

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

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

8:00 a.m. ~~xxx~~ on Tuesday, April 3, 1990 in room 514-S of the Capitol.

All members were present except:

Senator Don Montgomery, excused

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:

Ron Grant, Assistant Director, Property Valuation Dept., KS Dept. of Revenue

Chairman Thiessen called the meeting to order at 8:15 a.m. and told the members we have the print out, we were waiting for and he recognized Ron Grant, Assistant Director, Property Valuation Department, to explain the print out to the members.

Ron Grant said it was not exactly what the committee had asked for, but they did the best they could. He said they have not accounted for the first \$50,000 on all properties valued over \$50,000. It does have the 20% taxation rate applied to those properties under \$50,000, you are not going to be able to tell the exact break down of counties.

He said, they called each county last week and received from them, the total number of parcels and the valuation of parcels for those under \$50,000, between \$50,000 and \$100,000, \$100,000 to \$200,000 and those over \$200,000 and that gave them some specific information in front of you in their handout. (ATTACHMENT 1)

He said, this allows us to say by county what is the specific percentage of commercial property within each of those categories, and we can do another run, the secretaries are helping our programmers this morning and we can have another run for you sometime today, that would include the 1st \$50,000 of every property. It takes a few hours to print it off the computer and then to the print shop, so it will be late today.

The Chairman recognized Senator Fred Kerr.

Senator Fred Kerr told Mr. Grant that he just found out about a glitch in the print out and he said, as he understands the numbers, the print-outs for the numbers will be close, but not exactly accurate, because of the problem on the 1st \$50,000 some of the property could be \$25,000 so there is that one mistake, but when you spread that over the whole tax base it is not a big glitch. He said, Senator's looking at their counties can get pretty close and have a pretty good understanding by looking at these print-outs as to what would happen to their county, if this were adopted.

Senator Kerr encouraged all the members to look at this, and he said, he looked at many counties, and does not know just what the effects will be, but if everyone could look at this until the floor adjourns today, we could have another meeting.

He said, the problem is with the 20% threshold, as he thought about it and after discussion of yesterday, when several members of the committee pointed out the potential problem with that, and Senator Montgomery was the one that asked us to put it in this run, and yesterday he pointed some legitimate problems with it. He said, he would like to take it out and put "all others" at 25%. It would be a lot cleaner and takes out some of the administrative problems, each county would have. He said, Senator Montgomery will be here late this afternoon and can be at the next meeting, and then we can use this as a starting basis, and if any committee member wants to make any changes to any of the provisions, they could do that and then maybe we can have something for the revisor to put together, both in the form of a resolution and a bill.

Chairman Thiessen said the Revisor would have to know the resolution, before he could draft the statute, and asked if the members had any questions?

Senator Gerald Karr asked Ron Grant how he handled the \$50,000 from the runs of

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 514-S, Statehouse, at 8:00 a.m./p.m. on Tuesday, April 3, 1990 yesterday. Ron Grant, said the same, it doesn't reflect the 1st \$50,000 for all properties over \$50,000 he said, it treats the agricultural buildings as all other commercial properties.

Senator Phil Martin said the data you have, is based upon base data which the counties submitted, is this right? Mr. Grant said right. They have been able to verify that with two different sources that matched up. It is the valuation of tax dollars they have collected in that sub-class. Senator Martin said, then the data would be only as good as they have, and there may be some problems, for example in Johnson County, we know their commercial class ratio study shows they are 80% in sales, so any types of adjustments, it might be difficult to say exactly. Mr. Grant, agreed.

Senator Karr asked Ron, the data used, was from what time point? Ron, said 1988 and 1989, as close to November 1 as possible.

Tom Severn said it wouldn't reflect any appeals that carried over from last spring, and it wouldn't reflect any protest that resulted from any activity from last spring.

Chairman Thiessen asked if the appeals that were settled last spring, are they reflected in this? Ron Grant said yes.

Tom Severn asked, this data does reflect utility inventories, is that correct?

Ron Grant said yes, they added in \$42.M for 1990.

Senator Fred Kerr said if we are going to go forward with a concensus of the committee and have a meeting at 11:00 a.m., any amendments a member has, be as specific as possible, i.e. income tax if you want it in the sales tax bill, is fine and the same way with sales tax exemptions, if you have a list so we can have something in front of us, then we can move ahead.

Senator James Francisco said on the exemptions, some were more attractive to repeal than others, and he suggested, the committee take a look at those and he said, Senator Kerr, and Senator Johnston have those totals, and he thought the committee could look at those instead of each trying to come up with some, and then put them in a bill that the majority of the members want, because he does not know what the totals are.

Senator Kerr said he would be glad to get the copies, our's and the one from Senator Johnston.

Senator Martin said the sales tax bill in our book SB692, those are listed pretty much, but we don't have a fiscal note attached to each one. He asked, Tom Severn if he could provide what each individual fiscal note is? He said, the income tax is straight forward and the fiscal note on it was \$50.M

Senator Karr said SB692 there was a concept of 2.125% for certain areas that are exempt, that has been used in other state's. It focused on larger ticket items, and he said, he did not remember if the committee had looked at that concept or not.

Senator Kerr said he felt the argument on the sales tax exemption removal should be used to help fund the budget. He said, as we all know we are in trouble with the budget, and that should keep the property tax issue focused on the classification adjustments and the property roll-back, as we have in front of us. He said, he is more than willing to look at the sales tax exemption removal, as an amendment to help get us through the budget, also the House is spending a lot of time on the sales tax removal issue, and he said, he did not know if they would pass a bill or not, but if they do it could be used to help fund the budget.

Senator Martin said he would certainly argue the other side, whether it comes to the point of whether we are going to have the level of reduction that we can agree on and we need on property tax, which is \$200.M or a bit higher, and he said he thought the committee was in agreement on that level of reduction, and he thought we had to look at the standpoint of exemptions and use the sales tax as addressing the problems at the state level. He said, he did not intend to support a sales tax only type of bill, if we can't get to that level then we have to look at other things that are here before us, not only in SB692 but some of the other things floating around, and it comes to what level of reduction you want to provide to property tax.

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room 514-S, Statehouse, at 8:00 a.m./p.m. on Tuesday, April 3, 1990

Chairman Thiessen asked Tom Severn if he was able to get some information on what the surrounding state's income taxes are?

Tom Severn said it is being typed and he could have it available at our 11:00 a.m. meeting.

Senator Janis Lee asked on the last column of the print out, is this what goes to the U.S.D.'s, and is it possible to bring out some sort of package that applies to both, or maybe two at the same time, 1¢ sales tax either for property tax reduction or for budget as well as exemptions going in there, maybe not in one bill but two bills at the same time? Senator Kerr said he thought maybe we could get that.

Senator Marge Petty said she did a follow up on the cap idea, and she said if we are going to consider lids on local government, she thinks, it only fair the state consider lids on expansion of new employees or administrative costs, that we also look at putting a lid on administrative costs at state level.

Senator Lee said the bill we debated on yesterday regarding juvenile detention facilities, requiring the double communities, to began to develop those, if we are serious about a cap, there is nothing in the cap that would allow the funding of those projects, are we then going to be willing to fund, or are we going to pull back on those. She thought, it would be terribly unfair to mandate the counties, that they have to provide funding for that, and yet put a cap on their budget that does not include funding for that purpose.

Chairman Thiessen said there are a number of problems, counties that have a new judicial jail facility, they are going to have to fund the operation of that, and counties that did not budget high in 1988 and 1989, one county had to issue no-fund warrants for out of district tuition for community colleges. They are going to have problems if you just put that in there, and he said, he thought that is one of the things that the caps, we have to look at that, as we have such a disparity from one county to the next, in how their mill rates are and where do you put that level? It is something that can be discussed but it sure isn't easy and that is one of the reasons it is there before us.

Senator Lana Oleen said one of our earlier discussions dealt with giving more authority to the counties, and she had concern with laws we passed and put mandates on, are both with the Federal Government and on down to the counties, and she hasn't heard lately any discussion, in regard to counties being able to submit this to their local voters. She felt, we are passing bills here in Topeka with fiscal notes, and we don't have the dollars to go with.

Senator Thiessen said under the old tax lid they could vote out and exceed the limits, by a vote of the people, and in some cases that would probably have to happen for them to exist. He said, he was not sure, but maybe the caps could be voted out, and he said those mandates are not all our's.

Senator Fred Kerr said on the point about the caps, there was an amendment offered on the House floor on caps, and he said maybe to help our discussion he asked staff if they could bring a copy of that amendment to our meeting this afternoon, but he said it failed by 40 to 80.

Senator Francisco asked what was the Ways and Means Committee thinking when they sent SB782 which allows the city and county to place an excise tax on some of the exemptions, to our committee? He said, you can look at revenues like that to give the cities and counties taxing authority.

Senator Audrey Langworthy said she would like for the committee to look at something less than a 1¢ sales tax, and maybe when we get the figures on the surrounding state's that may be helpful to at least have a discussion on a ½¢ or ¾¢ rather than 1¢, and she wondered how members of the committee felt about that?

Chairman Thiessen said that increase in sales tax in Kansas City, Mo announced yesterday, what does that do? Senator Langworthy said she had not found out yet.

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room 514-S, Statehouse, at 8:00 a.m./~~p.m.~~ on Tuesday, April 3, 1990

Senator Marge Petty said she would like to allow, police and fire services at a local level for tax exempt property.

Chairman Thiessen said we will have another meeting after adjournment on the floor, and he would announce the time. He told the members to be ready for some policy decisions, and adjourned the meeting at 8:45 a.m.

4 90

Memorandum

January 10, 1990

To: The Honorable Keith Roe, Chairman
House Taxation Committee

From: Ed C. Rolfs
Secretary of Revenue

Subject: Sales Tax Exemptions and Sales Tax on Services

The information presented below is a list of items that would broaden and strengthen the State General Fund revenue base. Please keep in mind that the figures below are preliminary and will need further research if selected. Some of the sales tax exemption estimates are extrapolated from 1982 Bureau of the Census statistics. @ 4/47

State Sales Tax: Sales tax exclusions and exemptions.

<u>Statute</u>	<u>Exclusion/Exemption</u>	<u>Fiscal Impact</u>
79-3602 (e)	Defines retail sales which exclude wholesale sales, retail sales for resale of tangible personal property, electrical energy, gas, water, services or entertainment	\$2,000.0 m
79-3603 (a)	Included in 79-3602 (e)	
79-3603 (b)	Interstate receipts, telephone or telegraph	\$6.5 m
79-3603 (c)	Amusements, entertainment or recreation receipts, sponsored by a political subdivision	\$.4 m
79-3603 (f)	Coin-operated laundry services	\$.9 m
79-3603 (g)	Hotel, motel rooms rented more than 28 days	\$.6 m
79-3603 (h)	Machinery and equipment purchased by IRB's issued before 7-1-83	minimal
79-3603 (o)	Motor vehicles or trailers exchanged for stock	\$.9 m
79-3603 (p)	Services for original construction of a building, or for construction, restoration, etc., of a bridge or highway	\$60.0 m
79-3606 (a)	Motor fuel and other items taxed under another sales or excise tax	\$60.0 m
79-3606 (b)	Property or services purchased by Kansas, a political subdivision or nonprofit hospital or bloodbank	\$42.0 m

		<u>Fiscal Impact</u>
79-3606 (c)	Purchase or rental of personal property by nonprofit educational institution	\$25.0 m
79-3606 (d)	Property or services purchased by a contractor for erection or repair of buildings for nonprofit hospitals, educational institutions or political subdivisions	\$23.0 m
79-3606 (e)	Property or services purchased by a contractor for erection, repair, or enlargement of buildings for the United States government, its agencies, or instrumentalities	\$3.0 m
79-3606 (f)	Property purchased by a railroad or public utility for use or movement in interstate commerce	\$35.0 - \$45.0 m
79-3606 (g)	Sales or repair, modification of aircraft sold and used in interstate commerce	\$10.0 - \$15.0 m
79-3606 (h)	Rentals of nonsectarian texts by elementary and secondary schools	\$.3 m
79-3606 (i)	Receipts from lease or rental of films, records tapes, etc., used by motion picture exhibitors	\$1.2 m
79-3606 (j)	Free meals to restaurant employees	\$.6 m
79-3606 (k)	Sales of any motor vehicle, semi-trailer, pole trailer, or aircraft which is purchased by and delivered to a non-resident in the state of Kansas	\$30.0 - \$40.0 m
79-3606 (l)	Isolated or occasional sales	\$.52 m
79-3606 (m)	Tangible personal property used as a component part of tangible personal property or services produced, manufactured, or compounded for sale at retail within or without the state of Kansas	\$450.0 m
79-3606 (n)	Tangible personal property consumed in the production, manufacture, processing, mining, drilling, refining, or irrigation of crops for ultimate sale at retail	\$350.0 m
79-3606 (o)	Sales of animals, fowl, and fish to be used in agriculture, food, animal, fowl, and fish products or for production of offspring	\$150.0 m
79-3606 (p)	Trade fixtures and equipment already installed in a business when sold	\$1.2 m
79-3606 (q)	Prescription drugs	\$21.0 m
79-3606 (r)	Insulin	\$.2 m
79-3606 (s)	Prosthetic devices	\$.3 m

		<u>Fiscal Impact</u>
79-3606 (t)	Property or services purchased by a groundwater management district	\$.1 m
79-3606 (u)	Used farm machinery and equipment	\$15.0 m
79-3606 (v)	Lease or rental of mobile homes for more than 28 consecutive days	\$1.2 m
79-3606 (w)	Food products purchased for meals served to disabled or homebound elderly	\$.1 m
79-3606 (x)	Sale of natural gas, electricity and water for residential or agricultural use	\$41.0 m
79-3606 (y)	Sale of propane, L-P gas, coal, wood, etc., for heating residences	\$1.6 m
79-3606 (z)	Residential intrastate local telephone and telegraph services	\$7.0 m
79-3606 (aa)	Sales of material or services used to repair, service, alter, etc., railroad rolling stock used in interstate or foreign commerce	\$5.0 - \$7.0 m
79-3606 (bb)	Property or services purchased by a port authority	\$.6 m
79-3606 (cc)	Materials and services for repair, service, maintenance, of equipment used outside Kansas for transmission of natural gas	\$.9 m
79-3606 (dd)	Used mobile homes for dwelling	\$.6 m
79-3606 (ee)	New and used machinery and equipment for qualified facility located within enterprise zone	\$1.0 m
79-3606 (ff)	Commodity purchases using USDA food stamps	\$3.3 m
79-3606 (gg)	Sales of lottery tickets	\$2.0 m
79-3606 (hh)	Sales of new mobile homes (40% of gross receipts exempt)	\$.7 m
79-3606 (ii)	Tangible personal property purchased using vouchers issued to the federal special supplemental food program	minimal
79-3606 (jj)	Medical supplies and equipment purchased by non-profit skilled or intermediate nursing homes	\$.6 m
79-3606 (kk)	Tangible personal property purchased by a nonprofit organization for youth development programs	minimal
79-3606 (ll)	Tangible personal property sold, rented, or leased by a community-based mental retardation facility or mental health center	\$1.4 m

		<u>Fiscal Impact</u>
79-3606 (mm)	Machinery and equipment used in all stages of the production process of tangible personal property intended for resale	\$15.0 m
79-3606 (nn)	Educational materials purchased by a nonprofit corporation for distribution to the public to improve public health	minimal
79-3606 (oo)	Seeds and tree seedlings, fertilizers, insecticides, herbicides, germicides, pesticides and fungicides used to produce plants to prevent soil erosion on agricultural land	\$.4 m
79-3606 (pp)	Services rendered by an advertising agency or licensed broadcast station	\$.0 - \$.5 m
79-3606 (qq)	Tangible personal property purchased by a community action group or agency to repair or weatherize housing occupied by low-income individuals	\$.1 m
79-3606 (rr)	Drill bits and explosives used in oil and gas exploration and production	\$.3 m
79-3606 (ss)	Tangible personal property and services purchased by a nonprofit museum or historical society or by a nonprofit organization dedicated to stimulate public interest in space exploration	\$.2 m
79-3606 (tt)	Tangible personal property to admit purchaser to an annual event sponsored by a nonprofit organization	\$.1 m

Apply the sales and use tax to the following services:

	<u>Fiscal Impact</u>
Legal services	\$15 - \$20 m
Engineering, architectural, and surveying services	\$10 - \$15 m
Accounting, auditing, and bookkeeping services	\$10 - \$15 m

Kansas Department of Revenue

Summary: Fiscal Impact of Sales Tax Exclusions and Exemptions at 4.25% tax rate.

<u>Statute - KSA</u>	<u>Type of Exclusion/Exemption</u>	<u>Fiscal Impact</u>
		\$2,000.0 m
79-3602 (c)	Definitional	a
79-3603 (a)	Definitional	\$6.5 m
79-3603 (b)	Legal/Policy	b
79-3603 (c)	Policy	\$4 m
79-3603 (c)	Policy	\$9 m
79-3603 (f)	Policy	\$6 m
79-3603 (g)	Definitional	minimal
79-3603 (h)	Policy	c
79-3603 (i)	Policy	\$9 m
79-3603 (o)	Definitional	\$60.0 m
79-3603 (p)	Policy	\$60.0 m
79-3606 (a)	Legal/Policy	\$42.0 m
79-3606 (b)	Policy	\$25.0 m
79-3606 (c)	Policy	\$23.0 m
79-3606 (d)	Policy	\$3.0 m
79-3606 (e)	Legal/Policy	\$35.0 - \$45.0 m
79-3606 (f)	Legal/Policy	\$10.0 - \$15.0 m
79-3606 (g)	Legal/Policy	\$3 m
79-3606 (h)	Policy	\$1.2 m
79-3606 (i)	Definitional	\$6 m
79-3606 (j)	Policy	\$30.0 - \$40.0 m
79-3606 (k)	Policy	\$5.2 m
79-3606 (l)	Policy	\$450.0 m
79-3606 (m)	Definitional	\$350.0 m
79-3606 (n)	Definitional	\$150.0 m
79-3606 (o)	Definitional	\$1.2 m
79-3606 (p)	Definitional	\$1.2 m
79-3606 (q)	Policy	\$21.0 m
79-3606 (r)	Policy	\$2.2 m
79-3606 (s)	Policy	\$7.3 m
79-3606 (t)	Policy	\$1 m
79-3606 (u)	Policy	\$15.0 m
79-3606 (v)	Definitional/Policy	\$1.2 m
79-3606 (w)	Policy	\$1 m
79-3606 (x)	Policy	\$41.0 m
79-3606 (y)	Policy	\$1.6 m
79-3606 (z)	Policy	\$7.0 m
79-3606 (aa)	Legal/Policy	\$5.0 - \$7.0 m
79-3606 (bb)	Policy	\$6 m
79-3606 (cc)	Policy	\$9 m
79-3606 (dd)	Policy	\$6 m
79-3606 (ee)	Policy	\$1.0 m
79-3606 (ff)	Legal/Policy	\$3.3 m
79-3606 (gg)	Policy	\$2.0 m
79-3606 (hh)	Policy	\$7 m
79-3606 (ii)	Legal/Policy	minimal
79-3606 (jj)	Policy	\$6 m
79-3606 (kk)	Policy	minimal
79-3606 (ll)	Policy	\$1.4 m
79-3606 (mm)	Policy	\$15.0 m
79-3606 (nn)	Policy	minimal
79-3603 (oo)	Policy	\$4 m
79-3606 (pp)	Policy	\$0 - \$5 m
79-3606 (qq)	Policy	\$1 m
79-3606 (rr)	Policy	\$3 m
79-3606 (ss)	Policy	\$2 m
79-3606 (tt)	Policy	\$1 m
	Total	\$3,401.9 m
a - included in 79-3602 (c)		
b - included in 79-3606 (b), (c), (d), (e), (l), (n), and (x)	Definitional	\$2,953.9 m
c - included in 79-3606 (f)	Legal/Policy	\$131.3 m
	Policy	\$315.5 m
	Definitional/Policy	\$1.2 m



KANSAS DEPARTMENT OF REVENUE

Property Valuation Division

Robert B. Docking State Office Building

Topeka, Kansas 66625-0001

(913) 296-4218

MEMORANDUM

TO: THE HONORABLE FRED KERR
SENATE MAJORITY LEADER

FROM: JOHN LUTTJOHANN, DIRECTOR
PROPERTY VALUATION DIVISION

DATE: APRIL 2, 1990

RE: SIMULATION 4

Attached is a simulation run based on your recent request.

Classification changes

1. Multi-family dwelling with more than four units would be assessed at 15%.
2. "All other" class would be assessed at 25%, except:
 - a. The first \$50,00 in value of each parcel would be assessed at 20%.
 - b. Property owned by Not for Profit entities would be assessed at 12%.
3. Business Machinery and equipment would be assessed at 30%.
4. State assessed property, including public utility inventories, would be assessed at 33%.

Assumptions used are as follows:

1. 9% of the fair market value of residential real property would be assessed at 15% (Multifamily).
2. 2% of "All Other Property" would be assessed at 12% (Non Profit). 3% of "All Other-Urban" would be assessed at 20%. 11% of "All Other-Rural" would be assessed at 20%.
3. The fair market value of the property in the base will generally remain constant from 1989 to 1990. \$42 million in appraised valuation of Public Utility inventories has been added in 1990.
4. The revenues raised by the property tax will raise by 7% in 1990.

Rollback Component

The last column shows the effect of a 1% sales tax increase to replace a portion of the property tax. The data for the distribution of the sales tax was taken from the material prepared by the Department of Education which you provided to this office.

SENATE ASSESSMENT AND TAXATION COMMITTEE
TUESDAY APRIL 3, 1990 ATTACHMENT 1
1ST MEETING

**1988 Real Estate Abstract
(Compiling for Comparison to 1989 Classes)**

Because of statistical reporting requirements of the classes for 1988 being different than the 1989 requirements, an effort was made to bring the 1988 classes to conform to 1989. The following is an accounting on how the 1988 valuation data was modified to conform to the 1989 data being reported as required by K.S.A. 79-1439.

<u>1988</u>	<u>Classification</u>	<u>1989</u>
<u>Urban-Real Estate</u>		
Residential Multi-Family Mineral Interest	Residential	Residential Farmstead
Vacant Lot	Vacant Lot	Vacant Lot
Commercial/Industrial	All Other	Commercial/Industrial Recreational All other real property not otherwise specifically subclassified
0	Agricultural	Agricultural Land-Use Value
<u>Rural-Real Estate</u>		
Home Sites Planned Sub-Division Recreational	Residential	Residential Farmstead
0	Vacant Lot	Vacant Lot
Commercial Spot Industrial	All Other	Commercial/Industrial Recreational All other real property not otherwise specifically subclassified
Ag. Non-Investment Ag. Investment Mineral Interest	Agricultural	Agricultural Land - Use Value
<u>Personal Property</u>		
<u>Urban and Rural</u>		
<u>1988</u>		<u>1989</u>
Royalty & Working Interest Itemized Equipment	Gas and Oil	Royalty & Working Interest Itemized Equipment
Machinery & Equipment Rental & Leased Equip. Construction Equipment	Machinery & Equipment	Machinery & Equipment
Other Taxable Personal Property	All Other	All Other Tangible Personal Property not otherwise specifically classified
Improvements on Leased Land	Mobile Homes	Mobile Homes (used for Residential Property)
Trucks/Trailers Buses/Motor Homes Campers Misc. Vehicles	Motor Vehicles	Motor Vehicles
Merchants' Inventories	Merchants' Inventories	0
Manufacturers' Inventories Bonded Warehouse Inventories	Manufacturers' Inventories	0
Livestock	Livestock	0

1988 Abstract of Valuations of Tangible Personal Property did not break out penalty by class. A multiplier was computed; total valuation with penalty to valuation without penalty, then applied to each class of property. 1989 valuations included penalty, so therefore 1988 valuations needed to include penalty, otherwise we are working with apples and oranges.

