possibility of losing existing and potential tenants.

In summary, their ability to compete against our neighbors in MO is seriously hampered as a result of the current tax structure. In order to insure their growth in the years ahead, he thought, it imperative that we reevaluate our present system. (ATTACHMENT 3)

Stephen J. Craig, President-Linguist & Craig-Hotels & Resorts said, their Company has been based in KS for almost 35 years, and they own and operate 7 Holiday Inn's located in California, Alabama, Tennessee, North Carolina, Georgia, Florida and Lenexa, KS and they also manage 5 other properties for others in Missouri.

He said, during 1988 their real property tax bill for the Holiday Inn-Lenexa was \$111,046. and in 1989 their taxes increased to \$214,159. As a result, the Holiday Inn of Lenexa has the highest real property tax rate of any hotel that they own or manage, it even exceeds by more than twice the real property tax on the Holiday Inn-Westwood in West Los Angeles, California.

With his attachment, a listing on their hotels with number of rooms, amount of property tax and the cost per room, is included. (ATTACHMENT 4)

Kay Neis, 3rd District County Commissioner of Wyandotte County said she has seen a slow disaster in the last year as the result of reappraisal and classification. The loss of merchants and manufacturers inventories, the accerelated depreciation of machinery and equipment.

She said, their taxpayers lost a quarter of their tax base before anything happened and before their homes were even appraised, and on top of that they have to start paying for a Federal mandate in Wyandotte County, with regard to their jail, which added another \$7.M. (NO WRITTEN TESTIMONY)

Larry Clark, Wyandotte County Appraiser, representing the Wyandotte County Commissioners said, he was here to present facts and figures that are specific to Wyandotte County, so the committee member's have an idea of the impact on their County because of classification.

With his handout, charts are attached showing shifts that occurred as a result of reappraisal and classification. He went through the charts in his handout, explaining to the members. (ATTACHMENT 5)

Senator Fred Kerr asked Mr. Clark, "as an appraiser do you feel you can adequately enforce, inventory tax?"

Mr. Clark said he can enforce it, as much as it was enforced before.

Walter R. Jacobs, President and Owner of The Walter Jacobs Company said, his company

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

room 313-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Thursday, March 22, 1990

is Real Estate Management, and he said he feels something must be done, and quickly, to rectify the inequities of the present situation. When the constitutional amendment was proposed years ago, we were one of many business people who knew it would cause great troubles in the commercial real estate market.

He said they had no idea of the extent of the problem until all the factors were in. The re-classification plus higher mill levies than we were led to believe, plus much higher budgets by many taxing units, plus many in-accurate appraisals, have created havoc in the real estate market place.

He said, he hopes it is possible to go back to what should have been done originally: compare the appraisals with a classification system that is fair to all involved. Whatever would happen to the inventory tax should be of a gradual nature so as not to add to the grief. (ATTACHMENT 6)

Nancy Bigsby, City Finance Director of Kansas City, KS said she would like to have Joseph Steineger, Jr., Mayor of City of Kansas City, KS speak instead of her.

Joseph Steineger said the City of Kansas City, KS views this proposal as a means to present a new classification method to provide equity and relief to KS property taxpayers. The City supports SCR1642 because it would provide property tax relief for the citizens of K.C. and Wyandotte County of about 23%. This loss in the tax base caused large shifts in the property tax burden onto residential property owners and small businesses. Many residential owners saw increases of more than 100%, while many small businesses had increases in excess of 250%. He said, with his handout is a list showing property tax shifts for Wyandotte County, KS. (ATTACHMENT 7)

Roland E. Smith, Executive Director of Wichita Independent Business Association said WIBA is an association of over 1400 locally owned businesses in the Wichita trade area. The membership is made up of over 400 different types of businesses. The larger share is made up of service businesses with less than 10 employees.

The tax shift to the commercial and industrial classes of property has caused an unbearable burden on many small businesses. We recognize that manufacturing is a basic industry that indirectly generates many service businesses and they need to be competitive nationwide, however, the shift caused by the current constitutional amendment was too much, too quick and not an equitable balance.

There have been numerous property tax relief proposals presented and he has followed all of them. None of them would make all their WIBA members happy, however, SCR1642 would give some relief where it is most needed. It might slow down some expansions, but in turn would save many jobs in the service sector. (ATTACHMENT 8)

Chairman Thiessen said time is running out, and asked George Barbee, a proponent of SCR1642 to come back tomorrow and be 1st on the agenda, ahead of the opponents, and Mr. Barbee agreed with that.

Chairman Thiessen adjourned the meeting at 12:22 p.m.

GUEST LIST

100313

COMMITTEE: SENATE
ASSESSMENT & TAXATION

DATE: THURS. 3-22-90

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Sam Steinesen		
Mayor Joe Steingis	701 N 7th KCKs	City of KCKs
Nancy Zielh-Bischof	701 N 7th KCKs	City of KCKs
Jacq Oak	710 N 7th KCKs	Wyandotte County
Kay Ries	710 N. 7th KCKs	Wyandotte Co.
Linton Bairdlett	K.C., KS	City of KCK
STEPHEN CRAIG	1712. DRESDEN RD LAURENCE, KS 66047	40 HOTELS, INC.
WALTER R. JACOBS	6025 METEOR LN P.O. Box 6602	The Waterford Co.
Alan Sims	3619 Lakecrest Ct	City of Overland Park
Ed Eckel	2617 W. 88th St	Overland Park, KS
Steve Schmid	Topeka	KPCA
TREVA POTTER	TOPEKA	PEOPLES NAT. GAS
Harry Ray	Olathe	So. Co. Commission
Jack Stubbins	Topeka	HBA of KS
Jack Graves	Wichita	W.N. Gregory
Chas B. Joseph	Potwin	self
JEAN B. JOSEPH	Potwin	self
Jacquie Oakes	Topeka	Ks. Ind. Auto Dealers Assn.
David A. Hawley	Wichita	Ks. Assn for Small Business
Steve Keadwell	TOPEKA	COASTAL
Jeff Waggoner	Topeka	Sen. Ken
Anne Smith	Topeka	Ks. Assoc. of Counties
George Barber	Topeka	Ks. Lodging Assn.
Kevin Allen	Topeka	Ks. MTR. Exp. Dealers Assoc

MEMORANDUM

Kansas Legislative Research Department

Room 545-N - Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

March 20, 1990

The purpose of this memorandum is to compare and contrast S.C.R. 1642, as introduced, and H.C.R. 5052, as amended by the House Committee on Taxation.

S.C.R. 1642 and H.C.R. 5052 are resolutions which would present new classification schedules for the approval of the voters. H.C.R. 5052 has seven subclasses of real property, while S.C.R. 1642 has nine subclasses of real property. Both resolutions provide for eight subclasses of personal property.

Real Property

Residential. Both resolutions would reduce the assessment level of residential real property (including real property upon which mobile homes used for residential purposes are located) from 12 to 10 percent, except for multi-family residential real property which would be separately classified and raised from 12 to 15 percent by S.C.R. 1642.

Agricultural Land. Land devoted to agricultural use would continue to be assessed at 30 percent of use-value under either plan.

Green-Belt Land. S.C.R. 1642 would value land devoted to open space consistent with its restrictions and use and assessed it at 30 percent. The Legislature would have the authority to provide for tax savings to be recouped upon conversion of such land to another use. H.C.R. 5052 does not contain this subclass.

Vacant Lots. Vacant lots would be assessed at 10 percent instead of 12 percent under either plan..

Commercial and Industrial. Real property used for commercial and industrial purposes would be assessed at 20 percent under either plan. Farm outbuildings would be assessed at 20 percent under S.C.R. 1642 and at 30 percent under H.C.R. 5052.

Fraternal Benefit Societies. Real property owned and operated by nonprofit organizations organized under section 501(c)(8) of the Internal Revenue Code would be assessed at 12 percent rather than 30 percent under either plan.

Utilities. Public utility real property, except for railroad property, would be assessed at 35 percent rather than 30 percent. Railroad real property would be assessed at the average rate for all other commercial and industrial property.

Other Real. Real property not otherwise specifically classified would be assessed at 20 percent under S.C.R. 1642, or 25 percent under H.C.R. 5052, instead of 30 percent.

Personal Property

The classes and percentages for personal property are identical under the two plans.

Election and Year Effective

H.C.R. 5052 would be voted on at a special election called for June 12, 1990, and would be effective for tax year 1990. S.C.R. 1642 would be on the November 6, 1990 ballot and would first apply to tax year 1991.



Overland Park

**TESTIMONY BY MAYOR ED EILERT
CITY OF OVERLAND PARK**

**BEFORE THE SENATE ASSESSMENT & TAXATION COMMITTEE
MARCH 22, 1990**

Chairman Thiessen, members of the Senate Assessment & Taxation Committee, my name is Ed Eilert, mayor of the city of Overland Park. I am here in support of SCR 1642.

In November of 1986, voters across the state of Kansas approved the "classification" amendment to the Kansas constitution, which mandated changes in the rates of assessment and exempted millions of dollars of property valuation. In the reallocation of the tax burden among classes of property, some shifts were expected. However, it was not until this past fall, when property tax bills arrived in mailboxes, that the full impact of this amendment was understood by the public. Horror stories of 200, 300 and 400 percent increases in taxes were not uncommon, and only point out the magnitude of the flaws and inequities within the system.

Senate Assessment and Taxation Committee
Thursday, March 22, 1990 ATTACHMENT 2

In responding to taxpayers' concerns, a number of bills have been introduced. Some have suggested local government budget increases were the problem and have proposed caps, rollbacks and tax lids. However, I submit to you that in the absence of other changes, taxing subdivisions could reduce their property tax revenues 10-20 percent and it still would not address the inequities that exist.

Others have expressed their belief that reduced reliance on the property tax is the solution and have suggested using alternative sources, such as increasing the sales tax to replace property tax revenue on a dollar-for-dollar basis. We do not question the merit of reduced reliance on the property tax; however, we do have some difficulty with granting across-the-board reductions that would further benefit those taxpayers who have already experienced significant decreases in their tax bills as a result of classification, and requiring those decreased tax bills be made up by a general tax increase on the public.

Clearly, it is evident that much of the proposed legislation fails to get at the root of the problem and address the deficiencies in the classification amendment -- that is, the significant shift of the tax burden from personal property and inventories to commercial and residential taxpayers. Statistics provided by the Department of Revenue show the tax base derived from inventory and personal property decreased in 1989 from 22.7%

of the total tax base in Johnson County to 5.8%, a reduction of 74%;

from 32% in Sedgwick County to 11.7%, a reduction of 63%;
from 26.4% in Shawnee County to 9.7%, a reduction of 63%;
from 19.8% in Douglass County to 8.2%, a reduction of 59%; and
from 33.8% in Wyandotte County to 11%, a reduction of 67%.

A similar situation occurred in many other counties:
A decrease from 15.1% in Anderson County to 5.6%, a reduction
of 63%;
from 9.9% in Chase County to 4.7%, a reduction of 53%;
from 13% to 5.1% in Cheyenne, a reduction of 61%;
from 24.4% in Crawford County to 9.1%, a reduction of 63%;
from 4.6% in Pottawatomie County to 1.6%, a reduction of 65%;
and from 23.1% in Wilson County to 9.8%, a reduction of 58%.

Passage of the 1986 classification amendment exempted certain classes from tax liability in whole or in part. As a result of those exempted from paying taxes, all remaining taxpayers were forced to make up the difference.

Our conceptual support for SCR 1642 is based upon the fact that it revisits the classification amendment and addresses many of the deficiencies created by the 1986 amendment. It has been our contention all along that this is the best approach toward righting the wrongs therein.

I thank you for the opportunity to appear before this
committee.

TESTIMONY
HARRY P. DRAKE

STATE OF KANSAS
SENATE TAXATION COMMITTEE

MARCH 22, 1990

SENATE CONCURRENT RESOLUTION NO. 1642

LADIES AND GENTLEMEN:

Thank you for this opportunity to sit before you this morning and speak generally in favor of Senate Concurrent Resolution No. 1642.

My name is Harry P. Drake. I am Director of Property Management for Jones & Company, a commercial real estate company located in Overland Park. We specialize in development, leasing, management, sales and mortgage banking in the commercial real estate area.

We do not own a great deal of commercial real estate, rather, our Company provides real estate services for the commercial real estate industry. My responsibility is primarily to manage commercial office buildings.

More specifically, I am responsible for the management of 15 office buildings. Our total taxes in 1988 were \$995,660. In 1989, our taxes on these properties rose to \$3,071,548. On a square footage basis, taxes rose from an average of \$.60 per square foot to \$1.86 per square foot, or 209%. Needless to say, the tripling of taxes received a great deal of negative attention from the more than 400 tenants located in the 15 buildings I oversee.

Senate Assessment and Taxation Committee
Thursday, March 22, 1990 ATTACHMENT 3

Our tax bill of \$3,071,548, as a percentage of appraised value equates to 3.5%. According to a Kansas City tax consultant, taxes in south Kansas City, Missouri average approximately 2.5% of value. If the Kansas assessment for commercial property were reduced from 30% to 20%, our taxes as a percentage of value would be reduced to approximately 2.4%. This reduction would allow us to maintain a competitive position with our counterparts across the state line. With an abundance of office space readily available in Missouri there is a serious possibility of losing existing and potential tenants.

After reviewing some previous newspaper articles relative to the tax savings enjoyed by companies such as Boeing Military Airplane Company and General Motors Corporation I became curious as to how much state income tax revenue was generated from these plants as compared to commercial office property. As a general rule of thumb, office buildings are occupied at the rate of one person per 250 square feet. In our project, this would equate to a population of approximately 7,000 people. I do not believe that a manufacturing facility on a similar sized parcel of land would employ quite this many people or produce quite as much state income tax.

As an example of an organization hit hard by the reappraisal, I would like to mention Humana Hospital. I recently had a conversation relative to the impact of the reappraisal on their cost structure. In 1988, their combined inventory and real estate tax totaled \$544,000. In 1989, their combined inventory and real estate tax totaled \$889,000. This represents an increase of \$345,000, or 63%. Based on 250 available beds the annual tax cost per bed equals \$3,556. However, Humana operates on an average occupancy of 130 beds which equates to \$6,838 per bed. A serious problem to Humana who competes with not-for-profit organizations who are tax exempt.

In summary, our ability to compete against our neighbors in Missouri is seriously hampered as a result of the current tax structure. In order to insure our growth in the years ahead I think it imperative that we reevaluate our present system.

Thank you for your time.



LINQUIST & CRAIG - HOTELS & RESORTS

January 4, 1990

Mr. Wint Winter
Attorney at Law
First National Bank
9th and Massachusetts St.
Lawrence, KS 66044

Dear Wint:

Thank you for taking the time to listen to my complaint regarding the property tax increase we experienced at our Holiday Inn-Lenexa, Kansas. As way of background, our Company has been based in Kansas for almost thirty-five (35) years; we own and operate the following hotel/motel properties:

Holiday Inn - Anaheim, California (312 rooms)
Holiday Inn Airport - Costa Mesa, California (235 rooms)
Holiday Inn - Modesto, California (189 rooms)
Holiday Inn - Tuscaloosa, Alabama (166 rooms)
Holiday Inn - Ventura, California (260 rooms)
Holiday Inn - Westwood Plaza, Los Angeles, California (296 rooms)
Holiday Inn - Kansas City/Lenexa (297 rooms)
Journey's Inn Airport - Memphis, Tennessee (123 rooms)
Econo Lodge - Birmingham (Bessemer), Alabama (151 rooms)
Journey's Inn - Charlotte, North Carolina (151 rooms)
Journey's Inn - Atlanta (Marietta), Georgia (158 rooms)
Marina Bay Hotel - Ft. Lauderdale, Florida (127 rooms)

We manage the following properties for others:

Howard Johnson - Columbia, Missouri (148 rooms)
Grand River Inn - Chillicothe, Missouri (60 rooms)
Howard Johnson North - Kansas City, Missouri (110 rooms)

During 1988 our real property tax bill for the Holiday Inn-Lenexa was \$111,046.52. In 1989 our taxes increased to \$214,159.96. As a result, the Holiday Inn of Lenexa has the highest real property tax rate of any hotel that we own or operate; it even exceeds by more than twice the real property tax on the Holiday Inn-Westwood in West Los Angeles, California. This property is a 20 story high-rise hotel; it is located in the heart of one of the most expensive real estate markets in the United States. I find it incredible that our Lenexa Holiday Inn's real property taxes could be much more than hotels located in Anaheim, California, Costa Mesa, California and Westwood, West Los Angeles, California.

To assist you, I have enclosed property brochures on some of our hotels; they are the Holiday Inn of Kansas City-Lenexa, Holiday Inn-Westwood, Holiday Inn-Ventura, and the Holiday Inn of Costa Mesa, California.

Alvamar Professional Building
1611 Saint Andrews Drive
P.O. Box 688
Lawrence, KS 66044-0688
(913)841-3100

SENATE ASSESSMENT AND TAXATION COMMITTEE
Thursday, March 22, 1990
ATTACHMENT 4
Edwin R. Linquist, *Chairman*
Stephen J. Craig, *President*

Page 2
Wint Winter
January 4, 1990

I believe this is a problem that must be solved if Kansas is to retain real estate oriented businesses and, for that matter, attract new businesses to this State. If I can provide you any more information on our company, its properties or tax rates, please do not hesitate to call upon me. Once again, thank you for your assistance, and for sharing your thoughts on this most important issue.

Best regards.

Very truly yours,

LINQUIST & CRAIG HOTELS & RESORTS, INC.



Stephen J. Craig
President

SJC/cjn

LIST OF LINQUIST & CRAIG HOTELS
ROOMS PROP. TAX COST/ROOM

HOTEL/ADDRESS	ROOMS	PROP. TAX	COST/ROOM
HOLIDAY INN-ANAHEIM 1850 SOUTH HARBOR ANAHEIM, CA. 92802-3591	311	\$57,824.63	\$185.93
HOLIDAY INN-BRISTOL PLAZA HOTEL 3131 BRISTOL COSTA MESA, CA 92626-3089	229	\$73,046.24	\$318.98
HOLIDAY INN-KANSAS CITY/LENEXA 12601 WEST 95TH STREET LENEXA, KANSAS 66215-3895	297	\$214,159.96	\$721.08
HOLIDAY INN-MODESTO 1612 SISK ROAD MODESTO, CA 95350-2589	188	\$48,691.78	\$259.00
HOLIDAY INN-TUSCALOOSA 3920 EAST MCFARLAND TUSCALOOSA, AL 35405	165	\$13,984.05	\$ 84.75
HOLIDAY INN-VENTURA 450 EAST HARBOR VENTURA, CA 93001	259	\$48,145.54	\$185.89
HOLIDAY INN-WESTWOOD PLAZA 10740 WILSHIRE BOULEVARD LOS ANGELES, CA 90024	294	\$94,918.83	\$322.85
JOURNEY'S INN HOTEL 3222 AIRWAYS BOULEVARD MEMPHIS, TN 38116	123	\$37,334.30	\$303.53
ECONO LODGE 1021 9TH AVENUE SOUTHWEST BESSEMER, AL 35020	154	\$54,299.80	\$352.60
JOURNEY'S END HOTEL 3024 EAST INDEPENDENCE BLVD. CHARLOTTE, NC 28205	151	\$37,023.61	\$245.19
JOURNEY'S END HOTEL P.O. BOX 7678 MARIETTA, GA 30065	158	\$39,754.50	\$251.61
=====			
LMC HOTELS			
HOWARD JOHNSON LODGE 900 I-70 DRIVE, SOUTHWEST COLUMBIA, MO 65203	126	\$14,400.00 (ACCRUAL)	\$114.29
GRAND RIVER INN U.S. 36 & 65, P.O. BOX 868 CHILLICOTHE, MO 64601	60	-0-	-0-
HOWARD JOHNSON NORTH 1600 NORTHEAST PARVIN ROAD KANSAS CITY, MO 64601	110	\$35,468.05	\$322.44
HOWARD JOHNSON REMINGTON RR2 BOX 92 REMINGTON, IN	99	NOT AVAILABLE	-0-
HOWARD JOHNSON RICHMOND JS 27 NORTH & I-70 RICHMOND, IN	80	NOT AVAILABLE	-0-

SCR 1642
WYANDOTTE COUNTY PERSPECTIVE

Attached to and made a part of this report are several charts which will serve to illustrate the changes that have occurred in the class breakdown of the Wyandotte County property tax base relative to tax years 1988, 1989 and the proposals embodied in SCR 1642. The chart entitled CHANGES IN ASSESSED VALUATION shows how the total valuation of the county changed from 1988 to 1989 and how it probably would change under SCR 1642 with each one of the layers representing a different class of property. The total assessed value of the county increased in 1989 due to reappraisal raising all real estate values to current market levels. For the same reason the two major classes of real estate, RESIDENTIAL and OTHER, assumed a greater portion of the total tax base, while inventories disappeared and machinery and equipment a slightly smaller portion. This chart also illustrates the relative changes in shares assumed under SCR 1642. The total valuation declines, due to the changes in the assessment rates applied to the OTHER and RESIDENTIAL classes; but it does not decline proportionately due to the reintroduction of inventory values and the increase in the assessment rate on machinery and equipment.

Of primary concern to Wyandotte County is the loss of the value represented by merchants and manufacturers inventories due to the classification amendment. In 1988 that class of property represented approximately 16% of the tax base and about \$12.5 million in tax revenue as shown on CHART 1. The effect of reappraisal was to increase the overall size of the pie, thereby lowering the relative percentage of the total represented by property classes that did not experience such an increase in value. This process would have lowered the relative percentage of the total tax base represented by inventories to approximately 10%. However, if classification had not exempted that class of property, the overall mill rate in this county would have dropped from 185 to 139 instead of just 151. Property taxes on a \$40,000 residence would have increased 29% compared to 43% overall.

CHART 2 shows the results of reappraisal and classification in terms of the relative shifts in the tax burden which actually occurred. With inventories exempted and property values higher on real estate, the percentage of the total tax burden born by commercial and industrial real estate (OTHER) increased from 18.7% to 37.5% of the total, over a 100% increase. Residential property increased from 36.0% to 42.2% of the total tax burden, a 17% increase. CHART 3 shows that if inventories had been retained the relative percentage of the total tax burden to be born by the OTHER class of property would have increased only 80% from 18.7% to 33.7% and RESIDENTIAL property would have experienced only an increase of 5%. In terms of tax dollars, the removal of inventory values meant the shifting of approximately \$9.4 million in tax burden to non-exempt classes.

CHART 4 reflects the relative portions of the tax base to be born by each of the different classes under the conditions imposed by SCR 1642. In comparison to the 1989 percentages, OTHER drops from 37.5% to 26.8% while RESIDENTIAL property declines from 42.2% to 36.9% of the total. Under this amendment there would be an overall decline in county valuation of approximately \$41,000,000 over 1989 and the mill rate would therefore have to increase to produce the same revenue as that year. However, inventories would produce approximately \$6.5 million of the revenue requirements. That, coupled with the changes in assessment rates would cause an overall decline in the tax liability for single family residential property of approximately 10.5% and a decline of approximately 28.5% in the OTHER category. For the owner of a \$40,000 residence who paid \$520 in 1988 and \$740 in 1989, the property tax liability would drop to \$660, or a decrease of 11% over the 1989 tax. The greatest improvement would go to the commercial real estate owner who, for example, may have paid \$740 in 1988 and \$1,860 in 1989 on a \$40,000 property and under this proposal would pay \$1,330 for a reduction 28% over 1989.

The latter assumes a commercial operation that is not dependent on inventories, such as a professional building. It appears that the point at which the property owner breaks even is when the market value of merchants inventories is equal to 80% of the real estate value. In other words if that person who owned the \$40,000 building carries more than \$32,000 in merchants inventory the total property tax liability increase under this proposal. For manufacturers that percentage drops to 30% due to the fact that inventory in this category is assessed at 25% of its appraised value while merchants is assessed at 10% of its total appraised value. A manufacturer occupying that \$40,000 building would experience an overall property tax increase when the appraised value of manufacturing inventory exceeded \$12,000.

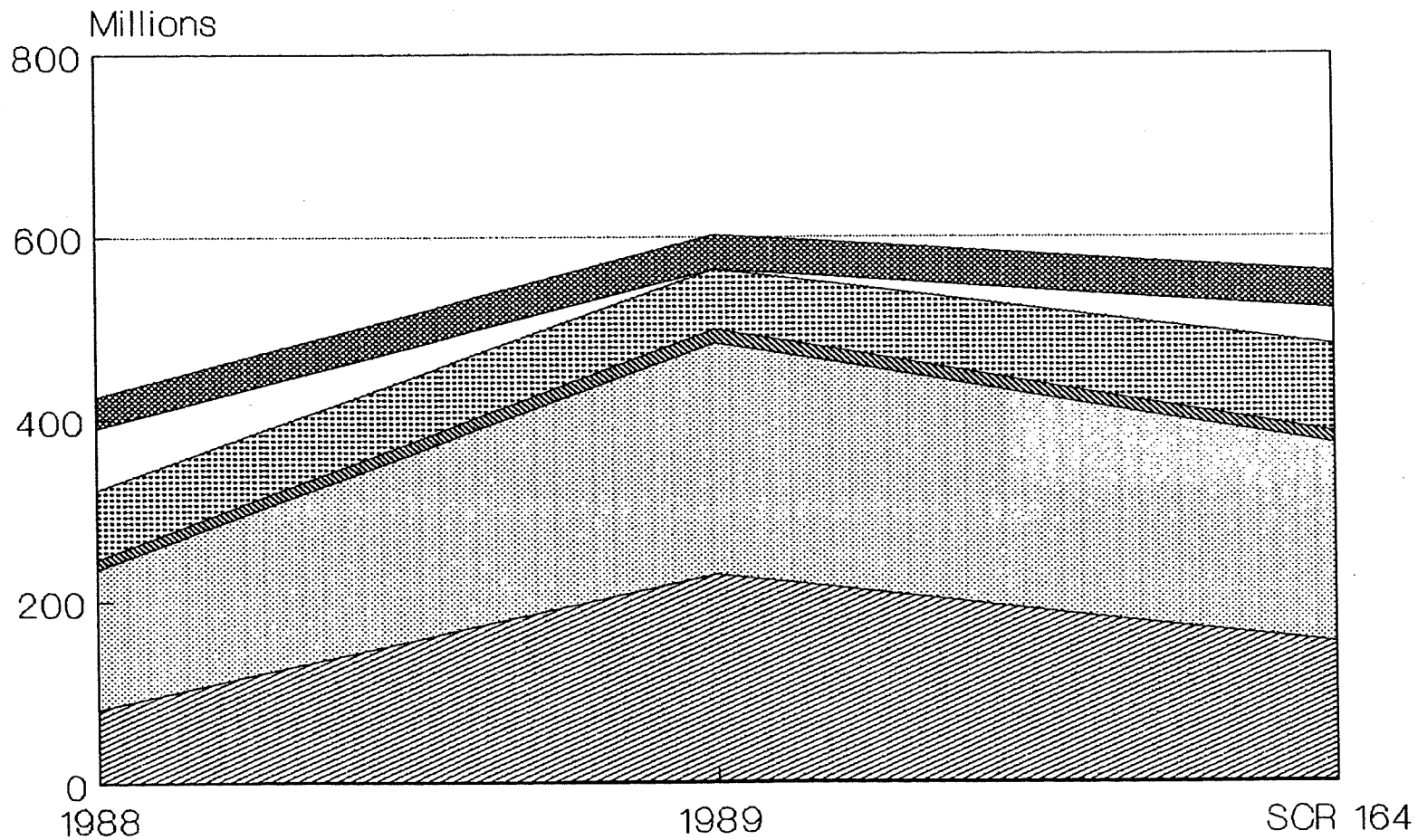
The impact will also vary according to the mix of properties in each taxing district. Taxing District 2 in Wyandotte County, has a significant amount of inventory value. Returning that value to the property tax rolls, even at a reduced rate, will result in a decrease in tax liability on residential property double that of the overall average. The property tax liability for commercial real estate will also decline to a greater extent than the overall average. However, it is anticipated that much of that will be offset by the return of inventories.

On the other hand real estate in a taxing district that does not have any personal property, such as 49 in Wyandotte County, will not experience the same benefits. In this particular district property values, exclusive of state assessed property, would decline by approximately 10% resulting in the need to increase the mill rate to generate the same revenue. Because this area has only AGRICULTURAL, RESIDENTIAL and VACANT property classes and because the latter two classes experience a reduction in their assessment rates under this proposal, there is a shift in the tax burden toward AGRICULTURAL property.

In conclusion, Wyandotte County property owners experienced tremendous changes in their property tax liability due to the combination of reappraisal and classification. Reappraisal of real estate expanded the property tax base, which by itself,

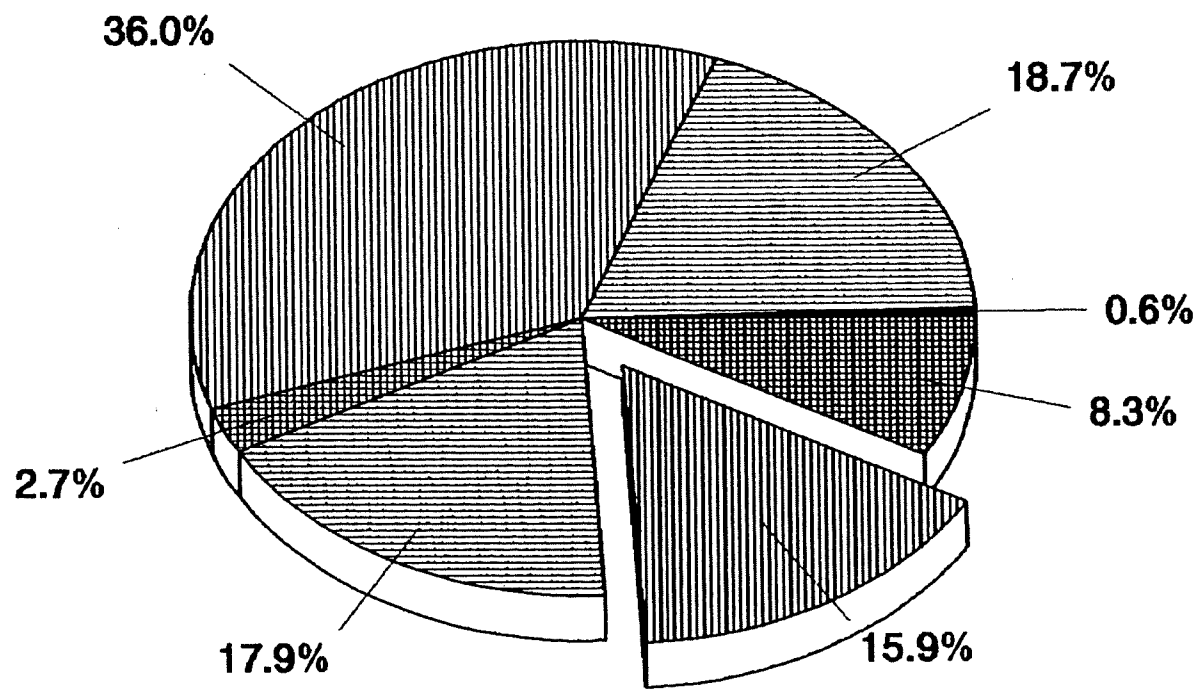
would have shifted a greater portion of the property tax burden to real estate. The exemption of a class of property that represented such a significant portion of the total tax base as merchants and manufacturers inventories did exacerbate those shifts. Any proposal that involves expanding the property tax base, reducing the assessment level of real estate or some combination of the two will effectively shift some of that property tax burden away from real estate. Senate Concurrent Resolution appears to include proposals which, if implemented will accomplish that for Wyandotte County.

CHANGES IN ASSESSED VALUATION



■ AG	▨ OTHER	▤ RES	▩ VAC
▧ MACH & EQUI	□ INVENT	▦ UTIL	

1988 CLASS PROPORTIONS
CHART 1



■ AG

▨ OTHER

▨ RESIDENTIAL

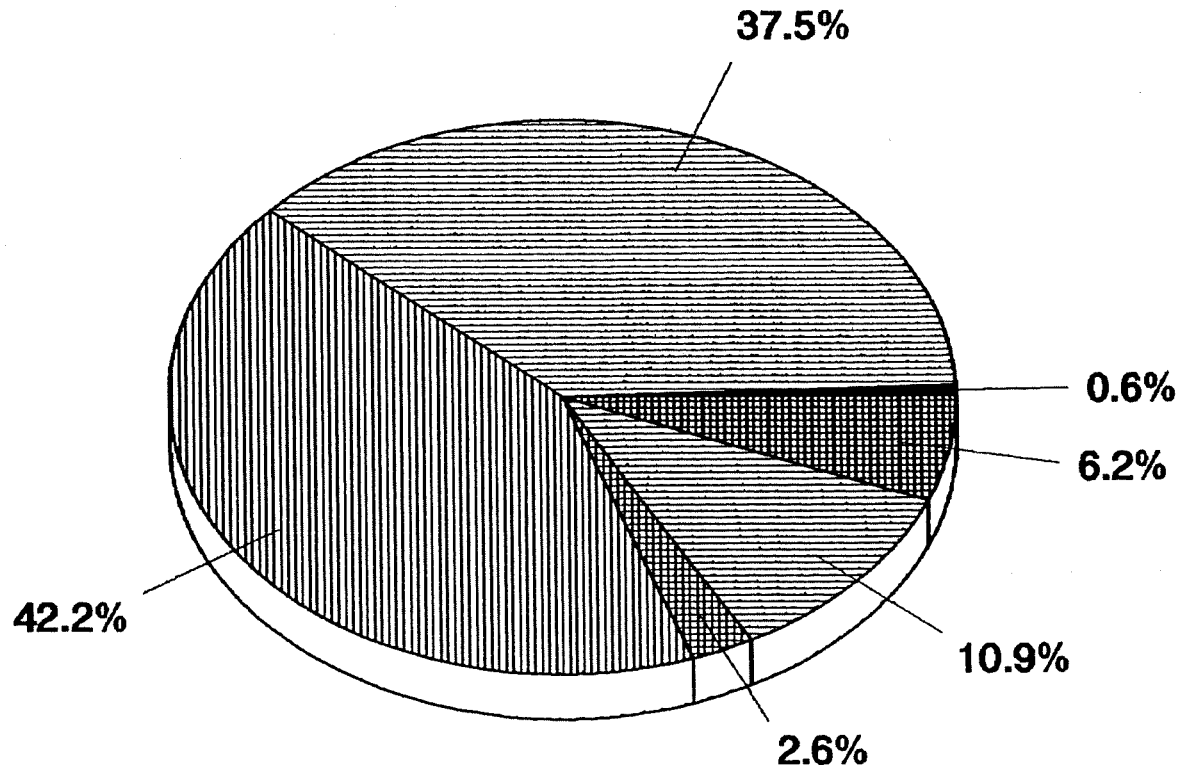
▨ VACANT

▨ MACHINERY & EQUIPMENT

▨ INVENTORIES

▨ UTILITIES

1989 CLASS PROPORTIONS
CHART 2



■ AG

▨ OTHER

▤ RESIDENTIAL

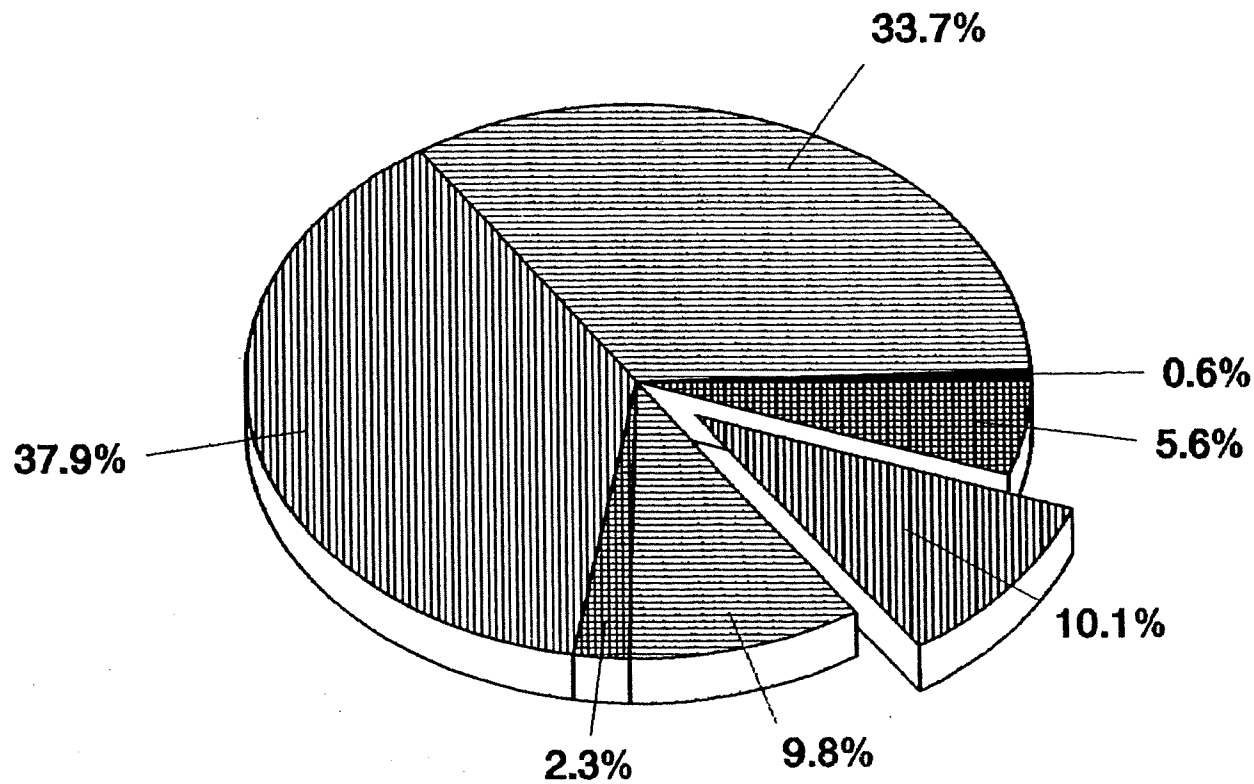
▧ VACANT

▨ MACHINERY & EQUIPMENT

▧ UTILITIES

5-26

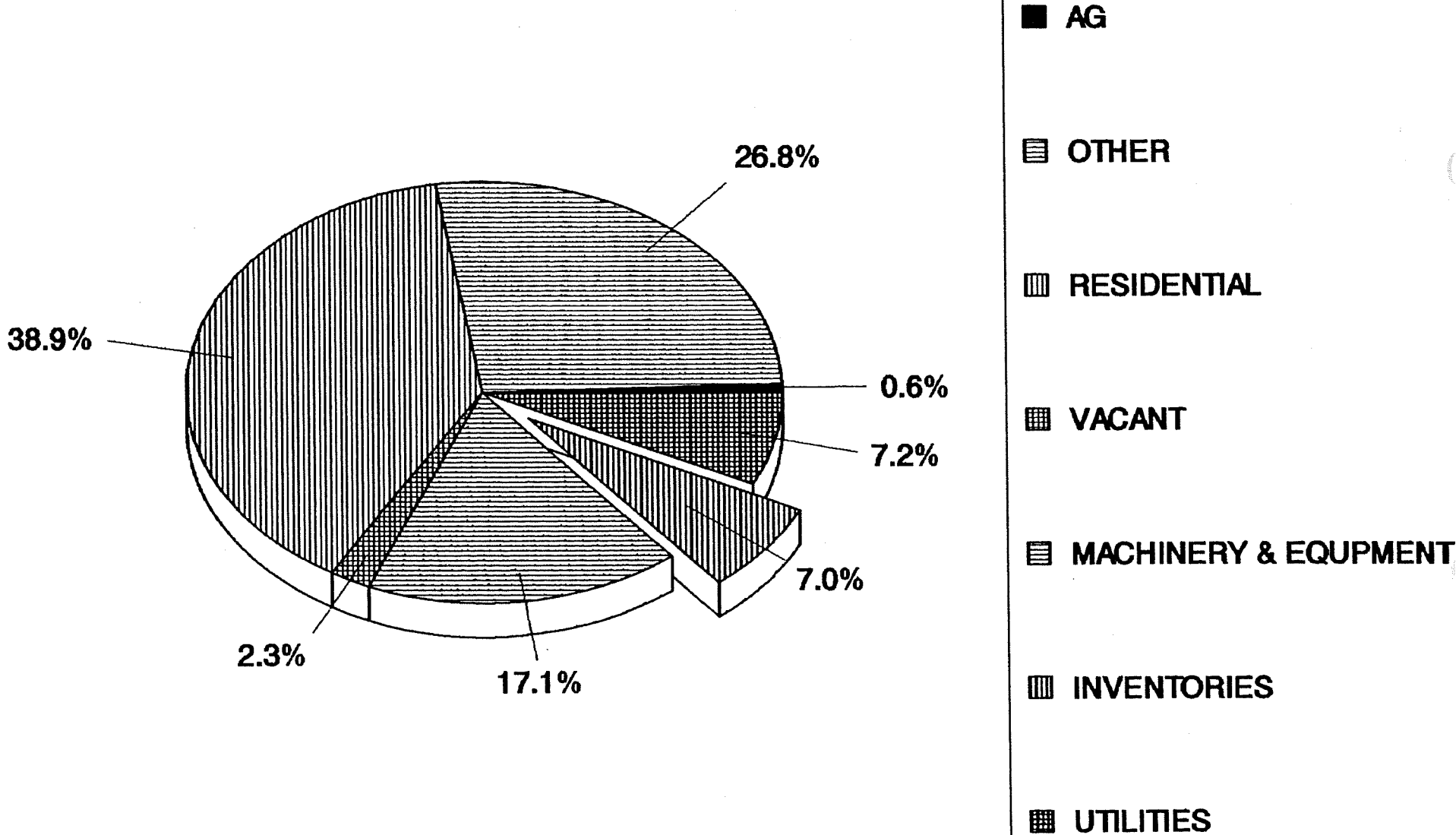
1989 CLASS PROPORTIONS
WITH INVENTORIES INTACT
CHART 3



- AG
- ▨ OTHER
- ▩ RESIDENTIAL
- ▧ VACANT
- ▦ MACHINERY & EQUIPMENT
- ▤ INVENTORIES
- ▣ UTILITIES

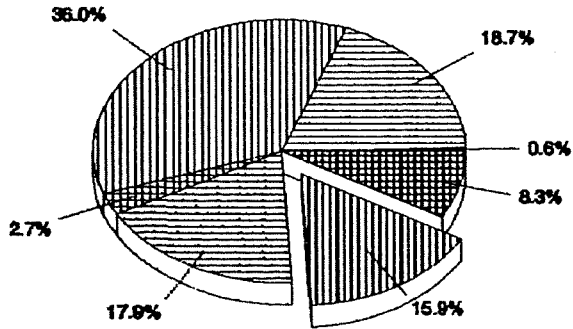
5-7

CLASS PROPORTIONS UNDER SCR 1642



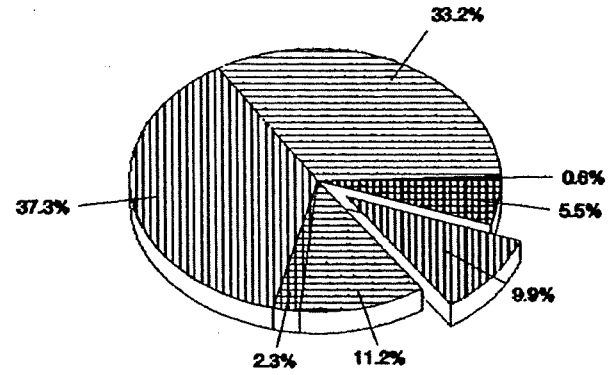
5-8

1986 CLASS PROPORTIONS



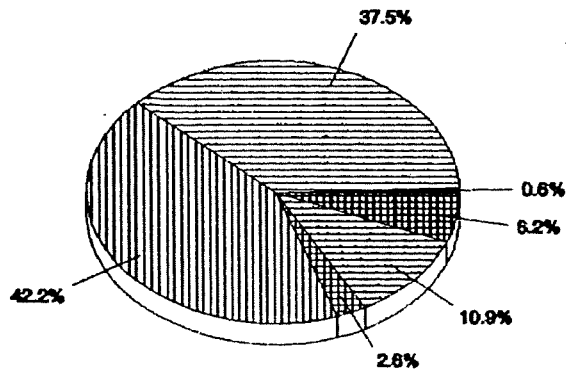
- AG
- ▨ OTHER
- ▩ RESIDENTIAL
- ▧ VACANT
- ▦ MACHINERY & EQUIPMENT
- ▥ INVENTORIES
- ▤ UTILITIES

1989 CLASS PROPORTIONS WITH INVENTORIES AND EQUIPMENT INTACT



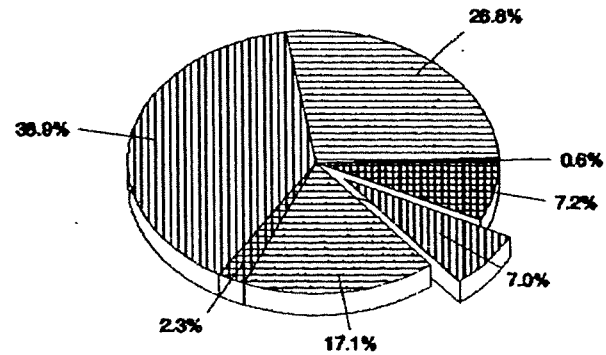
- AG
- ▨ OTHER
- ▩ RESIDENTIAL
- ▧ VACANT
- ▦ MACHINERY & EQUIPMENT
- ▥ INVENTORIES
- ▤ UTILITIES

1989 CLASS PROPORTIONS



- AG
- ▨ OTHER
- ▩ RESIDENTIAL
- ▧ VACANT
- ▦ MACHINERY & EQUIPMENT
- ▥ INVENTORIES
- ▤ UTILITIES

CLASS PROPORTIONS UNDER SCR 1642



- AG
- ▨ OTHER
- ▩ RESIDENTIAL
- ▧ VACANT
- ▦ MACHINERY & EQUIPMENT
- ▥ INVENTORIES
- ▤ UTILITIES

5-9
1

SENATE CONCURRENT RESOLUTION 1642
WYANDOTTE COUNTY PERSPECTIVE

	1988 VALUES		1989 VALUES		SCR 1642	
AG	2,342,826	0.6%	3,829,978	0.6%	3,456,789	0.6%
OTHER	79,588,173	18.7%	225,797,883	37.5%	150,531,922	26.8%
RESIDENTIAL	152,950,168	36.0%	253,990,764	42.2%	218,164,404	38.9%
VACANT	11,484,053	2.7%	15,467,350	2.6%	12,889,458	2.3%
MACH & EQUIP	76,244,517	17.9%	65,632,320	10.9%	95,899,872	17.1%
INVENTORIES	67,585,482	15.9%	0	0.0%	39,491,340	7.0%
UTILITIES	35,234,296	8.3%	37,156,039	6.2%	40,522,012	7.2%
	425,429,515		601,874,334		560,955,796	
MILL LEVY	0.185000		0.154872		0.166169	
DWELLING	\$518.00		\$743.38	44%	\$664.68	-11%
COMMERCIAL	\$740.00		\$1,858.46	151%	\$1,329.35	-28%
TAXES GENERATED						
AG	\$433,423		\$593,156		\$574,411	
OTHER	\$14,723,812		\$34,969,770		\$25,013,739	
RESIDENTIAL	\$28,295,781		\$39,336,058		\$36,252,161	
VACANT	\$2,124,550		\$2,395,459		\$2,141,828	
MACH & EQUIP	\$14,105,236		\$10,164,609		\$15,935,586	
INVENTORIES	\$12,503,314		\$0		\$6,562,236	
UTILITIES	\$6,518,345		\$5,754,430		\$6,733,502	
	\$78,704,460		\$93,213,482		\$93,213,464	

For: Hearing - Senate Assessment and Taxation Committee
Thursday, March 22, 11:00 a.m.

By: Walter R. Jacobs, President
The Walter Jacobs Co.
Real Estate Management of our own property in Johnson Co.

Re: Opposition to present classification law as it applies to
commercial real estate and speaking in favor of Senate
Concurrent Resolution # 1642.

Something must be done, and quickly, to rectify the inequities of the present situation. When the constitutional amendment was proposed years ago, we were one of many business people who knew it would cause great troubles in the commercial real estate market.

We had no idea of the extent of the problem until all the factors were in. The re-classification plus higher mill levies than we were led to believe, plus much higher budgets by many taxing units, plus many inaccurate appraisals, have created havoc in the real estate market place.

This appears to have flowed over to much of the residential market as well. The vast numbers of appeals for both commercial and residential property must indicate great discomfort with the present system.

If this situation is allowed to continue as it is now, there is no question it will effect the economic growth in much of our state.

We have spent many hours on appeals: some have been more successful than others. We concentrate on receiving accurate true value. I will outline one example of the problem - and then be open for discussion and/or questions.

Example: I-35, 435 Mini Warehouse
10750 Cottonwood, Lenexa, Ks.
-96000 sq. ft. - in operation since 1981
Gross volume 1988 - \$ 301,000
-real estate taxes 31,061
Gross volume 1989 342,654
-new taxes 1989 110,510

As you can see, the new taxes are over 32% of the gross volume

If these figures stay in effect it would take a 24% rent increase just to break even. We have put into effect a 10% increase and it really has affected our occupancy rate - downwards. This operation will go from profitable to a huge loss under these taxing conditions.

Original appraisal was \$3,000,000 which would have produced a real estate tax of \$125,000. This was reduced to \$2,500,000 on the first appeal - we are still working on an appeal to under \$2,000,000.

- if successful would reduce tax to 83,400 - still a 169% increase.
- this new bill at 20% classification would produce taxes of \$55,600.
- this figure, while still high, we could live with in our operation.

I would hope it possible to go back to what should have been done originally: compare the appraisals with a classification system that is fair to all involved. Whatever would happen to the inventory tax should be of a gradual nature so as not to add to the grief.

We are open for any questions.



City of Kansas City, Kansas
Joseph E. Steineger Jr., Mayor



Executive Chamber
One Civic Center Plaza

Kansas City, Kansas 66101
Phone (913) 573-5010

SENATE CONCURRENT RESOLUTION 1642

The City of Kansas City, Kansas appreciates the opportunity to testify on Senate Concurrent Resolution No. 1642. The City views this proposal as a means to present a new classification method to provide equity and relief to Kansas property taxpayers. The City supports Senate Concurrent Resolution 1642 because it would provide property tax relief for the citizens of Kansas City and Wyandotte County. The exemption of merchants and manufacturers' inventories from property taxation, combined with the accelerated depreciation on machinery, resulted in a loss in the tax base of Wyandotte County of about 23 percent. This loss in the tax base caused large shifts in the property tax burden onto residential property owners and small businesses. Many residential owners saw increases of more than 100 percent, while many small businesses had increases in excess of 250 percent. The proposed resolution presents nine subclasses of real property and nine subclasses of personal property and primarily places inventories and business equipment and machinery back on the tax rolls at 60 percent of the amount of taxes raised in 1988.

Senate Concurrent Resolution will affect property values as follows:

REAL PROPERTY

<u>PROPERTY CLASSES</u>	<u>CURRENT</u>	<u>SCR 1642</u>
Residential		
Single Family	12 %	10%
Multi Family	12%	15%
Agricultural	30%	30%
Green Space Land	---	30%
Vacant Lots	12%	10%
Commercial	30%	20%
(Industrial and Farm Outbuildings)		
Non-Profit	30%	20%
Utilities	30%	35%
Other Real	30%	20%

PERSONAL PROPERTY

<u>PROPERTY CLASSES</u>	<u>CURRENT</u>	<u>SCR 1642</u>
Mobile Homes	12%	10%
Mineral Leaseholds	30%	30%
Public Utility	35%	35%
Motor Vehicles	30%	30%
Commercial, Industrial Machinery & Equipment	20%	30%
Inventories -	0%	25%
Merchants & Manuf.		

The impact of the proposed Senate Concurrent Resolution to Kansas City, Kansas and Wyandotte County would result in the following property tax shifts:

Testimony of Mayor Joseph E. Steineger
 SCR 1642
 Page 3

	<u>1989 ASSESSED VALUATION</u>	<u>% AGE OF TOTAL</u>	<u>1989 ASSESSED SCR 1642</u>	<u>% AGE OF TOTAL</u>
URBAN REAL ESTATE				
Resid, Multi Family	15,613,041	2.59	19,516,301	3.44
Residential, Other	239,127,395	39.61	199,272,032	35.12
Vacant Lots	15,164,351	2.51	11,639,409	2.23
Other Commercial	220,650,936	36.55	147,099,153	23.93
Agricultural	1,475,100	0.24	1,475,100	0.26
TOTAL URBAN REAL ESTATE	492,033,823	81.50	380,001,995	66.98
RURAL REAL ESTATE				
Residential	5,486,768	0.91	4,572,288	0.81
Vacant Lots	498,404	0.08	415,335	0.07
Other Commercial	1,214,955	0.20	809,962	0.14
Agricultural	661,110	0.11	661,110	0.12
TOTAL RURAL REAL ESTATE	7,861,237	1.30	6,458,695	1.14
TANGIBLE PERSONAL PROPERTY				
URBAN				
Gas and Oil	0	0.00	0	0.00
Business Mach/Equip	53,206,044	8.81	79,809,069	14.07
All other personal	7,825,444	1.30	7,624,444	1.38
Mobile Homes	2,346,396	0.39	1,955,322	0.34
Motor Vehicles	3,046,787	0.50	3,046,787	0.54
TOTAL URBAN PROPERTY	66,424,673	11.00	92,636,622	16.33
RURAL				
Gas and Oil	0	0.00	0	0.00
Business Mach/Equip	122,620	0.02	183,930	0.03
All other personal	92,534	0.02	92,534	0.02
Mobile Homes	2,616	0.00	2,180	0.00
Motor Vehicles	0	0.00	0	0.00
TOTAL RURAL PROPERTY	217,770	0.04	278,644	0.05
EXEMPT PROPERTY				
Merchants Inventory	0	0.00	17,732,891	3.13
Manufacturers Inventory	0	0.00	26,898,831	4.74
Livestock	0	0.00	0	0.00
Motor Veh Dealer Inven.	0	0.00	0	0.00
Feedlots	0	0.00	0	0.00
Farm Machinery	0	0.00	0	0.00
Business Aircraft	0	0.00	0	0.00
TOTAL EXEMPT PROPERTY	0	0.00	44,631,742	7.87
STATE ASSESSED				
Public Service Corp	35,415,627	5.87	41,317,995	7.28
Rural Public Serv Corp	1,740,428	0.29	2,030,488	0.36
Utility Inventory	0	0.00	0	0.00
TOTAL STATE ASSESSED	37,156,055	6.15	43,348,483	7.64
TOTAL ASSESSED VALUATION	603,693,558	100.00	567,356,181	100.00

With the placement of inventories back on the tax rolls, along with the changes in the assessment ratios, Kansas City residential property owners would see their tax burden shift by approximately 10 percent. Commercial and industrial property in Wyandotte County would also see their real estate property taxes decrease by approximately 30 percent. At the same time, about \$43.35 million in assessed valuation from the proposed reinstated property tax on businesses which are inventory intensive will be added back to the tax rolls. Additionally, the proposed green spaces category will provide for recoupment of taxes for the preceding five years whenever the land is converted to residential or commercial property.

In summary, it's critical that some tax relief provision be introduced to the voters of Kansas. While no proposal will totally satisfy every property owner, there needs to be a more balanced tax burden for all classes of property. The City of Kansas City, Kansas thus supports Senate Concurrent Resolution No. 1642.

WICHITA INDEPENDENT BUSINESS ASSOCIATION
2604 W. 9th St. N, Suite 103, Wichita, KS 67203
316-943-2565 FAX 316-943-7631

March 22, 1990

STATEMENT TO: Kansas Senate ~~House~~ Committee on Taxation

SUBJECT: SCR 1642

FROM: Roland E. Smith, Executive Director
Wichita Independent Business Association

Mr. Chairman and members of the committee, I am Roland Smith, Executive Director of the Wichita Independent Business Association. WIBA is an association of over 1400 locally owned businesses in the Wichita trade area. The membership is made up of over 400 different types of businesses. The larger share is made up of service businesses with less than ten employees.

The tax shift to the commercial and industrial classes of property has caused an unbearable burden on many small businesses. We recognize that manufacturing is a basic industry that indirectly generates many service businesses and they need to be competitive nationwide, however, the shift caused by the current constitutional amendment was too much, too quick and not an equitable balance.

There have been numerous property tax relief proposals presented and I have followed all of them. None of them would make all our WIBA members happy, however, SCR 1642 would give some relief where it is most needed. Placing inventories back on the tax rolls would be difficult to accept, but maybe necessary on a temporary basis. The provision to allow the legislature to reduce or eliminate inventory taxes in the future is necessary. We would prefer a sunset provision with a broadening of the sales tax base dedicated to making up the loss of taxes on inventories.

SCR 1642 is a step in the right direction. It might slow down some expansions, but in turn would save many jobs in the service sector. Let us provide a more balanced tax burden than we now have. Seventy-seven percent of all businesses Kansas have less than 10 employees and 90% have less than 20 employees and make up approximately 54% of all the employees in the state. Most of these jobs are service and small retail businesses.

I'll be glad to answer any questions.