

Approved January 22, 1990
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by SENATOR AUGUST "GUS" BOGINA at
Chairperson

11:10 a.m./~~PM~~ on JANUARY 10, 1990 in room 123-S of the Capitol.

All members were present except:

Committee staff present:

Research Department: Diane Duffy, Leah Robinson
Revisor: Norm Furse, Gordon Self
Committee Staff: Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Bob Corkins, Director of Taxation for the Kansas Chamber of Commerce and Industry

Senator Bogina called the meeting to order for the purpose of continuing the hearings on the commercial circuit breaker.

Mr. Bob Corkins, Director of Taxation for the Kansas Chamber of Commerce and Industry (KCCI) presented his testimony Attachment 1 in support of a commercial circuit breaker. In discussing the four methods by which funds can be obtained for the circuit breaker (page 2 of the attachment), Mr. Corkins noted that a special provision for the oil and gas industry could be considered that would revise the \$20 million estimate downward. He noted that the electronic funds transfer would generate \$5 million, but that the first two suggestions offer just a one year advantage to the state. In discussing the duty of sales tax collection on out-of-state retailers whose primary contact with Kansas is their use of direct mail, Mr. Corkins noted that the U.S. Congress is taking up the matter which would authorize states to impose this tax. He said that passage of this legislation looks favorable and, once Congress gives authorization, Kansas can make collections retroactive to the time that Kansas passed its enacting legislation. Mr. Corkins explained that the estimated revenue of \$18 million provided through a surtax on net property tax savings between 1988 and 1989 did not take the public utilities and livestock producers into consideration.

Mr. Corkins told the Committee that 20% of the businesses contacted responded to the property tax survey. He noted that in a meeting of both small and large business executives held on December 19, 1989, there was virtually unanimous support of the 10% state income surtax on property savings if some cap were put on total liability.

In response to a question, Mr. Corkins noted that KCCI's purpose in testifying was not to discuss eligibility, but to suggest funding mechanisms. He said that the Chamber's objective is to assist all businesses and told the Committee that the four funding mechanisms found in Attachment 1 are being drafted into legislation at Speaker Braden's request.

Mr. Corkins said that the KCCI supports a one year circuit breaker but has not determined a multi-year solution. The KCCI, however, does not favor reinstating the inventory tax.

SB 442 - Emergency supplemental appropriations bill for department of revenue - Homestead property tax refunds, State Board of Tax Appeals, Fort Hays State University, and the Kansas Public Broadcasting Commission

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS,
123-S 11:10 XX JANUARY 10 90
room _____, Statehouse, at _____ a.m./p.m. on _____, 19__

Staff analysts from the Kansas Legislative Research Department reviewed SB 442. In answer to a question regarding the possibility of pro-rating the residential circuit breaker, it was stated that because the enacting statute is an entitlement, pro-rating is not possible. Attachment 2

David Cunningham, chief attorney for the Board of Tax Appeals, appeared before the Committee regarding Section 5 of SB 442. He explained that the \$191,404 requested appropriation only includes salaries for additional staff that have been authorized by the Finance Council and that \$164,619 in additional operating expenditures are requested to acquire equipment and facilities for the additional personnel. Mr. Cunningham told the Committee that, in looking at available locations, it is the Board's intent to stay within a block of the Capitol and to lease approximately 12,000 square feet at \$10-\$12 per square foot for a 3-5 year period.

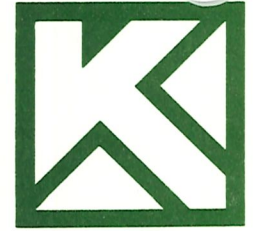
Senator Allen moved and Senator Feleciano seconded to amend Section 3 of SB 442 by adding \$164,619 to the appropriation, making a total of \$356,023. The motion carried.

Senator Winter moved and Senator Allen seconded that the Committee recommend SB 442 as amended favorable for passage. The motion carried on a roll call vote.

The meeting was adjourned at 12:10 P.M. with the next meeting scheduled to convene at 11:00 A.M., January 11, 1990.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



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

A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

January 9, 1990

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
Senate Ways and Means Committee

by
Bob Corkins
Director of Taxation

Mr. Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify with regard to the various proposals being considered for property tax relief to those businesses hardest hit by reappraisal and classification.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

SWAM
Jan. 10, 1990
Attachment 1

We believe that such relief -- commonly referred to as a "circuit breaker" -- is an appropriate step to take at this time. There is no dispute that businesses, on the average, saw their net property tax bills go up between 1988 and 1989. Our estimate shows this overall average increase to be approximately 17%, with larger firms having no net increase and smaller businesses showing roughly a 50% increase. Details of our survey are included in my accompanying handout. Though the figures do not seem to represent cause for alarm, a circuit breaker is still important because it would give those threatened firms some time in which to absorb the shock and it would give the legislature breathing room in which to better examine long-term solutions.

The foremost concern about any circuit breaker program is its funding. However, the discussion of funding mechanisms must be based on a reasonably accurate estimate of a circuit breaker's cost. Without elaborating in great detail, we see a few problems with placing undue reliance on the \$82 million estimate accompanying HB 2319: the estimate was based on a projected increase for real estate taxes only; it assumed that realty taxes would double between 1988 and 1989; and the figure did not account for a \$5,000 cap on relief eligibility. Each of these points resulted in an overstated estimate. Similarly, the fiscal note for HB 2473 also makes the assumption that property taxes have doubled on the average.

Once an accurate cost figure is achieved, it is then appropriate to consider funding sources. KCCI recommends the following methods by which circuit breaker funds can be obtained:

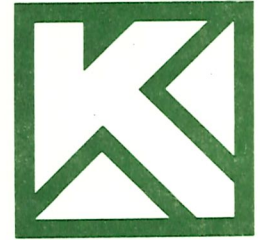
1. Accelerate collection of liquor, tobacco, severance and withholding taxes as outlined in special session HB 2003. Estimated revenue is approximately \$20 million.
2. Establish a procedure for paying sales tax collections and withholding tax collections to the state using electronic funds transfers. The method requires

state receipt of these taxes by the 25th day of each month, it would apply only to the largest collectors of the taxes, and it would generate approximately \$5 million.

3. Impose a duty of sales tax collection upon out-of-state retailers whose primary contact with Kansas is their use of direct mail. Estimated revenue is \$17 million.
4. Impose a one-year state income surtax on net property tax savings between 1988 and 1989 of at least \$10,000. Provide circuit breaker relief in the form of state income tax credits. Estimated revenue is \$18 million.

As with any plan of this sort, it is important that safeguards are included in the program to insure that those businesses needing the relief will actually receive it. With these steps taken, KCCI believes that Kansas can adopt a short-term policy of commercial property tax relief that is both fiscally responsible and adequately responsive to the needs of our business community.

FINAL RESULTS
OF
PROPERTY TAX QUESTIONNAIRE
(763 Responses)



**Kansas
Chamber of
Commerce
and Industry**

A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

NET EFFECTS OF REAPPRAISAL AND CLASSIFICATION

Grand Total, All Businesses Statewide:

Personal Property

1. 1988 pers. prop. taxes = 66% of total* 1988 tax bill
2. 1989 pers. prop. taxes = 40% of total 1988 tax bill

Real Estate

1. 1988 realty taxes = 34% of total 1988 tax bill
2. 1989 realty taxes = 77% of total 1988 tax bill

Thus, TOTAL 1989 Property Taxes = 117% of TOTAL 1988 Tax Bill (40% + 77%)

Small Businesses Statewide (fewer than 16 employees):

Personal Property

1. 1988 pers. prop. taxes = 51% of total 1988 tax bill
2. 1989 pers. prop. taxes = 36% of total 1988 tax bill

Real Estate

1. 1988 realty taxes = 49% of total 1988 tax bill
2. 1989 realty taxes = 113% of total 1988 tax bill

Thus, TOTAL 1989 Property Taxes = 149% of TOTAL 1988 Tax Bill (36% + 113%)

Larger Businesses Statewide (more than 15 employees):

Personal Property

1. 1988 pers. prop. taxes = 73% of total 1988 tax bill
2. 1989 pers. prop. taxes = 39% of total 1988 tax bill

Real Estate

1. 1988 realty taxes = 27% of total 1988 tax bill
2. 1989 realty taxes = 60% of total 1988 tax bill

Thus, TOTAL 1989 Property Taxes = 99% of TOTAL 1988 Tax Bill (39% + 60%)

* "total" tax bill refers to net effect of real and personal property taxes combined.

All Businesses in Johnson, Wyandotte, Shawnee & Sedgwick counties:

Personal Property

1. 1988 pers. prop. taxes = 63% of total 1988 tax bill
2. 1989 pers. prop. taxes = 38% of total 1988 tax bill

Real Estate

1. 1988 realty taxes = 37% of total 1988 tax bill
2. 1989 realty taxes = 83% of total 1988 tax bill

Thus, TOTAL 1989 Property Taxes = 121% of TOTAL 1988 Tax Bill (38% + 83%)

All Businesses NOT in Johnson, Wyandotte, Shawnee nor Sedgwick county:

Personal Property

1. 1988 pers. prop. taxes = 68% of total 1988 tax bill
2. 1989 pers. prop. taxes = 41% of total 1988 tax bill

Real Estate

1. 1988 realty taxes = 32% of total 1988 tax bill
2. 1989 realty taxes = 73% of total 1988 tax bill

Thus, TOTAL 1989 Property Taxes = 114% of TOTAL 1988 Tax Bill (41% + 73%)

SENATE BILL NO. 442

Section 2 -- Residential Circuit Breaker Department of Revenue -- Homestead Property Tax Refunds

Governor's Recommendation

The Governor recommends an FY 1990 State General Fund supplemental appropriation of \$7,290,000 to finance the estimated additional cost of the residential circuit breaker program authorized by the 1989 Legislature. The new funding would be in addition to \$10.0 million appropriated last session based on an earlier estimate of FY 1990 payments.

Section 3 -- State Board of Tax Appeals

Governor's Recommendation

A supplemental appropriation of \$191,404 is recommended by the Governor in FY 1990 to finance additional salary and wage costs attributed to adding 19.0 new FTE positions authorized by the State Finance Council on January 3, 1990. The additional staffing was approved to handle reappraisal appeals. Financing of \$195,114 would be required for five full months of salaries and benefits for all new positions. No funding is included in this bill for other operating expenses relative to new staff, such as rents, moving expenses, or capital outlay.

Section 4 -- Fort Hays State University

Governor's Recommendation

The Governor recommends a State General Fund supplemental appropriation of \$960,444 in FY 1990 for the renovation of Sheridan Coliseum. Through a technical error the unencumbered balance of the State General Fund appropriation in FY 1989 was lapsed. The amount lapsed at the end of FY 1989 is the exact same dollar amount that the Governor has recommended for the supplemental appropriation in FY 1990 or \$960,444. The total cost for the renovation of Sheridan Coliseum remains as approved by the 1989 Legislature at \$8,412,000.

The 1989 Legislature appropriated from the State General Fund \$3,900,000 in FY 1989 and \$2,162,000 in FY 1990 for the Sheridan renovation project. However, the State General Fund appropriations could not be expended until \$387,000 in FY 1989 and \$863,000 in FY 1990 was raised in private gift funds. S.B. 442 permits that any expenditures from the Sheridan Coliseum Gift Fund above the \$387,000 in FY 1989 as required by the 1989 appropriation would count toward the requirement of \$863,000 in gift fund expenditures in FY 1990. Finally, the bill provides that any payments to the

SWAM
Jan. 10, 1990
Attachment 2

Fort Hays State University Endowment Association for interest on the Sheridan Coliseum Gift Fund in FY 1989 or FY 1990 shall not be counted toward satisfying the expenditures requirements for the gift fund in FY 1989 or FY 1990.

Section 5 -- Public Broadcasting Commission

Governor's Recommendation

The Governor recommends a State General Fund supplemental appropriation of \$100,000 in FY 1990 for a grant to KOOD public television station (Bunker Hill) to expand public television into northwest Kansas. The supplemental appropriation is required due to an inadvertent lapse of \$120,000 which the 1989 Legislature appropriated for FY 1989 and had intended to reappropriate for FY 1990 to match an anticipated federal grant of \$448,000 for the project (total project cost, \$623,000). As actually awarded, the total project cost was scaled down to \$392,350 of which \$282,492 is federal funds and the Governor recommends \$100,000 for the state's portion of the project. KOOD has already received \$30,000 from the Economic Development Initiatives Fund, appropriated by the 1989 Legislature, for costs associated with the project, which are ineligible for federal matching.