

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. ~~xxxx~~ on Monday, February 11, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Don Hayward, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Secretary

Conferees appearing before the committee:

Jack Graves, representing Panhandle Eastern Corporation
Mary Ellen Conlee, Kansas Association for Small Business
Frances Kastner, Director of Governmental Affairs, KS Food Dealers Association
Larry Jones, Chairman, KS Legislative Board, Brotherhood of Locomotive Engineers
Donald P. Schnacke, KS Independent Oil & Gas Association (KIOGA)
Terry Humphrey, Executive Director, KS Manufactured Housing Association

Chairman Dan Thiessen called the meeting to order at 11:07 and told the members they had minutes in front of them dated February 6, 1991 and February 7, 1991 and he would ask for a motion to approve at the end of the meeting. He said, we have conferees from last week on SCR1606 and SCR1611 and he recognized Jack Graves, representing Panhandle Eastern Corporation.

SCR1606: A PROPOSITION to amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property

SCR1611: A PROPOSITION to amend section 1 of the article 11 of the constitution of the state of Kansas, relating to the taxation of property.

Jack Graves said his remarks are limited to the issue of public utility inventory resulting from the Supreme Court decision, which concluded that storage gas is, in fact, merchants' inventory under the Constitutional Amendment and thus exempt from ad valorem taxes to the same extent as all other merchants' inventory. He said as a result of that decision, Panhandle's storage gas in Meade County is currently treated the same as other merchants' inventory and thus exempt.

He said they have developed the facts as to the school district that is, of course, affected more than any other taxing district, with a bottom line effect of the exemption of slightly over (7) mills to USD 226 for 1990.

Panhandle has the only storage gas in Meade County and the property valuation records reflect that the exemption reduction in value for 1990 was \$10,328,459. This compares to the total assessed valuation of the County of \$80,749,270. The mill levy for taxing unit 025, in which the gas field is located, for 1990 is .07482, about 75 mills. The school levy for 1990 was 38.366 mills without the exemption. If the exemption were restored, it would have increased to 45 mills (45.42). He said, that the current dollar loss from the exemption to the school district is \$459,000. He said, Illinois and Michigan do not levy taxes on storage gas. (ATTACHMENT 1)

A committee member asked Mr. Graves if he could get a County by County Assessed Valuation Comparison for 1989/1990 for the committee. Mr. Graves said he would bring some in.

Mary Ellen Conlee, representing Kansas Association for Small Business said they have concern in the proposed constitutional amendments SCR1606 and SCR1611. (1) is the issue of taxing inventories and (2) is the appraisal and classification of manufacturing machinery and equipment. She asked the members to remember that the manufacturer's inventory tax taxes the value of raw materials and parts purchased for the manufacturing process, the work-in-progress and the finished goods awaiting delivery. Small manufacturing businesses are particularly hurt by the inventories tax.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

room 519-S, Statehouse, at 11:00 a.m. ~~xxx~~ on Monday, February 11, 1991

She said, both proposals increase the personal property classification from 20% to 30%. Additionally, SCR1606 eliminates straight line depreciation in an effort designed to increase the taxable value of machinery and equipment. The 50% increase in the appraised value of personal property means new taxes for the small businesses.

She said, Kansas must compete with an international policy that recognizes rapidly changing technology through a mandate to replace manufacturing equipment every 5 years.

She said, extended depreciation is clearly unacceptable for modern manufacturing machinery and equipment.

She said, SCR1611 maintains necessary property tax exemptions for inventories and retains the predictability and stability of 7-year straight line depreciation for machinery and equipment. The Kansas Association for Small Business, therefore, prefers this proposed constitution amendment in spite of our concern about 50% increases in machinery and equipment appraisals. (ATTACHMENT 2)

Frances Kastner, Director of Governmental Affairs, Kansas Food Dealers Association said they never have been in favor of the Inventory Tax and thought Kansans had adequately addressed that in the Constitutional Amendment several years ago. None of their members want to avoid paying their fair share of taxes, but they also don't want to be penalized because they chose to locate in Kansas. She said they respectfully request the committee members not to reimpose the Inventory Tax for Merchants and Manufacturers. (ATTACHMENT 3) Attached to Ms. Kastner's handout are copies of written testimony from Mike Carey, President, Boogaart Supply Inc. and Gary L. Burhop, Director of Public Affairs, Fleming Companies, Inc., which she presented to the committee for them.

Leroy Jones, Chairman, Kansas Legislative Board, Brotherhood of Locomotive Engineers said he is testifying in support of the Constitutional Amendments in the classification of property for taxation. Regarding SCR1611 their members are homeowners in areas all over the state, and property tax increases on homes played a major role in the defeat of many incumbents in last falls elections. He said he was here to look after the interest of homeowners. He urged placing inventories back on the tax rolls. (2) He addressed the livestock industry. The idea of exempting livestock was sold to the Legislature as something that would help the family farmer and the people that benefited from the exclusion of livestock were the feedlot operators, and they feel livestock should be placed back on the tax rolls. (ATTACHMENT 4)

Donald P. Schnacke, KS Independent Oil & Gas Association, (KIOGA) said they are pleased the committee is addressing and fine tuning inequities found in the Constitutional classification amendment. He said, their members support broadbased taxes where all Kansans pay without discrimination, and they believe in efficiency and economy in government and advocate the reduction of government spending - as they themselves do - in tight economic times.

He said they believe if the assessment rate on commercial and industrial properties is decreased to a rate below the current 30%, as is proposed in SCR1606 and SCR1611, oil and gas properties should be reduced accordingly in the name of tax fairness. (ATTACHMENT 5)

Terry Humphrey, Executive Director, KS Manufactured Housing Association said, the Association represents all facets of the manufactured housing industry and their associate members, the Recreational Vehicle Council. She said after reviewing SCR1611 they are unsure how manufactured home/mobile home rental communities are to be assessed. Under the current provisions of classifications, the manufactured housing rental community is taxed as residential property at 12%. Attached to her handout is a Memorandum from Terry Hamblin, Director of Property Valuation, dated January 5, 1989. She said through the years there has been some confusion about how manufactured home rental communities were to be handled because they were not specifically mentioned in the Classification Amendment of 1986. Last year, when new constitutional amendments were being considered, this problem was addressed in proposals SCR1648 under the Real Property Classification, (Page 2, Line 14 & 15 the following line was added: "...real property under which mobile homes used for residential purposes are located".

She asked the committee to amend SCR1611 to ensure that the real property upon which these homes set is treated as residential. She also asked for the same amendment on SCR1606. (ATTACHMENT 6)

Chairman Thiessen asked if there was a motion for the minutes of February 6, 1991 and February 7, 1991?

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Monday, February 11, 1991

Senator Audrey Langworthy moved to adopt the minutes of February 6, 1991 and February 7, 1991, 2nd by Senator Gerald Karr. The motion carried.

Chairman Thiessen adjourned the meeting at 12:04 p.m..

WRITTEN TESTIMONEY WAS TURNED IN BY THE FOLLOWING

1. Pat Wiechman, executive director for the Apartment Council of Topeka. (ATTACHMENT 7)
2. Dan Carlson, Chairman of the Board, Independent Automobile Dealers Association. (ATTACHMENT 8).

BEFORE SENATE ASSESSMENT AND TAXATION COMMITTEE
ON SCR 1606 & 1611

REMARKS OF JACK GLAVES
ON BEHALF OF PANHANDLE EASTERN CORPORATION

My remarks are limited to the issue of public utility inventory resulting from the Supreme Court decision, which concluded that storage gas is, in fact, merchants' inventory under the Constitutional Amendment and thus exempt from ad valorem taxes to the same extent as all other merchants' inventory.

As a result of that decision, Panhandle's storage gas in Meade County is currently treated the same as other merchants' inventory and thus exempt. The effect of this exemption needs to be placed in proper perspective. We have developed the facts as to the school district that is, of course, affected more than any other taxing district, with a bottom line effect of the exemption of slightly over seven (7) mills to USD 226 for 1990. Panhandle has the only storage gas in Meade County and the property valuation records reflect that the exemption reduction in value for 1990 was \$10,328,459. This compares to the total assessed valuation of the County of \$80,749,270. The mill levy for taxing unit 025, in which the gas field is located, for 1990 is .07482, about 75 mills. More to the point, the school levy for 1990 was 38.366 mills without the exemption. If the exemption were restored, it would have increased to 45 mills (45.42). I am advised that the current dollar loss from the exemption to the school district is \$459,000.

2-11-91
ATT 1-

To add a little luster to our chapeau, I should point out that Panhandle's tax bill payable on its non-exempt valuation in the school district for 1990, was \$1,140,579. This is based on its assessed valuation in the District of \$15,243,500. The storage field facilities alone are valued at \$15,000,000. This storage field went on the tax rolls in 1980; however, the amount of gas in storage has increased over the years because of the changing marketing practices with the result that Meade County and its taxing units have benefited immensely from the location of this facility, which has enjoyed an increasing taxable value over the years.

Both SCR 1606 and 1611 discriminate against public utility inventory property. Under SCR 1606, it is taxed at a 40% ratio and railroad tangible personal property is assessed at the average rate of all other commercial industrial property and 60% of merchants' inventory is assessed at a 30% ratio. Under 1611, all inventory remains totally exempt except for that of public utilities, which is assessed at a 33% ratio.

Why is public utility inventory so unique or different from other merchants' inventory as to warrant an assessment ratio of 33% instead of 0% under SCR 1611, or at 40% under 1606. What warrants this discriminatory policy?

I will not attempt a detailed legal argument for this Committee on the constitutional issue inherent in this discrimination. Suffice it to say that there is, I believe, a constitutional issue at stake, which casts a cloud over the

proposed classification with attendant uncertainty and the prospect of litigation, that I am sure is not desired by anyone. This issue is brought to the fore by the Nebraska Supreme Court decision involving the Four-R Act and Enron's contention that its personal property should be equalized with the railroads. The Court held that even though the State acted under compulsion of the Federal law, the compliance with that mandate denied Enron equal protection of the laws under the Fourteenth Amendment to the U.S. Constitution. The Court held that pipelines were personal property and thus in the same class as the railroad cars; and although the Nebraska Constitution provides for uniform and equal valuation, the Court also noted that the Fourteenth Amendment to the U.S. Constitution directs that no state shall, "deny to any person within its jurisdiction the equal protection of the laws, which remain viable and in full force and effect." The U.S. Supreme Court denied cert, and thus the decision is the law of the land.

The Equal Protection Clause of the Fourteenth Amendment protects the taxpayer from state action which selects him out for discriminatory treatment by subjecting him to taxes not imposed on others of the same class. Concededly, "equal protection" does not prevent a state from dividing different kinds of property into classes and assigning a different tax burden to each class. However, if the state decides to include all property into one class, the tax burden must be shared equally by the class and, of

course, there must be a reasonable rationale for classifying property or in exempting property.

What is there about storage gas that singles it out for the legislature's opprobrium? The cynics might say that utilities don't have a vote. I would simply suggest that in the instance of Panhandle Eastern, we have offices in Liberal and Overland Park, as well as various field offices; we have 630 employees in Kansas with annual payroll in excess of \$23,000,000; we pay taxes on property having a market value of \$228,000,000. Panhandle has been a part of the Kansas economy for over 50 years. Its facilities extend from the Southwestern corner of the state to the Missouri line. We supply gas to irrigators, farm tap customers, and other domestic and industrial customers directly and by supplying gas to local distribution companies. We have difficulty in understanding the basis for the "special treatment" for the inventory gas that these Resolutions afford. The proposed treatment is onerous and in fact extensively so as compared for example to the Panhandle Storage fields in Illinois and Michigan which do not levy taxes on storage gas.

I respectfully suggest that from an economic development, good corporate citizenship, or just plain fairness standpoint, gas that is produced in Kansas, placed in storage in Kansas, and part of which is sold and consumed in Kansas, should be viewed at least on a par with high volume merchandise that is shipped in from out of state, or from out of the country, and held for sale to Kansas consumers in competition with the main street stores.

We fail to see the logic or the tax fairness for distinguishing between the two types of property which are held for sale. It is all tangible personal property. Actually, Panhandle and the other pipelines do not, under rate making principles, "mark-up" the price of the gas, but it is simply transported by us and the rates are based upon operating costs and return on investment. In today's rather competitive environment, realizing the authorized return is impossible in most instances.

From a tax fairness standpoint, I would remind the Committee that this gas is taxed in the ground to the producer on an ad valorem basis, which benefits the local taxing units. It is taxed at the wellhead when it is produced, under the severance tax law, which benefits both state and local government. Elimination of the exemption would tax it once again as it is put back in the ground awaiting transport to the ultimate consumer, which again benefits the local units of government. It is taxed a fourth time as a sales tax if it is consumed by business and industry, and of course it is proposed to be taxed even if it is consumed by residential customers if the legislature adopts the proposed elimination of that sales tax exemption.

We simply ask that you seriously consider whether there is a rational, fair reason for discriminating against storage gas, which the Court has concluded is, in fact, merchants' inventory. Even if you should conclude, for whatever reason, the exemption should be eliminated, is it fair and just to tax it at a disproportionate rate with other similar property owned by Kansas

industry in general? Finally, I would remind you that similar property, such as other fuels or products that are in storage held for sale that are not owned by "public utilities" and that are locally assessed, will remain exempt. These are competing fuels and will enjoy the merchants' inventory exemption totally. This results simply from the fact that Panhandle and the other pipelines are deemed "public utilities", which has become a word of art in the proposed amendment. We urge equal treatment for storage gas and ask that utility customers receive the benefit of storage gas' continued exemption as merchants' inventory.



Kansas
Association
for
Small
Business

SENATE ASSESSMENT AND TAXATION COMMITTEE

REAPPRAISAL AND CLASSIFICATION TESTIMONY

February 7, 1991

Chairman Thiessen, members of the committee, I am Mary Ellen Conlee, representing the Kansas Association for Small Business, an association of small manufacturers. There are two issues that concern the members of the Kansas Association for Small Business in the proposed constitutional amendments that are before you. One is the issue of taxing inventories, the other is the appraisal and classification of manufacturing machinery and equipment.

Inventories:

Taxing of manufacturing inventories strained the competitiveness of Kansas manufacturers for years. As state after state exempted inventories, Kansas businesses fell behind in the national marketplace. Finally, as a result of the removal of inventories taxes in 1989, our manufacturers have been able to bid and win new national and international contracts.

Please remember that the manufacturer's inventory tax taxes the value of raw materials and parts purchased for the manufacturing process, the work-in-progress and the finished goods awaiting delivery. Small manufacturing businesses are particularly hurt by the inventories tax. If a company buys raw materials in bulk to save money, it is penalized by increasing inventory. A good business practice may become a losing proposition. Greater production results in increased taxable inventories. If a customer determines a need to control its own inventory a supplier is asked to hold finished goods. The number of employees or the profitability of the company does not reflect the value of inventories.

Machinery and Equipment:

Both proposals before you increase the personal property classification from 20% to 30%. Additionally, SCR 1606 eliminates straight line depreciation in an effort designed to increase the taxable value of machinery and equipment. The 50% increase in the appraised value of personal property means new taxes for the small businesses I represent. Any small business that reports the value of its personal property/desks, chairs, copiers, telephone systems, computers, machinery, etc., will find a 50% increase on its next statement. The trade-off is a decrease in commercial and industrial property.

Together
We Can
Make A
Difference.

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ATT. 2-1

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

Page Two
Senate Tax Committee
February 7, 1991

For the Kansas Association for Small Business companies which on average have 25% real estate and 75% personal property--this proposal is "no deal". As Bob Winkler, President of Mid-Central Manufacturing and President of our organization said, "My personal property taxes would increase by \$25,000 and my real estate would decrease by \$3,000." Obviously, this proposal is not designed to help his small business which employs less than 50 people.

For the small business that rents commercial space, the proposal means higher personal property taxes and no guarantee of lower real estate taxes. Only the small businesses which own their own buildings will benefit from this property tax shift.

During the debate last year, 7-year straight line depreciation was often referred to as accelerated depreciation. The implication was that there was a tax break for manufacturers. One of my members, Rex Knepp, President of Aero Machine Company, Inc., visited Japan in conjunction with purchasing a CNC Machining Center. He learned that Japanese national policy mandates replacing manufacturing equipment every 5 years. Additionally, the IRS code allows 5-year depreciation for computerized manufacturing equipment.

We are told that Toyota is about to enter the aircraft manufacturing field. Clearly, in an international economic system we should not identify a 7-year straight line depreciation with a 20% residual value as accelerated depreciation. Kansas must compete with an international policy that recognizes rapidly changing technology through a mandate to replace manufacturing equipment every 5 years.

Extended depreciation is clearly unacceptable for modern manufacturing machinery and equipment. It may be acceptable for the office coat rack but not for the copier, the telephone system or computerized equipment.

From another perspective, appraisal methodology is not as significant as effective tax rates. The much quoted Pat Oslund, University of Kansas study identifies the following effective tax rates for machinery and equipment in our region.

<u>STATE</u>	<u>EFFECTIVE PROPERTY RATES MACHINERY AND EQUIPMENT</u>
Colorado	2.00%
Iowa	0.77%
Kansas	2.23%
Missouri	1.57%
Nebraska	2.49%
Oklahoma	0.90%

The effective tax rate on machinery and equipment is second highest in the region. Such data provides compelling evidence that Kansas has not undervalued machinery and equipment.

In Conclusion:

SCR 1606 attempts to solve the commercial property appraisal problem by piling taxes on the manufacturing sector through the taxing of inventories and increased taxes on machinery and equipment. Until 1988, manufacturing was paying a disproportionate share of the property tax with 30% appraisals on machinery and inventories while commercial property was appraised at a de facto 12% to 15%. There was great disparity among counties--Johnson at 5.42%, Sedgwick at 10.96%, and Jewell at 30%. We do not believe that a return to 1988 ratios will produce an equitable taxing system.

SCR 1611 maintains necessary property tax exemptions for inventories and retains the predictability and stability of 7-year straight line depreciation for machinery and equipment. The Kansas Association for Small Business, therefore, prefers this proposed constitution amendment in spite of our concern about 50% increases in machinery and equipment appraisals.

Consequently, the Kansas Association for Small Business opposes any reinstatement of manufacturers inventory taxes. In addition, the Kansas Association for Small Business opposes a 50%, or more, increase in the value of personal property as the trade-off for lower commercial property taxes. Increasing the value of personal property by extending its taxable life is not valid for a significant percentage of high tech office and manufacturing machinery and equipment. If the goal of tax reform is to help small businesses, I can assure you the small businesses I represent will be hurt and not helped.



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DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

SENATE ASSESSMENT AND TAX COMMITTEE

2-6-91

OPPOSING REIMPOSITION OF INVENTORY TAXES

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association. Our membership includes manufacturers, wholesalers, distributors and retailers of food products throughout the State of Kansas.

We never have been in favor of the Inventory Tax and thought Kansans had adequately addressed that in the Constitutional Amendment several years ago. None of our members want to avoid paying their fair share of taxes, but they also don't want to be penalized because they chose to locate in Kansas.

I want to share with you two statements regarding this topic, and with your permission will take up the balance of my time as a conferee reading those into the record.

We respectfully request that you NOT reimpose the Inventory Tax for Merchants and Manufacturers.

Frances Kastner,
Director
Governmental Affairs, KFDA

(913) 232-3310



BOOGAART SUPPLY DIVISION

Boogaart Supply, Inc.
124 East 5th P.O. Box 569
Concordia, Kansas 66901
Phone (913) 243-1656

February 5, 1991

Frances Kastner
2201 S.W. Wilmington Court
Topeka, Kansas 66606

Dear Ms. Kastner:

On behalf of Boogaart Supply, Inc., and other inventory intensive businesses in the state, I wish to register our strongest opposition to the restoration of property taxes on inventory.

Boogaart Supply operates in an inventory intensive industry and we compete with grocery distributors from surrounding states which do not tax inventories. The benefit of the elimination of property tax on inventory in Kansas has been to allow us to compete without this unfair burden. We have never seen the logic in penalizing businesses who, by the nature of their business, require large inventories. Inventories are in no way a profitability measure of a company, but in most cases are a measure of asset management.

Boogaart Supply is in no way opposed to paying its fair share of the cost of government. However, for the state of Kansas to prosper and the business community therein, the tax laws and options must be competitive with neighboring states so that the businesses and industries of Kansas, operating in a multi-state environment, can compete and flourish.

Sincerely,

Mike Carey
President

Fleming Companies, Inc.

6301 Waterford Blvd.
P.O. Box 26647
Oklahoma City, OK 73126-0647
405/841-8020

GARY L. BURHOP
Director of Public Affairs

February 5, 1991

Frances Kastner
Kansas Food Dealer's Association
2201 SW Wilmington Court
Topeka, KS 66606

Dear Frances:

I write this letter and ask that you convey to both the House and Senate Tax Committees the interest of Fleming Companies in the debate to return merchants and manufacturers inventory to the tax rolls.

As you know, our company was started by A.O. Fleming in Topeka in 1915. Through the intervening years we have managed to become the nation's largest food distributor, supplying goods and services to more than 5,000 grocery stores in 38 states. In Kansas, we are the supplier to 154 stores. It is also on their behalf that I make these comments.

When Kansas joined the movement of most states and eliminated the inventory tax we applauded that decision for in our eyes, taxation of inventory is relatively inefficient. Such a tax bears heavily upon distribution and retailing. It tends to distort supply and demand, decreasing orders immediately prior to the actual inventory date and increasing them immediately following, creating some inventory management difficulties for distributors and manufacturers. Conceivably consumers could also experience artificial, temporary shortages.

Of particular concern to us and, I am certain, other economic development proponents in Kansas, is that any inventory tax imposed at a level that will produce significant revenue creates an equal and significant competitive disadvantage to distributors and retailers located in Kansas. From our distribution centers in Kansas we can ship to stores located in Kansas, Nebraska, Iowa, Colorado, Oklahoma and Missouri. Our pricing and service must be equal to or better than that of our out of state competitors if we are going to employ Kansans.

It is also true that part of our decision two years ago to lease warehouse space totalling 406,000 square feet in Kansas City, Kansas, rather than in Missouri was the Legislature's action to repeal the inventory tax. I know that as we plan for future expansion or consolidation of our existing multiple locations in the Kansas City area - or other Kansas locations for that matter - whether or not the locale has an inventory tax will be one of the factors considered before a decision is made.

Page 2
Frances Kastner
February 5, 1991

I want you to know that I appreciate the difficulties faced by the Tax Committees. They have limited say in determining the level and scope of government, but are required to pay for all of it. In their deliberations I urge them to apply a sound theory of taxation. Never forget that the consumer ultimately pays any tax. The idea should be to spread it as widely as possible. A tax should not place an undue burden on any small group or industry. In-state job providers certainly should not be placed at a competitive disadvantage. And, a tax should be efficient to collect. My opinion is that inventory taxes fail all those tests, which is why few states impose them any longer.

Sincerely,



Gary L. Burhop

GLB:cv

Brotherhood of Locomotive Engineers

Kansas State Legislative Board

P.O. Box 66 • Osawatomie, Kansas 66064



SENATE ASSESSMENT AND TAXATION COMMITTEE

Senate Concurrent Resolution No.1611
February 6, 1991

By: Leroy Jones, Chairman
Kansas Legislative Board
Brotherhood of Locomotive Engineers

Mr. Chairman and members of the committee, I am Leroy Jones, Chairman of the Kansas Legislative Board for the Brotherhood of Locomotive Engineers. I am here today to support changes in Kansas Constitution in the classification of property for taxation purposes.

To make the process simpler I will refer to SCR 1611. My members are homeowners in areas all over the state. Property tax increases on homes played a major role in the defeat of many incumbents in last falls elections. I am here today to look after the interest of homeowners.

In places like Wyandotte, homeowners and small businesses were hit the hardest by the property tax shift. The number one culprit was the elimination of inventory taxes.

The first change I strongly urge you to consider is placing inventories back on the tax rolls. I like the provision in HCR 5007 which exempts the first \$150,000 of inventories and places levels above that back on the tax rolls. I urge you to amend this provision into SCR 1611. I believe that this is a fair compromise which will protect the smaller businesses and give tax relief to homeowners in a large number of counties.

Next I would like to address the livestock industry. The exemption of livestock was wrong. The idea of exempting livestock was sold to the Legislature as something that would help the family farmer.

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roy Jones

page two

The people who really benefited from the exclusion of livestock were the feedlot operators. Feedlots are a business and for them not being taxed is unfair to the rest of the business community. I believe that we should place livestock back on the tax rolls.

Last, I would like to thank you for addressing the issue of real property owned by fraternal organizations. I almost have had as many complaints about tax increases on Masonic Lodges and similar properties as I have had on homes.

Thank you for allowing me to testify before your committee.



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 SOUTH BROADWAY • SUITE 500 • WICHITA, KANSAS 67202
(316) 263-7297 • FAX (316) 263-3021
1400 MERCHANTS NATIONAL BANK BLDG. • TOPEKA, KANSAS 66612
(913) 232-7772 • FAX (913) 232-0917

February 6, 1991

TO: Senate Committee on Assessment and Taxation

RE: SCR 1606 & SCR 1611 - Constitutional Amendments for Classification

KIOGA is opposed to the passage of another state constitutional amendment relating to the classification of taxation that leaves oil and gas properties at 30% and drops commercial and industrial properties to 20% or 25%.

When the constitutional amendment was passed a couple of years ago, we did not have the research or information to argue against keeping our industry at the level defined under the old constitutional requirement of 30% and at fair market value. This is where the oil and gas industry has been for years and this is where we are now.

Two major studies that shed new light on taxes related to oil and gas properties have been conducted by Kansas, Inc. since the enactment of the constitutional classification amendment. Oil and gas industry taxation was examined by this summer's Special Committee on Assessment and Taxation. The question was raised as to the fairness in taxation applicable to the oil and gas industry. The comments arose from debate on a proposal that came out of a Kansas, Inc. study. It was noted that the effective tax rate applicable to oil and gas properties for FY 1989 was 9.7%. This was compared to information from another Kansas, Inc. study that established that all other commercial and industrial property had an effective tax rate of 3.3%. One member stated correctly that this comparison of commercial and industrial property taxes confirms that oil and gas properties in Kansas are taxed at a very high rate and again raised the issue of fairness in taxation as applied to our industry.

We are pleased to finally have those responsible for establishing Kansas tax policy address this subject of high oil and gas taxes. We believe it is a very serious issue and that the rationale and justification for taxing an industrial property producing oil and gas at a rate three times higher than other industrial properties should be examined and corrections made.

We believe if the assessment rate on commercial and industrial properties is decreased to a rate below the current 30%, as is proposed in SCR 1606 and SCR 1611, oil and gas properties should be reduced accordingly in the name of tax fairness. If this is not done, our taxes increase.

We are an industry attempting to be good citizens of our state. Our goal, and the reason Kansas, Inc. conducted its study relating to oil and gas industry taxation, is to specifically identify tax inequities and to make recommendations to correct those inequities. Kansas has, through high taxation, discouraged many from further investment in Kansas and they have taken their investments to other producing states whose tax policies encourage their activity.

Donald P. Schnacke

2-11-91
ATT. 5

KANSAS MANUFACTURED HOUSING ASSOCIATION

TESTIMONY BEFORE THE
SENATE ASSESSMENT AND TAXATION
COMMITTEE

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

FROM: Terry Humphrey, Executive Director

DATE: January 6, 1991

RE: SCR 1611 and SCR 1606

I am Terry Humphrey, Executive Director of the Kansas Manufactured Housing Association and I appreciate the opportunity to comment on SCR 1611 and SCR 1606. The Kansas Manufactured Housing Association represents all facets of the manufactured housing industry and our associate members the Recreational Vehicle Council.

First, I want to address SCR 1611. After reviewing the proposal I am unsure how manufactured home/mobile home rental communities are to be assessed. Under the current provisions of classifications, the manufactured housing rental community is taxed as residential property at 12% and I am attaching a Memorandum from Terry Hamblin, Director of Property Valuation, January 5, 1989. Through the years there has been some confusion about how manufactured home rental communities were to be handled because they were not specifically mentioned in the Classification Amendment of 1986. Last year when new constitutional amendments were being considered, this problem was addressed in proposals SCR 1648 under the Real Property Classification, Page 2, Line 14 & 15 the following line was added: "...real property under which mobile homes used for residential purposes are located".

Typically manufactured housing serves the low to moderate income families who want to own their own home. Many manufactured home owners have their homes in rental communities or parks where they lease the land. This may be out of choice or because single site placement is unavailable. Therefore, I would ask the committee to amend SCR 1611 to ensure that the real property upon which these homes set is treated as residential.

Next I would like to address SCR 1606. Again, manufactured home/mobile home rental communities are not specifically addressed, therefore, we would recommend the same amendment that I previously recommended for SCR 1611.

Also, SCR 1606 reinstates the inventory tax on merchants and manufacturers. Both the manufactured housing industry and the R.V. industry in Kansas oppose the reinstatement of the inventory taxes. 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. Thank you for your attention to these matters.

1 of this subsection ~~(b)~~ shall not be applicable to the taxation of motor
2 vehicles, except as otherwise hereinafter specifically provided, min-
3 eral products, money, mortgages, notes and other evidence of debt
4 and grain. Property shall be classified into the following classes for
5 the purpose of assessment and assessed at the percentage of value
6 prescribed therefor:

7 Class 1 shall consist of real property. Real property shall be further
8 classified into ~~four~~ *eight* [nine] subclasses. Such property shall be
9 defined by law for the purpose of subclassification and assessed uni-
10 formly as to subclass at the following percentages of value:

- 11 (A) (1) Real property used for residential purposes including
12 multi-family residential real property *comprised of not more*
13 *than four residential units one of which is owner occupied*
14 *[and real property upon which mobile homes used for resi-*
15 *dential purposes are located].....~~12%~~ [11 1/2%]*
- 16 (2) Multi-family residential real property not included in paragraph
17 (1)..... 15%
- 18 (B) (3) Land devoted to agricultural use which shall be valued
19 upon the basis of its agricultural income or agricultural pro-
20 ductivity pursuant to section 12 of article 11 of the
21 constitution 30%
- 22 [(4) Land devoted to open space which shall be defined by
23 law and which shall be valued upon the basis consistent with
24 its restrictions and use. The legislature may, if land devoted
25 to open space changes from such use, provide for the recoup-
26 ment of a part or all of the difference between the amount of
27 the ad valorem taxes levied upon such land during a part or
28 all of the period in which it was valued in accordance with the
29 provisions of this subclassification and the amount of ad va-
30 lorem taxes which would have been levied upon such land
31 during such period had it not been devoted to open space and
32 had it been valued, assessed and taxed as all other urban and
33 rural real property not otherwise specifically subclassified.... 30%]
- 34 (C) (4) [(5)] Vacant lots..... 12%
- 35 (5) [(6)] Real property used for commercial and industrial purposes
36 and buildings and other improvements located upon land de-
37 voted to agricultural use which shall be assessed, to the extent
38 of \$50,000 of its appraised valuation, at the rate of 20%, and
39 to the extent of its appraised valuation exceeding \$50,000, at
40 the rate of 25%.



KANSAS DEPARTMENT OF REVENUE

Division of Property Valuation
Robert B. Docking State Office Building
Topeka, Kansas 66612-1585

Phone (913) 296-2365

MEMORANDUM

TO: County Appraisers, Commissioners, Clerks, Treasurers
and Registers of Deeds

FROM: Terry D. Hamblin, Director

DATE: January 5, 1989

SUBJECT: Director's Reappraisal Update #26

REAPPRAISAL MILESTONES

Following is a revised list of the final, important reappraisal milestones, or dates when we expect certain phases of the project to be complete. Please notice that this listing makes clear the fact that we do not consider the "real" milestone to be January 1st. Instead, it assumes simply that counties will mail their change of value notices by March 1st. If you have any questions about the list, please discuss them with your district appraiser.

- 3/1/89 * All Final Value/All CVN Mailed - Complete
For All Counties
- PVD Certification of Completion - Complete
- * Notice to Property Owners - Complete. K.S.A. 1987
Supp. 79-1460 under H.B. 2702.
- 4/1/89 * Informal Hearings - Complete. K.S.A. 1987 Supp. 79-
1448 under H.B. 2702.
- 4/15/89 Post Values to AA/Value Certification to County Clerk
- 5/15/89 Hearing Panels - Complete. K.S.A. 1987 Supp. 79-1602
under H.B. 2702.
- 6/15/89 County BOE - Complete. K.S.A. 1987 Supp. 79-1602 under
H.B. 2702.
- 7/1/89 County Assessed Value Abstracts to PVD Director
- 11/15/89 County Updated Assessed Value and Tax Abstracts to PVD
Director
- 12/1/89 Informal Hearings for 1989 Tax Bills Paid Under
Protest. K.S.A. 1987 Supp. 79-2005 under H.B. 2702.

MOBILE HOME PARKS

" We have received many classification questions about mobile home parks. Real property used for residential purposes, including multi-family real property, should be subclassed as R (residential) and assessed at 12% of market value. Mobile home parks meet this definition and should therefore be considered residential property. Like apartment complexes, however, the income approach may be used for the purpose of valuation."

APPRAISAL OF SUBDIVISION DEVELOPMENTS

We have received several inquiries and requests for clarification of subdivision development appraisal procedures. Although mapping specifications call for the creation of individual parcels when a subdivision plat is filed, the appraisal should actually reflect the aggregate value of the development.

The appraiser must consider the rate at which a project will be completed and the number of vacant lots expected to be sold in the local market each year. This absorption period for typical subdivisions covers several years. To account for the impact of this projection on value, a factor reflecting the discount rate should be estimated by ascertaining the appropriate risk rate in the marketplace. This factor is then applied to the expected net proceeds from lot sales over the completion/absorption period to arrive at the present value of the land. When a newly-platted subdivision has been mapped, an influence factor can be applied to each lot or a unique neighborhood CALP model can be developed to accomplish this adjustment. If, however, the subdivision is in agricultural use, then use value takes precedence for appraisal purposes.

KIOGA

The Kansas Independent Oil & Gas Association, in conjunction with our office, will hold an oil and gas appraisal guide conference in Wichita on January 25th. A similar session was held with great success last year, and this year's conference will likely be of great interest as well. I would encourage anyone interested in oil and gas appraisal to attend. Enclosed to appraisers are complete details on the agenda and registration.

IMPORTANT DATES

Jan 16	Martin Luther King Holiday	
Jan 18-20	KAC County Officers School	Topeka
Jan 23-24	Seminar for Non-Appraisers	Manhattan
Jan 26-27	Hearings & Appeals Process	Independence
Jan 30-31	Hearings & Appeals Process	Topeka
Feb 2-3	Hearings & Appeals Process	Dodge City
Feb 9-10	Hearings & Appeals Process	Hays
Mar 23-24	Hearings & Appeals Process	Topeka
Apr 13-14	Hearings & Appeals Process	Topeka

APARTMENT COUNCIL OF TOPEKA

1101 West 10th
Topeka, KS 66604

913-233-8899
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SENATE ASSESSMENT AND TAXATION COMMITTEE

February 6, 1991

SCR 1606 and SCR 1611

Mr. Chairman, Members of the Committee:

I am Pat Wiechman, executive director for the Apartment Council of Topeka.

The A.C.T. membership is comprised of apartment managers, and personnel, owners, and others supportive of the multi-housing industry. We find ourselves listed as opponents for today's testimony. However, that opposition is not because of the attempts at granting property tax relief; rather, it is in terms of the impact that the proposed changes will have on individual residents and taxpayers.

It is easy to forget that persons living in apartments are individuals who are purchasing a commodity. That commodity is a place to live. Some live in apartments by choice; while others are there because they cannot afford to own

their own home. These persons pay for their commodity; and the price they pay is called "rent." Rent is established by owners based upon the costs of doing business. Within each resident's monthly rent is a portion that can be designated as the property tax portion. The proposal to change the classification for multi-family residences from a 12% valuation to a 15% valuation is a substantial increase in the property tax portion of each resident's monthly rental. What that really means is the rent will have to increase to accommodate the increase for taxes. That, in affect, is a tax increase on those that may not be able to afford to buy their own home or an increase simply because they are *renters*.

It is a mistake to believe that this kind of tax change is not going to be passed through to the individual resident-voter. An individual owning his own home has a *fee simple* interest. An individual renting an apartment has a *leasehold* interest. The inconsistency is in the fact that if you live in your own fee simple home, your taxes would be less than if you were living in a leasehold home. There is no equity in that situation. The resident, be he owner or renter, still requires the same shelter.

Focus must be given to broadening the tax base so that everyone pays less. Exemptions are a hard issue to repeal. No one wants to give up an exemption. If there is sound reasoning for an exemption, not just a special interest, then that exemption may merit continuation, if it can stand on its own. Taxes that can be passed through to a taxpayer-voter are taxes on the taxpayer-voter. Call it a hidden tax, pass through tax, tax on the owner or whatever you wish, it will still come through to the consumer, the renter. Exemptions are nothing but tax increases on those that remain.

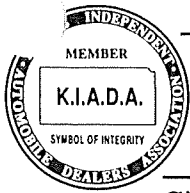
Our association supports fair and equal taxation. Increasing the tax rate for multi-family living only puts those dependent on purchasing a right to live in an apartment in the position of paying more in taxes than those that purchase ownership of a place to live. It will constitute a tax increase on apartment residents. It will not tax the apartment owners; they will only become the collection agent for the taxes.

We urge you to carefully consider the individual destined to live in apartments because of his/her place in life. You must decide - should that individual be taxed more because he/she lives in a rental apartment rather than in a home that is owned.

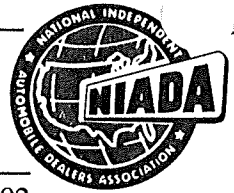
Thank you for the opportunity to appear before you on behalf of the Apartment Council of Topeka. I will be happy to attempt to answer questions that you may have.

Respectfully submitted,

Patricia M. Wiechman
Executive Director



KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION



Citizens Bank & Trust Building • 6th & Humboldt • Manhattan, Kansas 66502
Phone: 913-776-0044 FAX: 913-776-7085

February 6, 1991

TO: SENATE COMMITTEE ON ASSESSMENT AND TAXATION

SUBJECT: SENATE BILL 1606

Mr. Chairman and Members of the Committee:

I am Dan Carlson, Chairman of the Board, of the Independent Automobile Dealers Association representing 264 used car dealers in the state of Kansas.

We appear in opposition to Senate Bill 1606 which could place motor vehicle dealers' inventories back into classification.

We are small businesses who are struggling at this time to stay in business. An inventory tax or an in-lieu-of tax would certainly be a major hardship on many small used car dealers and as a result, they may simply go out of business.

We realize that you are looking at property tax rollback. We believe that you might relieve the small business person, but we also believe that by restoring inventory tax you will be hurting them much more than property tax relief would help.

Please consider very seriously this delicate balance before you place motor vehicles back into classification or legislate an in-lieu-of tax.

Thank you for your time.

Individually we struggle to be heard—Collectively we cannot be ignored.

2-11-91
ATT. 8