Approved August 17, 1990
Date

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./~~p.m.~~ on Friday, March 23, 1990 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Don Hayward, Revisor's Office
Chris Courtwright, Research Department
Tom Severn, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:
George Barbee, Executive Director of Barbee & Associates
Alan F. Alderson, Western Retail Implement and Hardware Association and KS Lumbers Dealers
Bob Corkins, Director of Taxation, KS Chamber of Commerce and Industry
Mary Ellen Conlee, Executive Director of KS Association for Small Business
Jack Brand, Lawrence Apartment Association
Bernie Koch, Wichita Chamber of Commerce
Lucky DeFries, Johnson County Apartment, Owner

Chairman Thiessen called the meeting to order and said we heard the Proponents of SCR1642 yesterday, and today we will hear the Opponents.

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

The Chairman announced that the Governor would be signing SB332 and he said, all the committee members are invited to attend the signing.

Chairman Thiessen said George Barbee a proponent of SCR1642 was not able to testify at the meeting yesterday, and said he would allow him to testify before going to the Opponents. The Chairman said we have written testimony from PROPONENTS passed to the members from Treva Potter, Legislative Consultant-Peoples Natural Gas, (ATTACHMENT 1) B.J. Beaudoin, KS City Power & Light Company, (ATTACHMENT 2) James T. Clark, KS Gas and Electric Company, (ATTACHMENT 3) Ed Schaub, KS Power and Light and Gas Service KPL, (ATTACHMENT 4) Mike Reecht, St. Director of Government Affairs - A.T. & T., (ATTACHMENT 5) Terry Humphrey, Executive Director of KS Manufactured Housing Association. (ATTACHMENT 6).

THE FOLLOWING CONFEREES ARE OPPONENTS OF SCR 1642.

George Barbee, Executive Director, of Barbee & Associates said he appreciated the opportunity to be able to present his testimony today, and he said he had appeared before the committee several times this session, regarding the tax increase impact, that their industry has experienced. He said, the KS Lodging Association's 1989 property tax liability shows an increase of 75% to 200% over the 1988 figures, and recently this figure was confirmed by the KS, Inc. Report on reappraisal and classification, which shows Johnson County and Sedgwick County commercial property tax increased 102.4% and 115% respectively.

He said, KLA believes the answer to the KS tax dilemma lies in changing the Constitution classification assessment rates adopted in 1986. He said, their theory is simply with the numbers now in those classes of property which received large tax reductions in 1989, should have their assessment rates adjusted upward, and conversely those classes of property which saw huge tax increases should have their taxation rates adjusted downward.

He said, SCR1642 accomplishes this goal by reducing the tax on "all other urban and rural real property not otherwise specifically classified". (ATTACHMENT 7)

Alan F. Alderson, Western Retail Implement and Hardware Association and KS Lumber Dealers Association, said the focus of their opposition to SCR1642 is with respect to the reimposition of the inventory tax. The provisions of SCR1642 which would tax

3/23

merchants inventory at an effective rate of 10%, the members of each Association are adamantly 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.

He urged the committee to defeat SCR1642 because, if for no other reason, it contains a provision for the re-enactment of the most unfair and economic growth, discouraging taxes ever imposed under Kansas law. The business community in KS 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. (ATTACHMENT 8)

Bob Corkins, Director of Taxation, KS Chamber of Commerce and Industry said for decades, KCCI, other affected KS 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 2/3's of this legislature and a majority of the voting public, proposals seeking to reinstate this unjust tax continue to surface.

He said, they maintain that such proposals, including SCR1642, are misguided and shortsighted with respect to the future economic health of this State.

He said, when you consider that SCR1642 would grant partial inventory exemptions to fewer types of businesses than would a threshold option, the business support for the resolution, drops even lower. He said, attached to his handout is the results of their latest poll which focused on a comparison of the current classification amendments against 2 general alternatives. (1) alternative is to reinstate the inventory tax, phase it out, and lower the assessment rate applied to commercial realty by 1/3. The other alternative they presented was to permanently reinstate the inventory tax, exempt the 1st $200,000 worth of inventory held by each business, and lower the assessment rate applied to commercial realty by 1/3. He said, they asked their membership to rank these options and to indicate if any one of them would be unacceptable under any circumstances. (ATTACHMENT 9)

Mary Ellen Conlee, Executive Director of the KS Association for Small Business said their Association represents 200 companies, and they strongly oppose the re-instatement of the inventories tax.

She said, inventories are not a measure of the true value of a business. They are, instead, a component part of certain kinds of businesses. For example, the hardware store must maintain a full, expensive inventory to service customers while a restaurant uses up its inventory daily. The inventory tax, therefore, became a penalty for owning certain businesses.

She said, this legislature worked hard to develop an economic development strategy for KS. That strategy included the elimination of the inventories tax and the lowering and stabilization of taxes on manufacturing machinery and equipment. The attached chart (with her handout) shows that a hypothetical manufacturing firm in KS even after reapparisal and classification would still have the 2nd highest property taxes in the region. Therefore, they contend that a return to the 1988 tax situation is not acceptable as it was not acceptable to this legislature when it created a positive economic development strategy for the '90s. (ATTACHMENT 10)

Jack Brand, Lawrence Apartment Association said they strongly oppose that portion of SCR1642 that would raise the classification percentage on multi-family residential real property to 15%. (1) Under classification in 1989, apartment real property taxes went down, but this is not true in Douglas County. He said, Chart A of his handout shows this. (2) A false conclusion is that apartment owners in the long run pay real estate taxes and apartment renters do not pay such taxes. He said, nothing could be farther from the truth. (3) He said, the proposed change is premised on the false conclusion that 1988 taxes on apartments must have been about right. (ATTACHMENT 11)

Bernie Koch, Whichita Chamber of Commerce said he would be brief, because he has testified before, to this committee. He referred to charts, attached to his handout, and pointed out what happens in a State when the manufacturing community is not doing well, and how it affects the rest of the state, he referred to page 3 of his testimony, and he said, this chart shows, over the last decade the unemployment rate in the Wichita area, of the civilian labor force. He reviewed the charts and the survey results with the committee. (ATTACHMENT 12)

Lucky DeFries, a Johnson County Apartment owner, said he thought Mr. Brandt covered the apartment owners pretty well, and he said, his concerns are basically the same.

He said, he felt portable housing is truly an issue, as here in KS with the reappraisal and classification, the nursing homes and mobile home parks, and the residental housing, was all treated the same, and with this we are carving out the apartments, and treating them differently than these others, and with the results of the Docking Study that was done, and what PVD has interpreted, and what the Legislature intended, for these reasons he felt it makes sense to continue to treat the residential housing, and multi-family apartment in the same fashion. (NO WRITTEN TESTIMONY)

Chairman Thiessen asked Stan Simon if he would like to come back on Monday, because we have ran out of time. Mr. Simon agreed to come back on Monday.

WRITTEN TESTIMONY WAS TURNED IN BY: Janet Stubbs, Executive Director, Home Builders Association of KS. (ATTACHMENT 13) and Denny Koch, Public Affairs Manager, Southwestern Bell Telephone Company. (ATTACHMENT 14)

Chairman Thiessen adjourned the meeting at 11:18 a.m.

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: Friday, 3-23-90

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
STAN SIMON	2135 POTOMAC TOPEKA	SELF
Gerriann Robins	234 Gage	Apt. Council of Topeka
Bob Corkins	Topeka	KCCI
W. J. TAYLOR	"	KS FOR FAIR TAXATION
Maxine Krallman-Frickey	"	KFFT
Leroy Jones	Osawatomie	BLE
Tom Tunnell	TOPEKA	KGFA
DENNY KOCH	"	SW BELL TEL
Jim Gartner	Topeka	SW Bell TEL
Mike Geimann	Wichita	Boeing Commercial Airplane Group - Wichita Division
Bud Grant	TOPEKA	KCCI
JIM LUDWIG	Topeka	KPL
TREVA POTTER	TOPEKA	PEOPLES NAT. GAS
Anne Smith	Topeka	Ks. Assoc of Counties
Jack Glaves	Wichita	KN Energy
Harold Anderson	Lindsborg	
Chester E Peterson	Lindsborg	visitor
ALAN ALDERSON	TOPEKA	KS. LUMBER DEALERS ASSN. WEST. RETAIL IMPLEMENT & HARDWARE ASSN
Warren Parker	Manhattan	Kansas Farm Bureau
ELDON THOLMAN	Clay Center	[illegible] owner
George Barber	Topeka	Ks lodging assn.
Gerry C Conrad	LAW	KG&E
Mary Ellen Conlee	Wichita	Ks Assoc for Small Business
Bob Ham	Lawrence	Lawrence Apt. Assoc.
JACK BRAND	Lawrence	Lawrence Apt. Assoc.

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: Friday, 3-23-90

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim McBride	Topeka	Observer
Judy DeVries	Topeka	Kan. Apt. Leg. Com.

March 23, 1990

TO; THE SENATE ASSESSMENT AND TAXATION COMMITTEE

RE; SCR 1642

Mr. Chairman and Members of the Committee, Peoples Natural Gas submits these comments in opposition to SCR 1642. The increase in utility property taxes proposed by SCR 1642 would be passed on to Kansas homeowners, businesses and industries as higher utility rates. Not only would Kansas residents be paying higher rates, but through their taxes, they would also pay the administrative cost of filing the rate change with the Kansas Corporation Commission.

For example, Peoples Natural Gas, which serves 19 Kansas communities, would pay $137,000 or 16.7% more in property taxes under SCR 1642. Contrary to the claim that SCR 1642 would return taxes to their 1988 level, it would increase Peoples' property taxes 10% ABOVE THE 1988 LEVEL. How much then would our property tax assessments increase on down the line with this locked in classification? And, who would be more adversely affected than residential customers on fixed incomes whose budgets are stretched to the limits now?

Another side effect would be that our industrial customers could find it economical to bypass our facilities and buy directly from an interstate carrier or switch to an alternative fuel if our cost of service increased significantly. The loss of these industrial customers would then be borne by our remaining residential customers.

Shifting the tax burden to Kansas business and industry in the form of higher utility rates could discourage companies from expanding and relocating in Kansas, especially at a time when other states are offering tax credits to lure business to their communities.

We do not ask to be given special treatment --only fair treatment. Choosing this method of taxing utility customers without their consent does not seem a fair way to solve the tax problem.

We ask that you do not pass SCR 1642

Submitted by Treva Potter
Legislative Consultant
Peoples Natural Gas

KANSAS CITY POWER & LIGHT COMPANY
1330 BALTIMORE AVENUE
P.O. BOX 418679
KANSAS CITY, MISSOURI 64141-9679

March 22, 1990

Dear Senator:

Subject: Senate Concurrent Resolution 1642

Under SCR 1642, the assessment rate on state assessed property would be increased from the current 30 percent to 35 percent. This increase is estimated to add $3 million to Kansas City Power & Light's (KCPL) property taxes in Kansas. Since property taxes are typically viewed by the Kansas Corporation Commission as a legitimate cost of service, this $3 million increase would be reflected in new electric rates during our next rate case.

Kansas City Power & Light's property taxes are basically unchanged by the recent reappraisals and changes in local mill levies. Currently, KCPL is collecting $15.2 million from its customers to pay its Kansas property tax bill. In 1988, KCPL's Kansas property taxes, including inventory, were $19.6 million. In 1989, they were $18.8 million and are expected to be $19.9 million in 1990. Clearly, KCPL and its customers did not realize any "windfall" resulting from reappraisal.

KCPL is committed to holding down operating expenses and forestalling future rate increases. Stable electric rates benefit not only our customers, but also encourage economic development. Yet a jump of $3 million in operating expenses could precipitate a new rate case sooner than currently projected.

KCPL urges you to vote NO on SCR 1642. Increasing electric rates is no solution to the property tax issue.

Sincerely yours,

BJ Beaudoin

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 2

KG&E THE ELECTRIC COMPANY
KANSAS GAS AND ELECTRIC COMPANY

JAMES T. CLARK
VICE PRESIDENT-ACCOUNTING

March 21, 1990

MEMBERS OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

SCR 1642 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 under current law. 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.

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.

The proposed increase also would burden state citizens unfairly. While customers of an investor-owned company like KG&E would be compelled to pay the 17% tax increase, customers of municipally owned electric utilities would completely escape this burden because those utilities pay no property taxes. Thus the proposed increase also is discriminatory.

The tax bills of KG&E and other utilities in the state have increased steadily since the 1960's. We have been state assessed on fair market value of our properties since 1969; therefore, our tax burden each year has been on the fair value that year. To increase the assessed value from 30 to 35% merely increases the inequity which was in the system these many years.

Careful thought should be given before ordering such a discriminatory tax increase.

James T. Clark

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 3

201 N. Market — Wichita, Kansas — Mail Address: P.O. Box 208 / Wichita, Kansas 67201 — Telephone: Area Code (316) 261-6390

To: Senate Assessment and Taxation Committee

From: Ed Schaub, KPL Gas Service

Date: March 23, 1990

Re: SCR 1642

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 SCR 1642 is adopted. I encourage you to consider the impact SCR 1642 would have on all utilities and their customers.

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Attachments

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 4

818 KANSAS AVENUE ★ P.O. BOX 889 ★ TOPEKA, KANSAS 66601 ★ (913) 296-6300

KPL GAS SERVICE

RESPONSE TO SCR 1642

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-

818 KANSAS AVENUE ★ P.O. BOX 889 ★ TOPEKA, KANSAS 66601 ★ (913) 296-6300

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.

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 SENATE CONCURRENT RESOLUTION NO. 1642

SCR 1642 proposes a contitutional amendment that would impose an unfair and inequitable tax burden on the property of the public utility. AT&T, a regulated long distance carrier in Kansas, would bear a heavier tax burden than other property used for commercial and industrial purposes. Due to this obvious discrimination AT&T is opposed to SCR 1642.

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 far lower rate. Commercial and industrial property would be subject to taxation at 20% of assessed value for real property and at 30% of assessed value for tangible personal property.

There is no reasonable distinction between AT&T's public utility property and other industrial and commercial concerns. AT&T 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 20% 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 public utilties 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 or her 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 concerns.

AT&T also objects to the overnight elimination of inventory exemptions under this property classification proposal. Such a move tends to hinder economic development by forcing unforeseen and dramatic tax law changes upon Kansas businesses. AT&T maintains substantial inventories in Kansas which will bear this tax burden. AT&T recommends full consideration of the economic impact of removing the inventory exemption prior to approval of such a change.

KANSAS MANUFACTURED HOUSING ASSOCIATION

MEMORANDUM

TO: Senator Dan Thiessen, Chairman
and Members of the Senate Assessment
and Taxation Committee

FROM: Terry Humphrey, Executive Director
Kansas Manufactured Housing Association

DATE: March 23, 1990

RE: Senate Concurrent Resolution 1642

In response to Senate Concurrent Resolution 1642 I would like to comment.

The Kansas Manufactured Housing Association (144 member firms) including our associate members the Recreational Vehicle Council oppose Sections 6 and 7 of SCR 1642 that reinstates the inventory tax. Our association still believes that Kansas has a lot of work to do in the area of economic development and that the reinstatement of this tax could inhibit that progress.

Additionally, the members of our association effected by the reinstatement of the inventory tax are small businesses. KMHA's members consist of small manufacturers and retailers with inventories that range from approximately $300,000 to $1.5 million dollars. Plus, the reinstatement of inventory tax coupled with dramatic increases in commercial property tax would significantly increase their tax liability over 1988 and 1989.

In closing we are very sympathetic to the magnitude of the tax dilemma, however, we sincerely question whether the reinstatement of the inventory tax is the correct solution to the problem. Perhaps in the end, if an inventory tax is inevitable, exempting the first half million or million dollars of inventory is preferable.

Thank you for your attention to this matter. Do to a scheduling conflict I may not be able to attend the hearing, therefore please enter my letter into the official record. If you have any questions, please do not hesitate to contact me. Thank you.

TH:mn

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 6

112 S.W. 6TH • SUITE 204 • TOPEKA, KS 66603 • 913/357-5256

Kansas Lodging Association

Date:	March 22, 1990
To:	Senate Committee on Assessment & Taxation
From:	George Barbee Executive Director
Re:	**SCR-1642**

Mr. Chairman and members of the Committee, I am George Barbee, President of Barbee & Associates. Today I am appearing before you as Executive Director of the Kansas Lodging Association (KLA).

The Kansas Lodging Association supports SCR-1642.

By this time in the session, I hope all of you understand the tremendous tax burden which has been shifted onto service related, non-inventory businesses such as hotels and motels. A quick look at our member's 1989 property tax liability shows increases of 75 to 200 percent over 1988. This figure was recently confirmed by the Kansas Inc. "Report on Reappraisal and Classification" which shows Johnson County and Segwick County commercial property tax increases at 102.4% and 115% respectively.

The Kansas Lodging Association does not believe simply rolling back the reliance on property taxes by 10, 15 or 20 percent is the solution to Kansas' tax dilemma. Though a tax roll back may be a component part of an eventual solution, it does nothing to correct the 1989 tax shift. KLA believes the answer to the Kansas tax dilemma lies in changing the Constitution classification assessment rates adopted in 1986. Our theory is simple, with the numbers now in, those classes of property which received large tax reductions in 1989 should have their assessment rates adjusted upward, and conversely, those classes of property which saw huge tax increases should have their taxation rates adjusted downward.

SCR-1642 accomplishes this goal by reducing the tax on "all other urban and rural real property not otherwise specifically classified", which includes commercial property, to 20 percent. SCR-1642 also adjusts the assessment rates of other classes of property, both upward and downward, to correct the huge tax shifts which occurred in 1989.

Thank you for the opportunity to appear before you today, and I ask for your favorable consideration of SCR-1642.

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 7

810 Merchants Tower • 800 Jackson • Topeka, Kansas 66612 • Phone (913) 233-9344 • FAX (913) 357-6629

ALDERSON, ALDERSON, MONTGOMERY & NEWBERY

ATTORNEYS AT LAW

1610 S.W. TOPEKA AVENUE
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(913) 232-1866

MEMORANDUM

TO: Members of the Senate Committee on Assessment and Taxation
FROM: Alan F. Alderson, Western Retail Implement and Hardware Association and Kansas Lumber Dealers Association
RE: Senate Concurrent Resolution No. 1642
DATE: March 23, 1990

I appear today on behalf of the implement dealers, hardware dealers and lumber dealers of Kansas, in opposition to Senate Concurrent Resolution No. 1642. Although members of each Association are generally opposed to reopening the classification amendment at all, our opposition is more particularly directed to the reimposition of the merchants inventory tax.

Notwithstanding the provisions of SCR 1642 which would tax merchants inventory at an effective rate of 10%, the members of each Association are adamantly 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 will have a more substantial impact for each percentage rate of assessment 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 to be taken into account in the valuation process. There is no assurance that these measures, copies of which are attached, 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 in new equipment, used equipment and parts. That Association has estimated that between 10% and 15% of existing dealers would go out of business if the tax was reinstated at its original rate.

I am being told by members of these Associations of retailers that they would adamantly oppose reimposition of the inventory tax even if a reduction in their other taxes created a wash situation. I can't overemphasize the extent to which retailers perceive the inventory tax to be the most unfair of all taxes. The reasons are numerous, but some of those given most often include:

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 8

1. The high degree of noncompliance with listing requirements. Those who file an accurate rendition are afraid to look up the word "chump" in the dictionary, for fear of seeing their own picture. An expert witness in a recent property tax case I handled for a county estimated that probably 30% of all personal property escapes taxation in 95% of the counties. Inventory, as a class, probably has a higher rate of escape because inventory items are not itemized. Perhaps four or five counties have anything approaching an audit program. Businesses in these and a few other counties get nailed for escaped or undervalued inventory, while their competitors down the road pay very little.

2. Inventory taxes are the highest when the business can least afford to pay them. If a retailer has excessive inventory on his lot, it's because he is not selling it. If he's not selling it, he isn't making the money to pay the taxes on it.

3. Big ticket items don't turn over and can be re-taxed three or four times. A $70,000 combine might sit on a dealer's lot for three years, being taxed each year at cost. A grocer's inventory turns over dozens of times each year. If a combine which costs $70,000, and for which a Topeka dealer is permitted to charge $45,000 by the manufacturer, is taxed in each of three years under this bill, over $2,000 will have been taken from whatever profit margin might be left, if any. Reinstatement of the exemption for inventory taxed in a prior year, as well as the directive to the appraisers to consider the manufacturers' discount programs in the valuation process, would be absolute necessities. The Board of Tax Appeals has consistently held that these discounts warrant <u>at least</u> 30% reductions.

In summary, members of the Western Retail Implement and Hardware Association and the Kansas Lumber Dealers Association urge you to defeat SCR 1642 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.

-1001a. Inventory of merchant; listing for taxation; fair market value in money, procedure for determining. (a) Every merchant shall for the purpose of taxation make and deliver to the assessor a statement giving the fair market value in money of personal property held as inventory within the state of Kansas for sale in such person's business as a merchant. For the purpose of such statement the fair market value in money of personal property held by a merchant as inventory shall be an amount equal to the average of the fair market value in money of the personal property held as inventory within the state of Kansas for sale by such merchant during the tax year,as established for reporting for federal income tax purposes, next preceding the time of filing the statement of personal property.

(b) Notwithstanding the provisions of subsection (a), the fair market value in money of personal property which is subject to rebate or discount incentives from the manufacturer thereof shall be determined by reducing the invoice cost figure otherwise reportable by the average discount or rebate available and in effect from the manufacturer during the calendar year in which such property was held in inventory. The "average discount or rebate available or in effect" shall be computed by adding the percentage of discount or rebate available for each item of personal property for each month or portion thereof such item of personal property was held in inventory; then by dividing the total of the percentage by the number of months, or portions thereof, that the item of personal property was held in inventory. The resulting percentage shall be subtracted from 100% and the invoice cost of the item of personal property shall be multiplied by the difference therein in order to arrive at the fair market value of the property.

(c) Every merchant who, pursuant to subsection (a), makes and delivers a statement showing the fair market value in money of property held as inventory in which the amount reportable for federal income tax purposes has been reduced pursuant to subsection (b) shall, at the time of filing such statement with the county appraiser, file with the appraiser and the state board of tax appeals, copies of all documents as the state board of tax appeals, by rules and regulations adopted for that purpose, shall require in order to verify that the full amount and valuation of such merchant's inventory has been included thereon and that the reduction is supported by appropriate documentation from the manufacturer. Prior to the time for the payment of taxes on such inventory, the state board of tax appeals shall issue an appropriate order approving or disapproving the allowance of reductions calculated pursuant to subsection (b). Any merchant who is aggrieved by such order may file a protest in the manner prescribed by K.S.A. 79-2005 *et seq.*, and amendments thereto.

79-217. Property exempt from taxation; farm machinery and equipment held as inventory. The following described property, to the extent specified in this section, shall be exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

All farm machinery and equipment held in a merchant's inventory which has been listed for tax purposes and taxed in such merchant's inventory in any preceding tax year. The term "farm machinery and equipment" means that personal property which would be exempt pursuant to K.S.A. 79-201j, and amendments thereto, if it was actually and regularly used exclusively in farming and ranching operations. The terms "merchant" and "inventory" shall have the meanings ascribed to them in K.S.A. 79-1001 and amendments thereto.

For the purposes of this section, any farm machinery and equipment, the fair market value of which has been included in the computations pursuant to K.S.A. 79-1001b, and amendments thereto for any prior tax year by the merchant claiming the exemption hereunder, shall be listed by the merchant as exempt property in all succeeding tax years during which the machinery or equipment remains in that merchant's inventory.

The provisions of this section shall apply to all taxable years commencing after December 31, 1985.

8-3

SPECIAL REPORT
Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

90-2 March 16, 1990

Classification Alternatives Survey

It is obvious from the tabulation of the votes and from the comments received, that KCCI members remain unhappy with their property tax bills regardless of company size, type of business, or inventory situation. In addition, there is unhappiness with the various alternative proposals under consideration in the legislature and presented in the survey. These include the status quo, a phase-out of the inventory tax over five years, and the establishment of an exemption on the first $200,000 of inventory.

KCCI is grateful to those of you that took the time to complete and return the survey. It is not only a help internally to the Board of Directors in positioning KCCI on this important subject, but also in expressing the views of the business community to the legislature.

The results of the survey are printed on the reverse side of this Special Report, and contain several messages. They include the following:

a. Though members remain almost unanimous in opposing the idea of an inventory tax, when forced to choose between options they show no overwhelming support for one in particular, even among businesses of the same type and size.

b. There was honest concern by some that even though the alternative chosen was the best for them, it may not be best for their suppliers or other business associates, and it could become detrimental.

c. Some felt the five-year phase-out was nothing more than a circuit breaker with no guarantee against reinstatement, or replacement with another tax, at the end of the five years.

d. There was general agreement that there is too great an emphasis on the property tax, and that a roll-back and shifting to an alternative source of funding for schools and local government is long overdue.

With this in mind, KCCI will retain its strong position opposing the reinstatement of the inventory tax on Kansas business. The Chamber will also take steps to encourage a constructive, pro-active response to the property tax problem highlighted by so many respondents -- that is, the excessive reliance that local taxing districts have toward property taxes.

To address this problem shared by everybody, KCCI will support measures which shift this reliance to other revenue sources without shifting the tax burden to any particular segment of taxpayers. Long standing KCCI policies regarding public school finance and alternative tax sources will continue to guide our lobbying efforts in this direction.

(Survey statistics on reverse)

SENATE ASSESSMENT AND TAXATION COMMITTEE
FRIDAY, MARCH 23, 1990 ATTACHMENT 9

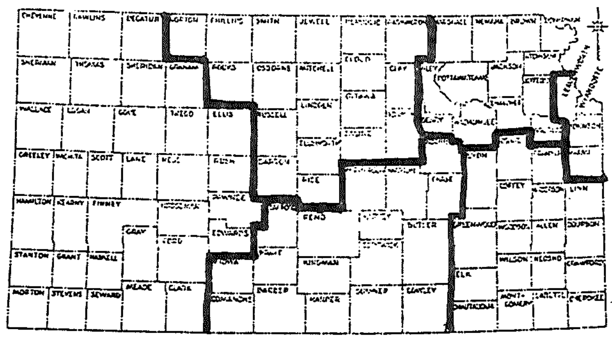
KCCI CLASSIFICATION SURVEY RESULTS

Analysis of 800 First-Place Votes

Option #1 = retain status quo, exempting all inventory.
Option #2 = phase out inventory tax, lower commercial realty 1/3.
Option #3 = tax only inventory over $200,000 and lower commercial realty 1/3.

OVERALL RESULTS

Option #1: 56%
Option #2: 17%
Option #3: 27%



Western Kansas		South Central Kansas		North Central Kansas	
Option #1:	82%	Option #1:	62%	Option #1:	52%
Option #2:	9%	Option #2:	15%	Option #2:	16%
Option #3:	9%	Option #3:	23%	Option #3:	32%

Southeastern Kansas		Northeastern Kansas		Kansas City Area	
Option #1:	58%	Option #1:	46%	Option #1:	47%
Option #2:	11%	Option #2:	17%	Option #2:	25%
Option #3:	31%	Option #3:	37%	Option #3:	28%

Overall Results by Business Employee Size -- % of votes (% of respondents in class)

Option #1:
0 - 15....22% of first place votes for option (37% of all 0 - 15 employers)
16 - 50....24% " " " " " " (48% of all 16 - 50 employers)
51 - 200...26% " " " " " " (60% of all 51 - 200 employers)
over 200...28% " " " " " " (76% of all over 200 employers)

Option #2:
0 - 15....24% (13%)
16 - 50....33% (21%)
51 - 200...25% (18%)
over 200...19% (16%)

Option #3:
0 - 15....52% (51%)
16 - 50....27% (31%)
51 - 200...16% (22%)
over 200....5% (8%)

Overall Results by Business Type -- % of votes (% of respondents in class)

Option #1:
mfg/constr...51% of first place votes for option (73% of all mfg/constr)
retail.......21% " " " " " " (43% of all retail)
wholesale....10% " " " " " " (76% of all wholesale)
restr/bar.... 1% " " " " " " (28% of all restr/bar)
hotel/motel...0% " " " " " " (0% of all hotel/motel)
bank/insur....3% " " " " " " (19% of all bank/insur)
services.....14% " " " " " " (38% of all services)

Option #2:
mfg/constr...27% (12%)
retail.......13% (12%)
wholesale.....7% (16%)
restr/bar.....2% (18%)
hotel/motel...1% (33%)
bank/insur...21% (36%)
services.....30% (22%)

Option #3:
mfg/constr..20% (15%)
retail......29% (45%)
wholesale....2% (8%)
restr/bar....3% (54%)
hotel/motel..1% (67%)
bank/insur..16% (45%)
services....29% (40%)

"Would you FAVOR or OPPOSE a plan to reduce by 30% the property taxes paid to school districts in Kansas and to replace the funds for schools with money from a statewide one-cent increase in the sales tax?"

	StateWide	By Congressional District...					Those who consider themselves...			Age	Age	Age	Age		
	ALL	1st	2nd	3rd	4th	5th	Rep	Dem	Ind	18-29	30-44	45-64	65 +	Males	Females
Favor	59%	48%	63%	59%	61%	63%	66%	57%	52%	60%	57%	60%	59%	62%	56%
Oppose	25%	31%	17%	25%	24%	26%	21%	26%	28%	24%	28%	22%	23%	23%	26%
Neither/Don't Know	17%	21%	20%	16%	15%	11%	13%	17%	20%	15%	15%	18%	18%	15%	18%

KASB
Kansas Association for Small Business

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

SENATE ASSESSMENT AND TAXATION COMMITTEE

March 23, 1990

Re: SCR 1642

Senator Thiessen, members of the committee, I am Mary Ellen Conlee, Executive Director of the Kansas Association for Small Business. Much has been said about the impact of reappraisal and classification on the small businesses of Kansas. For the past five years the Kansas Association for Small Business has represented its members, 200 companies in or serving manufacturing, in support of an improved business climate, believing that a strong industrial sector fuels the economy. The proposed amendment before you today is a step back from that goal.

INVENTORIES TAXES: The Kansas Association for Small Business strongly opposes the reinstatement of the inventories tax. During the development of the classification amendment 5 years ago, manufacturers understood that lower classification levels (12%) placed on homes and higher classification levels (30%) placed on commercial and industrial property meant higher property taxes for business. For that reason, business took that opportunity to address the inventories tax, a long standing problem in the Kansas tax structure.

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

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

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

MACHINERY AND EQUIPMENT: SCR 1642 increases the classification for machinery and equipment to 30% while reducing the classification for commercial buildings to 20%. The reduction of taxes on commercial buildings coupled with increased taxes on machinery and equipment means the highest taxes on our state's productive machinery and equipment.

The economic incentives passed by this legislature have created a positive environment for growth. For the subcontract manufacturers I represent, changing technology has required growth through investment in new machinery and equipment. The improved business climate which has supported growth has allowed manufacturers to make required changes, expand capabilities and still remain competitive in the national marketplace.

Where a grinding machine, if replaced at the same level of technology, may cost $30,000, a small CNC computerized machining center, 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, is often 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."

Your Kansas companies have expanded and as a result have increased sales, created new jobs and paid more corporate and individual income taxes. Many companies have bid and won contracts for multi-year, fixed-price contracts. As an example, Brittain Machine in Wichita has invested $3.5 million dollars in new machinery and $500,000 in building expansion to upgrade its capabilities for production of large aircraft parts that have not previously been supplied in Kansas. Brittain has won $20 million, 5-year, fixed-price contracts from Boeing-Seattle and General Dynamics in California. Kansas businesses as a result of an improved business climate have been able to bring work to Kansas that was previously done in California. The $40,000 to $50,000 cost of SCR 1642 to Brittain Machine would eliminate the profit margin on these contracts.

This legislature worked hard to develop an economic development strategy for Kansas. That strategy included the elimination of the inventories tax and the lowering and stabilization of taxes on manufacturing machinery and equipment. The attached chart shows that a hypothetical manufacturing firm in Kansas even after reappraisal and classification would still have the second highest property taxes in the region. Therefore, we contend that a return to the 1988 tax situation is not acceptable as it was not acceptable to this legislature when it created a positive economic development strategy for the '90s. Thank you.

Kansas Business Review, 1988 Volume 11, No. 4, p. 9.
Business Taxes in Kansas and Nearby States, Pat Oslund

Table 9
Property Taxes for a Hypothetical Firm

	Land, Build.	Machinery	Inventory	Total
Kansas				
Before Reassessment and Classification				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.1153	0.1153	0.1153	0.1153
Assess. Ratio	0.1	0.3	0.3	—
Effective Rate	0.01153	0.03459	0.03459	0.0278
Tax	$2,883	$17,295	$3,459	$23,636
After Reassessment and Classification				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.0933	0.0933	0.0933	0.0933
Assess. Ratio	0.3	0.2	0	—
Effective Rate	0.02799	0.01866	0	0.0192
Tax	$6,997	$9,330	$0	$16,328
Colorado				
Using Post-Reassessment Estimate of Property Tax Rate				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.0610	0.0610	0.0610	0.0610
Assess. Ratio	0.29	0.29	0	—
Effective Rate	0.017690	0.017690	0	0.0156
Tax	$4,423	$8,845	$0	$13,268
Iowa				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.0293	0.0293	0	0.0293
Assess. Ratio	1	0.3	0	—
Effective Rate	0.0293	0.00879	0	0.0138
Tax	$7,325	$4,395	$0	$11,720
Missouri				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.0426	0.0426	0	0.0426
Assess. Ratio	0.31	0.31	0	—
Effective Rate	0.013206	0.013206	0	0.0117
Tax	$3,301	$6,603	$0	$9,904
Nebraska				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.0241	0.0241	0	0.0241
Assess. Ratio	0.8772	1	0	—
Effective Rate	0.02114052	0.0241	0	0.0204
Tax	$5,285	$12,050	$0	$17,335
Oklahoma				
Asset Amt.	$250,000	$500,000	$100,000	$850,000
Tax Rate	0.081	0.081	0.081	0.081
Assess. Ratio	0.1087	0.1087	0.1087	—
Effective Rate	0.0088047	0.0088047	0.0088047	0.0088
Tax	$2,201	$4,402	$880	$7,484

10-4

My name is Jack Brand and I am appearing on behalf of the Lawrence Apartment Association. We strongly oppose that portion of Senate Concurrent Resolution 1642 that would raise the classification percentage on multi-family residential real property to 15 percent.

The proposed change for multi-family residential is premised on three false conclusions. The first is that under classification in 1989, apartment real property taxes went down. This may be true in some counties, but it is not true in Douglas County. As chart A attached to my statement shows, in Lawrence, some apartments' taxes went up, some stayed about the same and some went down. A further increase would have a catastrophic effect on some of those apartments shown.

The second false conclusion is that apartment owners in the long run pay real estate taxes and apartment renters do not pay such taxes. Nothing could be farther from the truth.

The expenses in operating multi-family housing directly determine the rents that are charged for such housing. Real estate taxes are a significant part of these expenses--in Kansas more than elsewhere. Expenses determine rents. I have attached as chart B a trend analysis from the <u>1988 Manual of the Institute of Real Estate Management</u>. It shows the relationship between rents and expenses in the United States from 1973 to 1987. As you can see from the chart when expenses go up then rents go up. When expenses go down, rents go down. Small expense increases dictated small rent increases. Large expense increases dictated large rent increases. Ask someone in the apartment industry if expenses determine rents. And if you don't accept their word, study this chart.

Finally, the proposed change is premised on the false conclusion that 1988 taxes on apartments must have been about right.

Chart C shows the percent nationally that real estate taxes, on the average, bear to gross possible total income. That figure is 7.8 percent, for 1988. Nationally, real estate taxes comprise 17.2 percent of total expenses. Chart D shows these figures for Topeka, Kansas. The figure is 12.8 percent in Topeka. In Topeka apartment real estate taxes comprise 25.9 percent of total expenses; compared to the national average of 17.2 percent. Chart E shows the rankings of American cities based on the percent of real estate taxes to gross possible total income. Out of 116 American cities shown by the Institute of Real Estate Management in 1988, Topeka had the twelfth highest apartment real estate taxes. Only in the states of Minnesota, Wisconsin, Michigan, Iowa, Oregon, New York and New Hampshire were apartment real property taxes higher.

Apartment taxes may have gone down, in some cases, because the 1988 taxes were too high. The object of reappraisal was fairer appraisals. There is ample evidence, as shown by the attached charts, that the 1988 appraisals on apartments were too high. Senate Concurrent Resolution No. 1642 says lets get back to 1988 figures, even if they were wrong. It says we were getting away with imposing an unfair tax burden on tenants, so lets try to get away with it some more.

Classification was studied by and recommended to the legislature by the Kansas Tax Review Committee in June of 1984. This committee held some six hearings statewide. They thoroughly considered the matter. They recommended that apartments and single family be taxed under the same classification. They rejected the concept that there should be two classes of residency in Kansas and that residents of apartments should bear a proportionately heavier real estate tax burden.

There are many thousands of citizens who live in Kansas multi-family rental properties. They range from young students to the elderly. Using a different classification percentage for multi-family residents designates them as second class citizens paying a disproportionate share of real property taxes because of their place of residency. Tenants in Kansas should not be second class citizens. All Kansans should be treated and taxes alike.

Appendix A

Lawrence, Kansas Apartment Projects

Project	Number Of Units	1988 Assessed Value	1988 Assessed Per Unit	1988 Taxes	1989 Assessed Value	1989 Assessed Per Unit	1989 Taxes	1989 Appraised	1989 Appraised Per Unit	% Change 1988 to 1989
Aspen West	72	121,300	1,682	20,565	222,960	3,097	28,048	1,858,000	25,806	36.4
Boardwalk	230	322,620	1,403	54,774	976,900	4,247	122,894	8,140,833	35,395	124.4
Graystone	86	52,140	606	8,852	93,695	1,089	11,787	780,792	9,079	33.2
Malls Olde English Village	144	293,220	2,036	49,783	439,260	3,050	55,259	3,660,500	25,420	11.0
Naismith Place	48	102,500	2,135	17,402	154,835	3,226	19,478	1,290,292	26,881	11.9
1224 Ohio	4	9,740	2,435	1,654	16,355	4,089	2,057	136,292	34,073	24.4
Parkway Terrace	67	46,340	692	7,868	70,205	1,048	8,832	585,042	8,732	12.2
Shannon Plaza Townhomes	18	46,840	2,602	7,952	131,425	7,301	16,533	1,095,208	60,845	107.9
Trailridge	168	359,300	2,139	61,002	527,750	3,131	66,391	4,397,917	26,178	8.8
Apple Lane	75	97,260	1,297	16,513	117,170	1,562	14,740	976,417	13,019	-10.7
Berkeley Flats	96	159,530	1,662	27,085	200,700	2,091	25,248	1,672,500	17,422	-6.8
Campus Place	21	59,760	2,846	10,146	79,525	3,787	10,004	662,708	31,558	-1.4
Emery Place	29	40,590	1,400	6,891	53,245	1,836	6,698	443,708	15,300	-2.8
Kentucky Place	18	59,840	3,324	10,160	69,950	3,886	8,800	582,917	32,384	-13.4
Prairie Ridge Place	101	205,460	2,034	34,883	268,765	2,661	33,811	2,239,708	22,175	-3.1
Shannon Plaza Club	64	132,290	2,067	22,460	169,200	2,644	21,285	1,410,000	22,031	-5.2
South Pointe	108	200,180	1,854	33,987	231,480	2,143	29,120	1,929,000	17,861	-14.3
University Terrace	72	129,390	1,797	21,968	156,395	2,172	19,674	1,303,292	18,101	-10.4
Birchwood Gardens	92	192,920	2,097	32,754	210,580	2,289	26,491	1,754,833	19,074	-19.1
Clinton Place	58	130,710	2,254	22,192	137,930	2,378	17,352	1,149,417	19,818	-21.8
Grandview Terrace Quadruplexes	44	104,010	2,364	17,659	115,880	2,634	14,578	965,667	21,947	-17.4
Heatherwood Valley	72	331,450	4,603	56,274	348,910	4,846	43,893	2,907,583	40,383	-22.0
Oaks	72	107,660	1,495	18,279	97,355	1,352	12,247	811,292	11,268	-33.0
Park Plaza South	102	152,250	1,493	25,849	160,360	1,572	20,173	1,336,333	13,101	-21.9
Parkway 4000	55	345,100	6,275	58,591	344,495	6,264	43,337	2,870,792	52,196	-26.0
Peppertree	80	205,810	2,573	34,942	202,485	2,531	25,473	1,687,375	21,092	-27.1
Princeton Place	48	204,010	4,250	34,637	198,635	4,138	24,988	1,665,292	34,485	-27.9
Quail Creek	95	275,080	2,896	46,703	278,620	2,933	35,050	2,321,833	24,440	-24.9
Summit House	18	31,100	1,728	5,280	32,905	1,828	4,139	274,208	15,234	-21.6
Sunrise Place	68	177,690	2,613	30,168	207,315	3,049	26,080	1,727,625	25,406	-13.6

a complete list of Lawrence projects.

1/3

TREND ANALYSIS

Historical Overview of Operating Experience

The four tables on this page provide a brief overview of the variations in operating experience over the past fifteen years. The data are grouped by building type for all unfurnished buildings in the U.S. sample.

Five columns of data appear for each building type (left to right): Gross Possible Apartment Rents (Rents); Gross Possible Total Income (GPTI); Total Actual Collections (TAC); Total All Expenses (TAE); and Net Operating Income (NOI).

All figures are reported in Dollars per Square Foot of Rentable Area. All figures from 1973 to 1976 are averages. All figures from 1977 to 1987 are medians.

Table 17: ELEVATOR BUILDINGS

Year	Rents	GPTI	TAC	TAE	NOI
1973	3.66	3.97	3.85	2.04	1.81
1974	3.30	3.57	3.42	1.89	1.53
1975	3.55	3.80	3.64	2.03	1.62
1976	3.75	4.04	3.87	2.15	1.59
1977	3.63	3.85	3.71	2.14	1.53
1978	3.94	4.13	4.04	2.24	1.69
1979	4.20	4.49	4.32	2.34	1.96
1980	4.58	4.82	4.65	2.53	1.99
1981	5.31	5.59	5.37	2.89	2.48
1982	6.04	6.29	6.12	3.10	2.96
1983	6.68	7.02	6.73	3.31	3.31
1984	7.24	7.64	7.40	3.53	3.74
1985	6.91	7.26	6.75	3.55	3.33
1986	7.27	7.57	7.10	3.58	3.48
1987	7.51	7.80	7.36	3.95	3.41

Table 18: LOW-RISE, 12-24 UNITS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.32	2.38	2.27	1.18	1.09
1974	2.38	2.45	2.33	1.18	1.14
1975	2.50	2.58	2.47	1.26	1.21
1976	2.63	2.69	2.57	1.36	1.21
1977	3.09	3.17	3.03	1.54	1.42
1978	3.32	3.37	3.28	1.61	1.59
1979	3.62	3.73	3.52	1.74	1.73
1980	3.96	4.03	3.84	1.86	1.90
1981	4.43	4.48	4.24	2.06	2.18
1982	4.86	4.94	4.68	2.26	2.34
1983	5.22	5.33	5.03	2.31	2.70
1984	5.53	5.62	5.37	2.36	2.84
1985	5.73	5.86	5.60	2.52	2.94
1986	6.04	6.21	5.64	2.72	2.98
1987	6.21	6.21	5.95	2.77	3.16

Table 19: LOW-RISE 25+ UNITS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.41	2.48	2.34	1.16	1.18
1974	2.54	2.63	2.48	1.26	1.23
1975	2.71	2.80	2.61	1.39	1.22
1976	2.85	2.94	2.78	1.45	1.33
1977	3.18	3.29	3.09	1.61	1.51
1978	3.30	3.41	3.24	1.64	1.57
1979	3.72	3.83	3.58	1.75	1.79
1980	4.02	4.12	3.88	1.95	1.93
1981	4.52	4.65	4.45	2.13	2.19
1982	4.96	5.10	4.83	2.32	2.37
1983	5.25	5.43	5.05	2.40	2.64
1984	5.73	5.94	5.57	2.62	2.93
1985	5.90	6.11	5.55	2.68	2.85
1986	5.82	6.00	5.48	2.73	2.79
1987	5.93	5.96	5.46	2.72	2.73

Table 20: GARDEN TYPE BUILDINGS

Year	Rents	GPTI	TAC	TAE	NOI
1973	2.31	2.38	2.23	1.10	1.13
1974	2.49	2.58	2.38	1.22	1.16
1975	2.65	2.73	2.52	1.31	1.21
1976	2.78	2.87	2.67	1.40	1.27
1977	2.96	3.04	2.86	1.47	1.41
1978	3.14	3.23	3.04	1.51	1.52
1979	3.42	3.54	3.32	1.62	1.66
1980	3.74	3.86	3.60	1.73	1.81
1981	4.12	4.24	4.00	1.93	2.00
1982	4.53	4.67	4.37	2.07	2.24
1983	4.79	4.94	4.58	2.18	2.33
1984	5.06	5.21	4.80	2.31	2.44
1985	5.26	5.43	4.91	2.45	2.44
1986	5.44	5.61	5.03	2.51	2.48
1987	5.59	5.77	5.08	2.62	2.47

	TOTAL U.S.A. 3,016 BUILDINGS 531,752 APARTMENTS 438,530,508 RENTABLE SQUARE FEET							CANADA 79 BUILDINGS 12,564 APARTMENTS 11,060,041 RENTABLE SQUARE FEET						
	BLDGS.	% OF GPTI			$/SQ.FT.			BLDGS.	% OF GPTI			$/SQ.FT.		
		MED	LOW	HIGH	MED	LOW	HIGH		MED	LOW	HIGH	MED	LOW	HIGH
INCOME														
RENTS-APARTMENTS	(3014)	97.5%	96.3%	98.5%	5.59	4.71	6.63	(79)	97.7%	96.1%	98.6%	6.02	5.49	6.94
RENTS-GARAGE/PARKING	(335)	1.4	.6	2.6	.08	.04	.16	(28)	2.1	.5	4.5	.15	.04	.30
RENTS-STORES/OFFICES	(30)	1.1	.6	2.1	.07	.04	.12	(1)	1.4			.09		
GROSS.POSSIBLE RENTS	(3013)	97.7%	96.6%	98.6%	5.60	4.71	6.67	(79)	98.3%	97.4%	99.1%	6.02	5.49	7.08
VACANCIES/RENT LOSS	(3015)	9.1	5.0	14.7	.54	.29	.87	(79)	5.4	.9	13.4	.37	.07	.74
TOTAL RENTS COLLECTED	(3014)	88.1	81.9	92.7	4.91	4.08	5.96	(79)	92.2	83.8	97.9	5.60	4.76	6.67
OTHER INCOME	(2804)	2.5	1.6	3.6	.14	.09	.21	(71)	1.8	1.1	2.7	.11	.07	.18
GROSS POSSIBLE INCOME	(3015)	100.0%	100.0%	100.0%	5.77	4.85	6.89	(79)	100.0%	100.0%	100.0%	6.17	5.70	7.26
TOTAL COLLECTIONS	(3014)	90.9	85.3	95.0	5.08	4.23	6.17	(79)	94.6	86.4	99.1	5.72	4.86	6.74
EXPENSES														
MANAGEMENT FEE	(2900)	4.5	3.9	4.9	.26	.21	.32	(71)	4.4	3.8	4.7	.27	.23	.31
OTHER ADMINISTRTVE.**	(2931)	6.6	3.9	9.4	.39	.23	.55	(73)	5.4	2.3	7.5	.35	.12	.51
SUBTOTAL ADMINIST.	(3005)	11.1%	8.2%	13.9%	.65	.48	.82	(79)	8.6%	5.4%	11.5%	.53	.35	.69
SUPPLIES	(2707)	.4	.2	.8	.02	.01	.05	(70)	.3	.2	.5	.02	.01	.03
HEATING FUEL-CA ONLY*	(1364)	.7	.3	1.4	.04	.02	.08	(25)	.7	.4	1.2	.04	.02	.07
CA & APTS.*	(637)	3.9	2.9	5.6	.26	.17	.37	(22)	3.6	2.5	6.1	.30	.18	.36
ELECTRICITY--CA ONLY*	(2635)	1.8	1.2	2.5	.10	.07	.14	(59)	1.6	.8	2.1	.09	.05	.13
CA & APTS.*	(331)	2.6	1.5	5.9	.13	.08	.40	(19)	1.8	1.3	5.4	.11	.08	.43
WATER/SEWER--CA ONLY*	(136)	1.0	.5	2.0	.06	.02	.13	(11)	.4	.3	.6	.03	.01	.04
CA & APTS.*	(2860)	2.8	1.9	4.0	.16	.12	.23	(65)	2.9	1.7	4.4	.17	.11	.27
GAS----------CA ONLY*	(1015)	.5	.2	1.3	.03	.01	.10	(21)	.6	.5	2.1	.05	.03	.14
CA & APTS.*	(781)	1.6	.9	2.3	.10	.06	.15	(15)	1.9	.9	2.3	.12	.05	.15
BUILDING SERVICES	(2533)	1.1	.7	1.7	.06	.04	.10	(49)	1.4	.8	1.9	.08	.05	.12
OTHER OPERATING	(1288)	.6	.2	1.8	.04	.01	.10	(35)	.5	.1	1.3	.03	.00	.09
SUBTOTAL OPERATING	(3015)	9.0%	6.6%	11.9%	.51	.38	.70	(78)	8.6%	5.6%	11.5%	.54	.29	.77
SECURITY**	(1225)	.4	.2	.7	.02	.01	.04	(22)	.3	.2	.5	.02	.01	.04
GROUNDS MAINTENANCE**	(2919)	2.1	1.4	3.0	.12	.08	.18	(76)	1.8	1.2	2.5	.11	.07	.15
MAINTENANCE-REPAIRS	(2986)	3.4	1.8	5.7	.19	.10	.32	(78)	4.7	3.1	7.5	.28	.21	.45
PAINTING/DECORATING**	(2942)	2.2	1.3	3.5	.13	.08	.21	(78)	1.9	1.3	2.7	.12	.08	.19
SUBTOTAL MAINTENANCE	(3015)	8.4%	6.0%	11.6%	.49	.35	.68	(79)	8.7%	7.2%	12.0%	.53	.41	.77
REAL ESTATE TAXES	(3002)	7.8	5.7	10.1	.45	.31	.61	(79)	8.8	5.8	11.7	.55	.36	.86
OTHER TAX/FEE/PERMIT	(1639)	.1	.1	.4	.01	.00	.02	(40)	.2	.1	.6	.01	.00	.04
INSURANCE	(3000)	2.4	1.7	3.2	.13	.10	.19	(77)	1.4	.8	2.7	.09	.06	.16
SUBTOTAL TAX-INSURNCE	(3011)	10.6%	8.4%	13.3%	.61	.47	.78	(79)	11.4%	8.3%	16.1%	.71	.55	1.03
RECREATNL/AMENITIES**	(1750)	.4	.2	.8	.02	.01	.05	(40)	.9	.4	1.6	.07	.02	.09
OTHER PAYROLL**	(2375)	4.9	3.1	6.9	.28	.18	.39	(61)	3.6	2.1	6.1	.22	.14	.36
TOTAL ALL EXPENSES	(3013)	45.2%	39.1%	52.1%	2.62	2.19	3.13	(79)	43.3%	37.9%	50.3%	2.73	2.33	3.32
NET OPERATING INCOME	(3015)	44.1%	35.2%	52.4%	2.47	1.77	3.34	(79)	47.4%	39.9%	55.8%	2.89	2.29	3.74
PAYROLL RECAP**	(2667)	9.2	6.9	11.5	.53	.41	.67	(69)	7.1	4.5	10.5	.45	.29	.62

FOOTNOTE: For a description of Utility Expense (*) and Payroll Cost (**) reporting, and an explanation of the report layouts and method of data analysis, refer to the sections entitled *Guidelines for the Use of this Data* and *Interpretation of a Page of Data*. For definitions of the income and expense categories, refer to the Appendix.

1-5

GARDEN TYPE BUILDINGS
UNFURNISHED

MEDIAN INCOME AND OPERATING COSTS

SELECTED METROPOLITAN AREAS
U.S.A.

	TAMPA-ST PETER., FL 47 BUILDINGS 9,630 APARTMENTS 7,478,516 RENTABLE SQUARE FEET							TOPEKA, KS 10 BLGS. 1,119 APTS. 918,221 SQ.FT.			TRENTON, NJ 5 BLGS. 1,398 APTS. 1,029,797 SQ.FT.		
	BLDGS.	-----% OF GPTI------			----$/SQ.FT.----			BLDGS.	% GPTI	$/SQFT	BLDGS.	% GPTI	$/SQFT
INCOME		MED	LOW	HIGH	MED	LOW	HIGH		MED	MED		MED	MED
RENTS-APARTMENTS	(46)	96.1%	95.5%	97.2%	5.63	4.77	7.25	(10)	96.6%	4.84	(5)	99.3%	7.01
RENTS-GARAGE/PARKING	( )							(4)	.7	.04	( )		
RENTS-STORES/OFFICES	( )							( )			(1)	.7	.06
GROSS POSSIBLE RENTS	(46)	96.1%	95.5%	97.2%	5.60	4.77	6.83	(10)	96.6%	4.87	(5)	100.0%	7.01
VACANCIES/RENT LOSS	(46)	8.8	6.8	12.2	.55	.31	.84	(10)	11.3	.60	(5)	3.8	.23
TOTAL RENTS COLLECTED	(46)	87.4	83.6	90.7	4.98	4.16	6.51	(10)	85.4	4.74	(5)	96.1	6.17
OTHER INCOME	(46)	3.9	2.8	4.5	.23	.15	.31	(10)	3.6	.16	(2)	1.7	.12
GROSS POSSIBLE INCOME	(46)	100.0%	100.0%	100.0%	5.94	4.99	7.33	(10)	100.0%	4.93	(5)	100.0%	7.13
TOTAL COLLECTIONS	(46)	91.4	88.0	93.2	5.28	4.43	6.66	(10)	88.9	4.79	(5)	96.2	6.29
EXPENSES													
MANAGEMENT FEE	(46)	4.6	4.4	4.8	.31	.23	.36	(10)	4.4	.23	(5)	4.9	.35
OTHER ADMINISTRTVE.**	(46)	6.6	5.6	8.0	.42	.30	.58	(10)	7.8	.38	(3)	5.6	.35
SUBTOTAL ADMINIST.	(46)	11.3%	10.2%	13.7%	.72	.56	.96	(10)	12.6%	.58	(5)	8.8%	.70
SUPPLIES	(44)	.3	.2	.5	.02	.01	.03	(9)	.2	.01	(4)	1.1	.04
HEATING FUEL-CA ONLY*	(11)	.3	.2	.5	.01			(6)	.7	.03	(1)	3.3	.24
CA & APTS.*	( )				.18			(1)	.2	.01	(2)	9.2	.56
ELECTRICITY--CA ONLY*	(41)	2.2	1.8	2.4	.13	.10	.16	(6)	2.5	.11	(5)	1.8	.13
CA & APTS.*	(4)	2.7			.12			(4)	2.7	.15	( )		
WATER/SEWER--CA ONLY*	(3)	.3			.03			( )			(1)	4.1	.29
CA & APTS.*	(43)	3.4	2.5	4.2	.22	.18	.27	(10)	2.4	.12	(4)	5.5	.38
GAS----------CA ONLY*	(32)	.4	.2	.4	.02	.01	.03	(2)	2.5	.14	(1)	2.5	.18
CA & APTS.*	(5)	.3			.02			(1)	2.0	.10	(1)	1.6	.10
BUILDING SERVICES	(24)	1.9	1.3	2.5	.10	.07	.13	(10)	1.3	.05	(3)	2.0	.18
OTHER OPERATING	(25)	3.4	2.5	3.8	.23	.14	.28	(6)	1.0	.06	(1)	2.5	.22
SUBTOTAL OPERATING	(46)	9.0%	7.7%	10.7%	.50	.45	.69	(10)	9.8%	.47	(5)	11.8%	1.18
SECURITY**	(29)	.6	.4	.9	.04	.03	.05	(2)	.2	.01	( )		
GROUNDS MAINTENANCE**	(45)	3.1	2.1	3.4	.19	.14	.25	(10)	1.4	.07	(4)	2.6	.14
MAINTENANCE-REPAIRS	(46)	2.5	1.8	3.5	.17	.10	.23	(10)	4.3	.21	(5)	11.2	.92
PAINTING/DECORATING**	(44)	2.0	1.2	2.4	.13	.08	.15	(10)	2.0	.10	(5)	1.4	.17
SUBTOTAL MAINTENANCE	(46)	8.3%	6.1%	9.6%	.50	.37	.63	(10)	7.7%	.39	(5)	16.6%	1.15
REAL ESTATE TAXES	(46)	10.6	8.7	11.0	.60	.47	.77	(10)	12.8	.65	(5)	11.5	.79
OTHER TAX/FEE/PERMIT	(37)	.2	.2	.3	.02	.01	.02	(6)	.3	.01	(3)	.5	.03
INSURANCE	(46)	3.3	1.9	3.9	.18	.12	.24	(10)	2.1	.10	(4)	3.7	.15
SUBTOTAL TAX-INSURNCE	(46)	13.4%	11.4%	15.1%	.82	.58	1.02	(10)	14.2%	.76	(5)	15.7%	1.03
RECREATNL/AMENITIES**	(12)	.4	.3	.5	.02	.02	.04	(8)	.4	.02	(3)	.6	.05
OTHER PAYROLL**	(41)	4.7	4.1	6.3	.32	.25	.35	(10)	5.3	.27	(4)	5.6	.47
TOTAL ALL EXPENSES	(46)	47.8%	44.8%	51.3%	2.77	2.37	3.50	(10)	49.5%	2.48	(5)	58.5%	3.89
NET OPERATING INCOME	(46)	42.2%	37.1%	47.1%	2.58	1.72	3.22	(10)	40.5%	2.35	(5)	38.2%	2.46
PAYROLL RECAP**	(46)	9.5	8.6	11.6	.62	.52	.68	(10)	8.6	.47	(3)	7.1	.56

FOOTNOTE: For a description of Utility Expense (*) and Payroll Cost (**) reporting, and an explanation of the report layouts and method of data analysis, refer to the sections entitled *Guidelines for the Use of this Data* and *Interpretation of a Page of Data*. For definitions of the income and expense categories, refer to the Appendix.

APPENDIX D

11-6

AMERICAN CITIES COMPARISON OF REAL ESTATE TAXES ON APARTMENTS

City	Real Estate Taxes as a Percent of Gross Possible Total Income (GPTI)	Rank based on Real Est. Taxes as a percent of GPTI
Abilene, TX	9.2	46
Akron, OH	10.5	29
Albany-Troy, NY	12.0	15
Albuquerque, NM	5.2	100
Allentown-Beth, PA	8.2	54
Ashville, NC	7.3	72
Atlanta, GA	6.6	82
Augusta, GA	4.1	113
Austin, TX	9.6	41
Baltimore, MD	7.4	70
Birmingham, AL	4.5	109
Boston, MA	8.4	54
Buffalo, NY	12.3	14
Cedar Rapids, IA	16.9	3
Charleston, SC	7.5	68
Charleston, WV	7.9	64
Chattanooga, TN	11.3	19
Chicago, IL	10.5	29
Charlotte, NC	6.8	81
Cincinnati, OH	5.9	88
Cleveland, OH	7.3	72
Colorado Springs, OH	7.3	72
Columbia, SC	6.3	87
Columbus, OH	6.6	82
Dallas, TX	8.5	52
Dayton, OH	5.5	93
Daytona Beach, FL	10.1	32
Denver, CO	8.2	57
Des Moines, IA	14.2	8
Detroit, MI	10.6	26
El Paso, TX	8.4	54
Eugene, OR	18.0	1
Evansville, IN	11.1	21
Fayetteville, NC	9.6	41
Flint, MI	10.0	36
Ft. Worth, TX	9.2	46
Fresno, CA	7.3	72
Gainesville, FL	10.0	36
Gary-Hammond, IN	9.6	41
Grand Rapids, MI	10.1	33
Greensboro-H Pt, NC	5.8	89
Greenville, SC	7.4	70
Green Bay, WI	11.8	16
Hamilton, OH	3.8	114
Harrisburg, PA	7.2	76
Hartford, CT	8.0	61
Houston, TX	9.0	48
Huntsville, AL	5.7	91
Indianapolis, IN	7.9	64
Jackson, MS	11.4	18
Jacksonville, FL	9.8	40
Kalamazoo, MI	10.6	26
Kansas City, MO	8.5	52
Knoxville, TN	10.7	25
Lancaster, PA	8.2	57
Lansing, MI	13.7	11
Las Vegas, NV	4.9	101
Lexington, KY	4.9	101
Little Rock, AR	4.9	101
Los Angeles, CA	4.6	107
Louisville, KY	5.4	96
Lincoln, NE	11.3	19
Macon, GA	6.6	82
Madison, WI	13.9	9

City	Real Estate Taxes as a Percent of Gross Possible Total Income (GPTI)	Rank based on Real Est. Taxes as a percent of GPTI
Manchester, NH	13.9	9
Memphis, TN	7.1	78
Miami, FL	10.5	29
Milwaukee, WI	14.9	15
Minneapolis-S Pl, MN	16.7	4
Mobile, AL	5.3	98
Montgomery, AL	4.2	112
Nashville, TN	6.9	80
New Orleans, LA	5.4	96
Newark, NJ	10.9	23
Newport News, VA	5.5	93
Norfolk, VA	5.7	91
Oakland, CA	7.2	76
Odessa-Midland, TX	10.1	32
Oklahoma City, OK	4.6	107
Omaha, NE	10.4	31
Orange County, CA	3.4	115
Orlando, FL	8.7	50
Oxnard-Ventura, CA	6.6	82
Peoria, IL	10.9	23
Philadelphia, PA	8.0	61
Phoenix, AZ	8.0	61
Pittsburgh, PA	9.4	45
Portland, OR	14.8	6
Providence, RI	10.0	36
Raleigh-Durham, NC	6.5	86
Reno, NV	4.3	111
Richmond, VA	5.8	89
Roanoke, VA	6.7	82
Rochester, NY	14.5	7
Sacramento, CA	7.7	66
St. Cloud, MN	17.9	2
St. Louis, MO	9.6	41
Salt Lake City, UT	5.7	91
San Antonio, TX	8.9	49
Saginaw, MI	9.9	38
San Bernardino, CA	8.1	60
San Diego, CA	5.3	98
San Francisco, CA	4.6	105
San Jose, CA	3.4	116
Santa Barbara, CA	4.4	110
Seattle, WA	7.7	66
Savannah, GA	8.6	51
Sioux City, IA	12.6	13
S. Berd/Ft. Wayne, IN	7.5	68
State College, PA	5.5	93
Stockton, GA	7.2	76
Tacoma, WA	8.3	56
Tampa-St. Peter, FL	10.6	26
Topeka, KS	12.8	12
Trenton, NJ	11.5	17
Tucson, AZ	9.9	38
Tulsa, OK	4.8	104
Washington, DC	4.6	104

11-8

TESTIMONY ON SCR 1642
SENATE ASSESSMENT AND TAXATION COMMITTEE
MARCH 23, 1990

Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the committee, thank you for the opportunity to testify today on SCR 1642. I'm Bernie Koch with the Wichita Area Chamber of Commerce. I'll make my comments brief since I've testified recently to this committee on another constitutional amendment to which my organization had similar objections.

I will simply remind you that we oppose reimposition of the inventory tax and the increase in the assessment rate on machinery and equipment. Both impose higher taxes on our manufacturers, which are the economic base of our community, providing hundreds of thousands of jobs directly and indirectly.

Our biggest growth in new jobs is in the manufacturing sector. Our second biggest area of new job growth is in the telecommunications area. These are companies with large amounts of equipment, often worth several times the value of the building where the equipment is located. This constitutional amendment, by increasing machinery and equipment, will cause those service companies to experience a tax increase. I noticed in the newspaper yesterday that a similar operation just announced would locate in Overland Park.

There's another concern I did not mention in my previous testimony because I've only just learned of it. Many of our small aerospace subcontractors have long-term contracts to supply large plane makers like Boeing and McDonnell-Douglas.

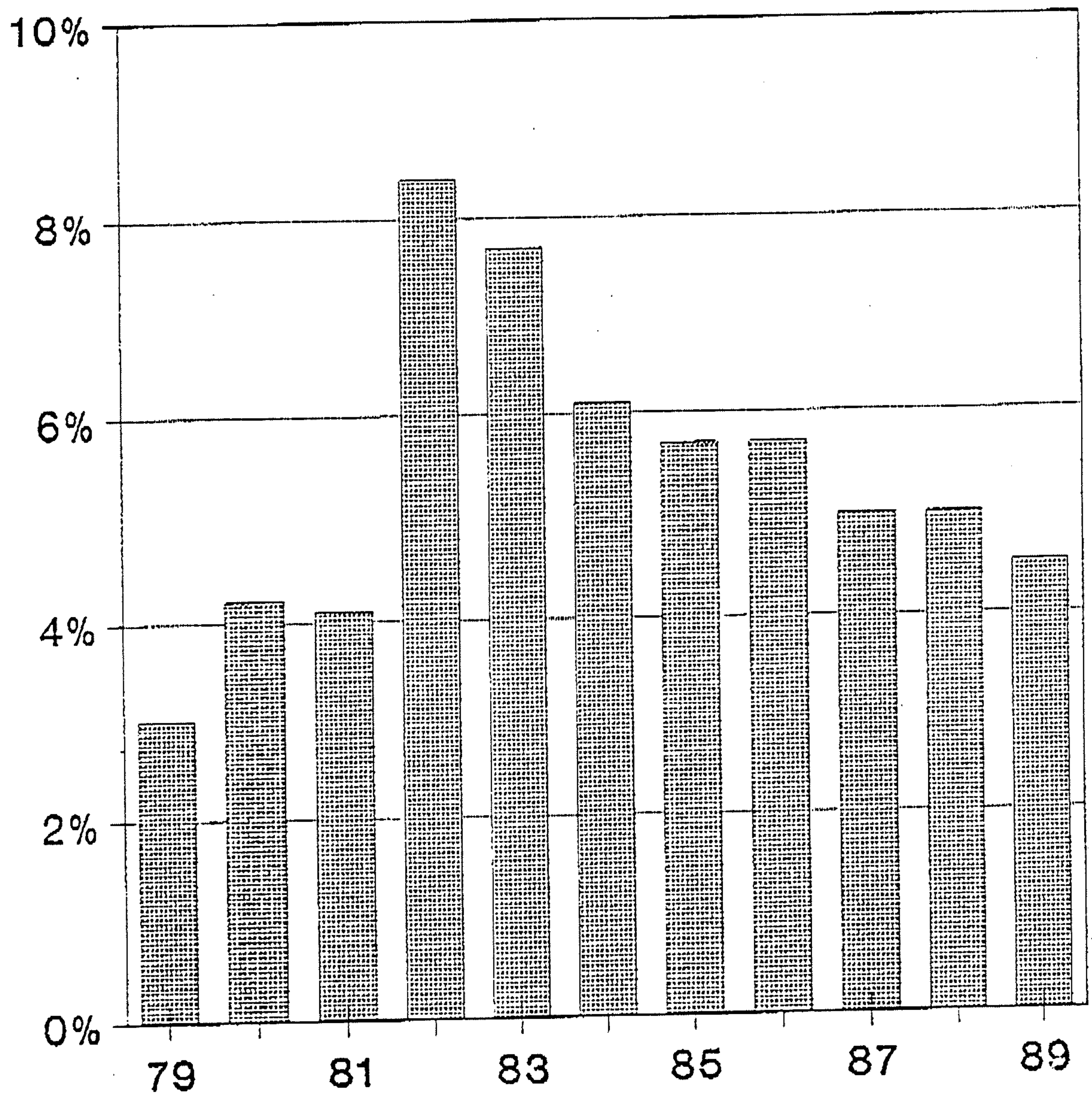
These are usually five year contracts. Those small subcontractors made their bids based on the current tax structure of the state. Their profit margins are generally about one percent.

Increasing their costs of operation through higher taxes could cause them to lose money or cause them to be unable to fulfill the contracts.

I urge you to look favorably on solutions that do not shift property taxes from one group of taxpayers at the expense of another.

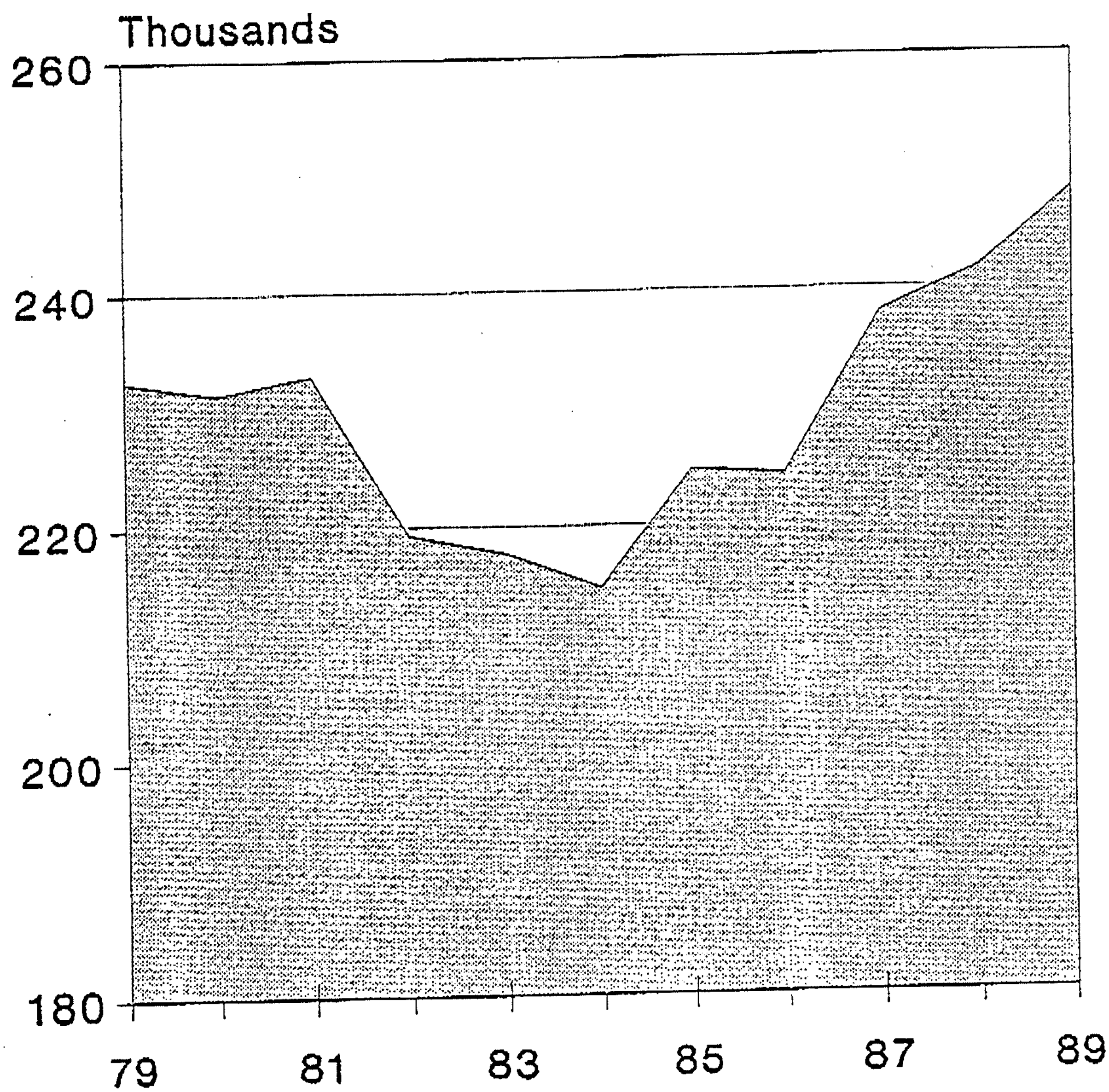
Thank you for the opportunity to testify. I would attempt to answer any questions.

UNEMPLOYMENT RATE
Wichita MSA
Civilian Labor Force



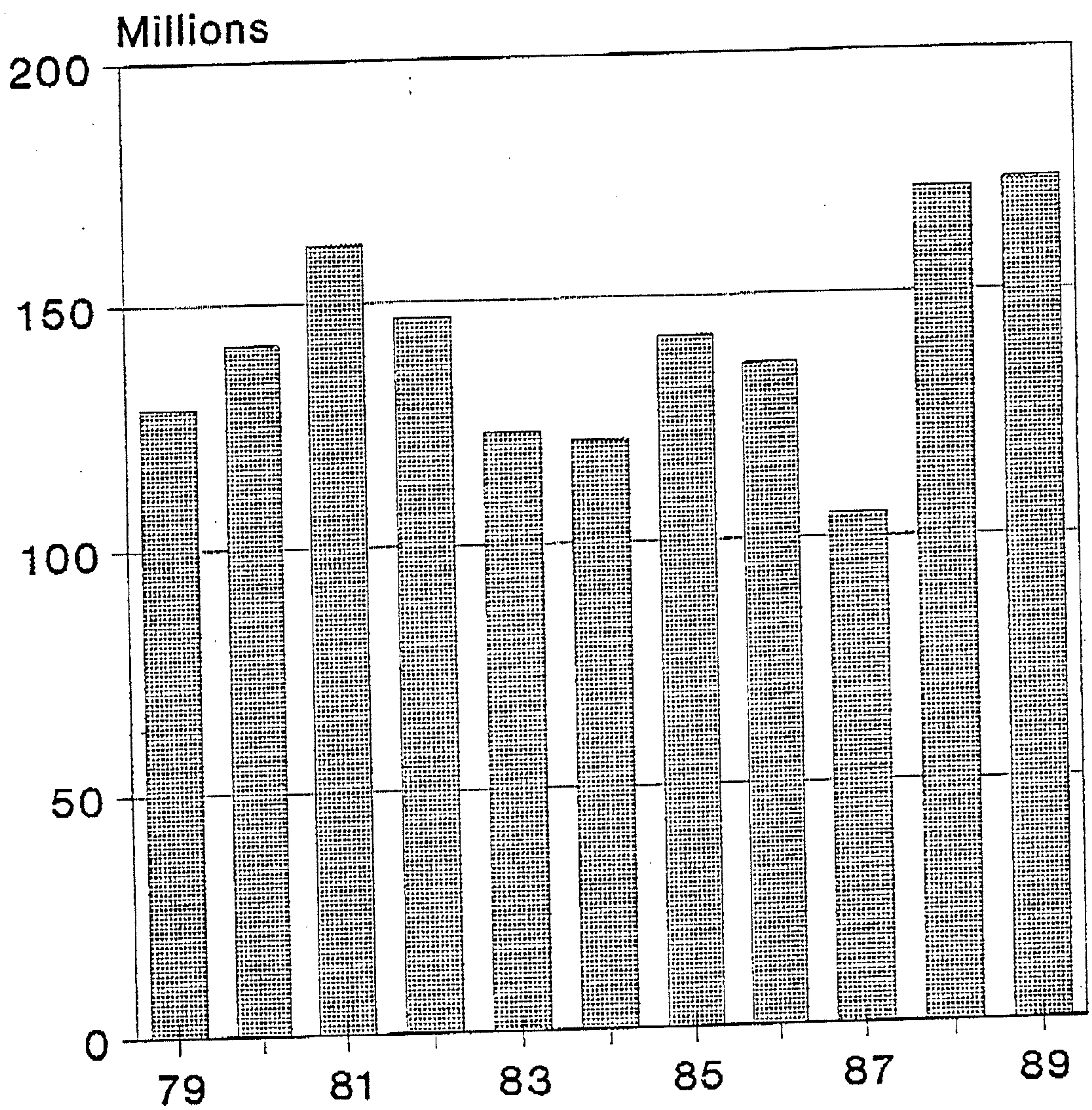
Source: KS Dept of Human Resources
Courtesy CEDBR, Wichita State University

TOTAL EMPLOYED
Wichita MSA
Civilian Labor Force



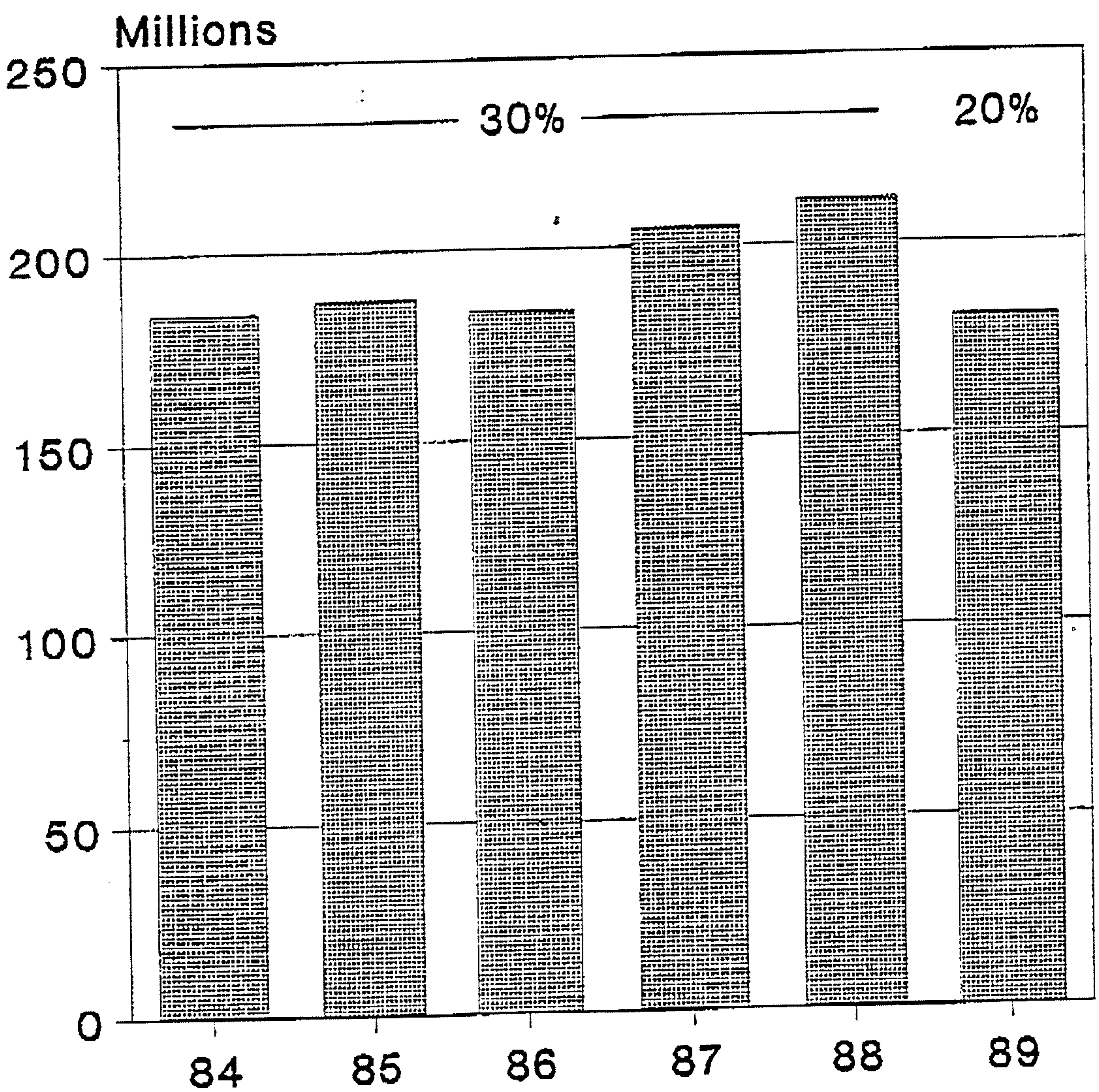
Source: KS Dept of Human Resources
Courtesy CEDBR, Wichita State University

CORPORATE INCOME TAX COLLECTIONS-KANSAS
(FY basis)



Source: KS Dept of Revenue

ASSESSED VALUE
MACHINERY & EQUIPMENT
Sedgwick County, Kansas



Source: Sedgwick County
Appraisers Office

BUSINESS GROWTH SURVEYS RESULTS
January 1 - December 31, 1989

EXPANSION PROJECTIONS:

	NUMBER	TOTAL ADDITIONS
IMMEDIATE EXPANSION	125 (OF 438) all manufacturers	1,075,020 SQ.FT.
FUTURE EXPANSION	108	400,000 SQ.FT.

TOTAL SQUARE FEET OF EXPANSION . . . . . 1,475,020 SQ.FT.

	NUMBER	TOTAL
PROJECTIONS FOR NEW EQUIPMENT INVESTMENT	90 (OF 438)	$59,394,000

BUSINESS CONDITIONS:

	UP	DOWN	SAME
NUMBER OF FIRMS	240 (58%)	49 (12%)	121 (30%)

SENATE TAX COMMITTEE
ON
SENATE CONCURRENT RESOLUTION 1642
March 23, 1990

Mr. Chairman, Members of the Committee:

My name is Janet Stubbs, Executive Director for the Home Builders Association of Kansas.

We appear before you today in opposition to SCR 1642 specifically to the provisions for treatment of multi-family residential real property in subclass 2 of Class 1 and the provisions in subclass 4 lines 22-35.

The Home Builders Association of Kansas continues to support taxing multi- and single-family residential property at the same rate. We do not believe that Kansas citizens should be required to pay a higher portion of their shelter dollars for taxes because they cannot afford or choose not to live in a single-family structure.

We question the intent of lines 22-35 on page 2. The definition of "open space" is very important. Is this provision intended to protect golf courses or is it to be used against developers? The latter application would have a chilling effect on economic development.

TESTIMONY BY
SOUTHWESTERN BELL TELEPHONE COMPANY
SCR 1642
BEFORE THE SENATE TAXATION COMMITTEE

MARCH 23, 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 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.