Approved May 7, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Bruce Larkin, Vice-Chairman, at 9:10 a.m. on Wednesday, March 18, 1992 in room 519-S of the Capitol.

All members were present except:

Rep. Joan Wagnon, excused; Rep. J. C. Long, excused; Rep. Aldie Ensminger, excused.

Committee staff present:

Tom Severn & Chris Courtwright, Legislative Research Analysts; Don Hayward, Revisor; Linda Frey, Committee Secretary; Douglas E. Johnston, Committee Assistant.

Conferees appearing before the committee:

Chris Courtwright, Legislative Research Analyst, briefed the committee on HB 2845 (Attachment 1).

In reply to a question from Rep. Crowell, Courtwright said payments in lieu of property taxes have to be distributed to school districts just like taxes. Cities and counties cannot stipulate where payments go.

The Vice-Chair opened the public hearings on HB 2845.

Representative Rick Bowden, Chairman of the House Education Committee, testified in favor of HB 2845. He said the issue of property tax abatements affect on school districts needed to be addressed. It had already been raised in hearings on school district finances and debate on HB 2892.

In response to a question from Rep. Shore, Rep. Bowden said under HB 2892 cities and counties can abate state taxes i.e. property taxes subject to the state tax, but that he does not believe they should be able to.

Kay Coles, representing the Kansas National Education Association, testified in favor of HB 2845 (Attachment 2).

Pat Baker, representing the Kansas Association of School Boards, testified in favor of HB 2845 and HB 2946 (Attachment 3).

In response to a question from Rep. Vancrum, Baker said KASB seeks to maintain the property tax base so that the statewide mill levy does not increase. She said for three years KASB has fought for the right of school boards to vote on property tax abatement issues.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Wednesday, March 18, 1992.

Jack Glaves, representing the Panhandle Eastern Corporation, testified regarding the effect of HB 2845 on P.E.C. (Attachment 4).

Carlene Hill Forrest, Center for Economic Development and Business Research at The Wichita State University, testified regarding the use of tax exemptions for economic development (Attachment 5).

Bernie Koch, representing the Wichita Area Chamber of Commerce, testified regarding HB 2845 (Attachment 6).

In response to a question from Rep. Larkin, Koch said Wichita authorized no property tax abatements for shopping malls and that Wichita consults with and notifies school boards of abatements.

Rep. Welshimer noted that in Wichita, property tax abatements are on property, but not the land the property is on. Koch said abatements on land are rarely granted and then only in cases of land vacant for 6 months or more.

Donald R. Seifert, Assistant Director of Administrative Services for the City of Olathe, testified against HB 2845 (Attachment 7).

Donald R. Goss, President of the Olathe Area Chamber of Commerce, testified against HB 2845 (Attachment 8).

Bob Corkins, Director of Taxation for the Kansas Chamber of Commerce and Industry, testified against HB 2845 (Attachment 9).

Christy Young, Vice President of Government Relations for the Greater Topeka Chamber of Commerce, testified against HB 2845 and HB 2946 (Attachment 10).

Mark Russell, President of La Siesta Foods, Inc., testified against HB 2845 (Attachment 11).

Dwayne H. Shannon, CEO of Metal-Fab, Inc., testified against HB 2845 (Attachment 12).

The Vice-Chairman announced the hearings would be continued the next day.

The meeting adjourned at 10:30 a.m. The next meeting will be March 19 at 9:00 a.m.

GUEST LIST

COMMITTEE: House Taxation DATE: 3/18/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Alan Steppat	Topeka	Pete McGill & Associates
Diane Gjerstad	Wichita	House
Russ Bishop	Houston	Panhandle Eastern
Jack Glaves	Wichita	" "
Laura McClure	Glen Elder	self
Bev Bradley	Topeka	KS Assoc of Counties
Wendell Strom	Topeka	AARP-CCTF
Harold Pitts	Topeka	AARP-CCTF
Christy Young	Topeka	Topeka Chamber of Comm
Gary Livingston	Topeka	USD 501
[illegible]	Topeka	USD 501
Cal Lantz	Topeka	KDOC
Dan Haas	Overland Park	KCPL
Jim Ludwig	Topeka	KPL
Jim Allen	Topeka	Pete McGill Assoc.
Gerald Henderson	Topeka	USA of KS
Russ Frey	Topeka	Ks Vet Med Assoc
Bill Martin	Lawrence	Ks Ind. Dev. Ass'n
Bill Thompson	Topeka	KDOC
Mark Tallman	Topeka	KASB
Willie Martin	Wichita	Sedgwick County
Catherine Holdeman	Wichita	City of Wichita
[illegible]	Topeka	Beech Aircraft Corp.
Michelle Peister	Topeka	Ks. Governmental Cons.

GUEST LIST

COMMITTEE: House Taxation DATE: 3/18/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
DON SEIFERT	OLATHE	CITY OF OLATHE
Don Goss	Olathe	Olathe Area Chamber of Commerce
John Peterson	Topeka	Beech Aircraft
[illegible]	Wichita	WIBA
[illegible]	Wichita	Metal-Fab, Inc
Mike Reecht	AT&T/TOPEKA	
Dave Cunningham	Topeka	DOB
LISA GETZ	Wichita	Kansas Asso. for Small Business
Mary Ellen Conlee	"	" " " " "
Chris McKenzie	Topeka	League of Ks. Municipalities
Denise Apt	Topeka	U.S.D. #500
[illegible]	Topeka	KNEA
Bob Corkins	"	KCCI
Gordon T. Garrett	Topeka	Commercial Property Assoc/Ks
[illegible]	Wichita	The Coleman Co.
Jim Gregory	Wichita	Beech Aircraft
Steve Jones	Wichita	Boeing
Rebecca Rice	Wichita	Cessna Aircraft
Ed Miller	Wichita	Learjet
Fred Sudermann	Wichita	Wichita State University
Bernie Koch	Wichita	Wichita Chamber
Carlene Hill Forrest	Wichita	CEDBR, Wichita State University
BUD GRANT	TOPEKA	KCCI

RE: PROPOSAL NO. 2 – PROPERTY TAX ABATEMENTS AND AIRPORT AUTHORITIES*

Proposal No. 2 directed the Special Committee to identify the local economic development property tax abatements granted since 1986; determine whether the amount of assessed valuation exempted is known and, if not, whether such data should be available to the Legislature and other interested parties; review implications of abatements on school finance and on narrowing the tax base generally; consider if any legislation is warranted (pursuant to the *Constitution*) to prohibit or limit the granting of the abatements; and study the tax environment existing under the jurisdiction of municipal airport authorities, including a review to determine whether the policy decisions made in 1991 H.B. 2194 should be extended or modified.

Property Tax Abatements

Background

Article 11, Section 13 of the *Kansas Constitution*, approved by voters in August of 1986, allows cities and counties to exempt from all ad valorem taxation for up to ten years all or any portion of the appraised value of buildings, land, and tangible personal property used exclusively by businesses commencing operations after August 5, 1986 for the purposes of manufacturing, research and development, or storing commodities sold in interstate commerce. The abatements also may be granted for similar purposes to facilitate the expansion of existing businesses if new employment is created as a result of such expansion. The Legislature is granted the power to limit or prohibit the application of the abatements by enactments uniformly applicable to all cities and counties.

Attorney General Opinion Nos. 86-168 and 87-5 concluded that while the Board of Tax Appeals has statutory authority under K.S.A. 1990 Supp. 79-213 to examine the legal and factual basis of any exemptions granted under the constitutional amendment, the Board may not review the advisability of the exemptions, since the *Constitution* delegates that policy decision to the cities and counties.

Prohibitions against exemptions were passed by the 1987 and 1988 legislatures. H.B. 2076 enacted in 1987 prohibited cities and counties from granting the exemptions to corporations owning or operating rabbit and poultry confinement facilities on agricultural land. The prohibition was extended to swine confinement facilities in 1988 with the enactment of H.B. 3018, as amended by H.B. 3123.

1990 S.B. 440. S.B. 440, enacted in 1990, imposed several procedural restrictions on cities and counties seeking to grant the abatements. What is now K.S.A. 79-251 requires cities and counties, prior to the granting of an exemption, to develop and adopt official policies and procedures, including the required preparation of a cost benefit analysis for each exemption and procedures for monitoring compliance of businesses receiving the exemptions. The legislation also requires cities and counties to hold public hearings regarding exemptions following notice published at least seven days prior to the hearings. In addition to the publication requirements, city and county clerks are required to notify the affected school districts in writing.

K.S.A. 79-210, now 79-210a, was amended to require city and county clerks to prepare written statements to be filed along with the owners' annual claims for exemptions stipulating that the exempted property continues to meet all terms and conditions established as a condition of granting the exemptions.

K.S.A. 79-213 was amended to clarify that the Board of Tax Appeals is required to approve the exemptions.

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* S.B. 464 accompanies this report.

House Taxation
Attachment 1
03-18-92

K.S.A. 79-221 was enacted to statutorily exempt other property owned and rented or leased by community-based not-for-profit economic development corporations exempted pursuant to Internal Revenue Code 501(c)(6) if the property was integrally associated with other property which had received the constitutional exemption and the leased property was otherwise used exclusively for the same exempt purposes.

K.S.A. 79-252 also was enacted to clarify that the economic development exemptions could not be granted to property which had been previously subject to tax or had been granted previous economic development exemptions absent a "factual determination" by cities or counties that jobs would be retained in the State of Kansas.

Finally, K.S.A. 12-1749c was enacted to require city and county clerks to notify school districts in writing prior to the approval of property tax exemptions granted through the issuance of industrial revenue bonds.

1991 H.B. 2544. The House Tax Committee during the 1991 Session introduced H.B. 2544, which would have provided a number of additional limitations on the authority of cities and counties to grant the economic development abatements. Cities and counties would have been prohibited from granting the abatements for more than two years, and they would have been prohibited from exempting more than 50 percent of the cumulative appraised valuation for a new business and more than 50 percent of the cumulative appraised valuation associated with the expansion of an existing business. Moreover, the exemptions would have been totally prohibited if the new or expanding business was "in direct competition with another established business operating" within the city or county. Finally, the exemptions could not have been granted unless the businesses entered into contracts providing for payments-in-lieu-of-taxes in an amount not less than 50 percent of the amount of taxes that would have been levied. The bill remained in Committee at the end of the 1991 Session and was referred to the interim Committee for further study.

Committee Activity

The Committee devoted parts of four meetings to economic development abatements. Staff prepared a background memorandum and policy options. The Board of Tax Appeals in June discussed its review process for the abatements and at the September meeting provided a listing of economic development applications, the assessed value of the property involved, and the Board's action for each application.

In June, Ms. Laura Ellen Johnson, a law clerk for the Board, presented two articles she had authored: "Spurring Economic Development in Kansas through Property Tax Exemptions -- Are We Getting the Results We Want"? *Washburn Law Journal*, Vol. 30, No. 1, (Fall, 1990) pages 82-111; and "Cities and Counties Initiating Property Tax Exemptions for Economic Development Purposes Pursuant to Article 11, Section 13," *Kansas Municipal Law Annual*, Vol. 8 (1991), pages 141-151.

The Committee heard testimony on local economic development abatements from local officials in Topeka, Wichita, and Johnson County in conjunction with their airport tours discussed below. The Committee in September heard a presentation by Carlene Hill Forrest, Director, Center for Economic Development and Business Research, Wichita State University, on the value of a strong exporting base.

Municipal Airport Authorities

Background

Municipal Airport Authorities. Municipal airport authorities are created pursuant to statute to operate airports and surplus federal property and to promote economic development. They are separate taxing subdivisions and may be created under three statutes. The provisions permitting cities located in a county within which a surplus air base is located to create airport authorities are contained in K.S.A. 27-315 *et seq.*, (the Surplus Property and Public Airport Authority Act) and in K.S.A. 27-327 *et seq.*, (Topeka). These airport authorities are designed to acquire and manage air bases and other property declared surplus by the federal government. Wichita's authority, authorized in K.S.A. 3-162 *et seq.*, is designed to operate an airfield formerly operated by a city board of park commissioners. Each of the three authorizing statutes is discussed briefly below.

Creation, Governance, and Dissolving. Herington, Pratt, and Salina are three cities which have formed airport authorities under K.S.A. 27-315 *et seq.* Such airports are governed by directors appointed by the city governing bodies, and may be dissolved by the city by ordinance, provided they have been in existence for ten years and have no debt outstanding. Property of the authority then would become the property of the city.

Topeka created the Metropolitan Topeka Airport Authority (MTAA) in 1974 by charter ordinance amending K.S.A. 27-315 to provide for the administration of Phillip Billard Municipal Airport and the former Forbes Air Force Base and to provide for economic development. In 1978 the Legislature enacted K.S.A. 27-327 *et seq.*, to permit formation of a countywide authority, with voter approval. The required approval of the Shawnee County voters was obtained at the November, 1978 general election. The Authority is governed by a five-member board of directors, with two directors appointed by the Shawnee County Commission and three directors appointed by the Topeka City Commission. MTAA, if it has no debt outstanding, may be abolished by a two-thirds vote of the county commission and the city governing body. Property of MTAA then becomes the property of the city and county in the manner agreed upon by them.

The Wichita Airport Authority was created by ordinance under K.S.A. 3-162 *et seq.* The Authority was designed to take over the management of a municipal airport formerly controlled by a city board of park commissioners (as authorized by K.S.A. 3-114) or the city governing body. The board of directors currently consists of five members appointed by the mayor with the consent of the governing body. Effective July 1, 1991, H.B. 2194 (L. 1991, Ch. 7) increased the membership of the board to nine members, with two of the additional members to be appointed (from different county commissioner districts) by the Sedgwick County Commissioners.

Powers. Airport authorities have the power to enter into contracts, to sue and to be sued, to acquire and hold property, levy taxes, issue bonds, and exercise eminent domain, with exceptions. Authorities formed under K.S.A. 27-315 may exercise eminent domain only upon approval of the city governing body. MTAA may recommend airport hazard zones, but the zones may be adopted only with approval of the city or county governing body. MTAA must submit any proposed sale of any airport property owned by the Authority to the voters for approval. The Wichita Airport Authority requires the approval of the city to issue bonds or levy taxes (K.S.A. 3-167). Bonds issued by an authority formed under K.S.A. 27-315 or 27-327 must conform to the city's or county's bonded debt limits.

Exempt Property. Two recent court cases have held that property leased by an airport authority to business enterprises does not qualify for a property tax exemption under K.S.A. 79-201a *Second*. In *Salina Airport Authority* v. *Board of Tax Appeals* (13 K.A.2d 80, 1988) the Court held that real property leased to businesses is not used in a manner qualifying for exemption under K.S.A. 79-201a *Second* when no public function of government is being carried out by the lessees. In *Tri-County Public Airport* v. *Board of County Commissioners of Morris County* (245 K. 301, 1989), the Court held that the exclusive use of the property as defined by K.S.A. 79-201a *Second* requires actual use of the property for a public purpose. All property owned by MTAA is exempt under K.S.A. 27-330, and all property located within Salina and owned by the Salina Airport Authority on January 1, 1989 is exempt under K.S.A. 1990 Supp. 27-319.

Johnson County Airport Commission. K.S.A. 3-307a authorized Johnson County to create an airport commission to supervise any public airports operated by the county. The commission has broad powers: to employ engineers, legal counsel, architects, and other personnel necessary for its duties; to contract for and to buy and sell real estate; and other powers necessary to carry out its duties. However, these powers may be exercised only with the approval of the Board of County Commissioners, and all expenditures of the commission must be within available resources.

General Authority. Several other statutes specifically authorize cities and counties to own and operate airports. K.S.A. 3-113 *et seq.*, permits the governing body of any city to acquire, equip, improve, operate, maintain, and regulate municipal airports. K.S.A. 3-301 *et seq.*, authorizes Johnson County to establish public airports. (These statutes predate those described above relating to an airport commission.) K.S.A. 3-308 *et seq.*, applies to counties of less than 5,000 population. K.S.A. 3-316 *et seq.*, applies to Allen County. K.S.A. 3-404 *et seq.*, authorizes Arkansas City and Winfield to acquire Strother Field as tenants in common. Another group of statutes permits cities and counties to dispose of airport properties no longer needed for airport purposes.

Other Taxes and Fees. Among the powers generally granted to airport authorities is the power to levy property taxes and to impose fees for the use of airport facilities. Airport authorities have imposed a variety of charges which closely resemble excise taxes. One such charge, airport flowage fees, has been the subject of an Attorney General's Opinion (AGO 89-57). Flowage fees are per-gallon charges on fuel sold by fixed-base operators for the privilege of operating on the airfield. The opinion states that the fee is part of the rent for the fixed base operator's facility and does not constitute a local excise tax.

Provisions of 1991 H.B. 2194. As a result of the cases cited above, several bills to exempt property owned by airport authorities were introduced in 1991, which lead to passage of H.B. 2194. H.B. 2194 exempts from all ad valorem taxes all property owned and operated primarily as an airport by a political subdivision including property leased by the political subdivision for purposes not essential to the operation of the airport for tax years 1984 to 1992. Properties subject to a lease in effect on April 15, 1991 which extends beyond tax year 1992 will be exempt through the tax year during which the lease expires. All property taxes for the taxable years noted above are canceled. No refunds are allowed for taxes paid except for the Liberal Municipal Airport. The bill also expands the membership of the Wichita Airport Authority as discussed above.

Concern whether the policy choices embodied in H.B. 2194 should be made permanent lead to assignment of the topic for interim study.

Committee Activity

The Committee devoted part of five meetings to this topic. Staff prepared a background memorandum and a table summarizing airport authorities. Tours were conducted of the Metropolitan Topeka Airport Authority, the Wichita Airport Authority, and the Johnson County Airport Commission. Public testimony was heard in September, and in October the Committee heard further testimony on private, public-use airports in Kansas by the Department of Transportation.

Committee Conclusions and Recommendations

The Committee recommends that the assessed valuation of property locally exempted through industrial revenue bonds (IRBs) or economic development abatements be included in district wealth for purposes of calculating general school aid through the school finance formula. Enactment of S.B. 464 would accomplish this recommendation.

The Committee urges the Board of Tax Appeals to develop an application form with instructions for communities for documenting a tax abatement application. The Committee also recommends that applications that are not complete simply be returned for completion.

The Committee also urges the Board of Tax Appeals to establish a procedure for prospective review of applications for tax abatements so as to give businesses some guidance on which to base their investment decisions.

The Committee requests the Board of Tax Appeals to prepare an annual statistical report of the value of IRB and economic development exempt properties.

The Committee recommends no legislation affecting airport exemptions. The temporary exemptions in H.B. 2194 will expire in 1992 (or upon the expiration of certain leases).

MINORITY REPORT

By Sens. Audrey Langworthy, Jack Steineger, Reps. Nancy Brown, Mary Jane Johnson, Tom Sawyer

We disagree strongly with the decision of the Committee to introduce legislation which would amend the definition of district wealth for purposes of the school finance formula to include the assessed valuation of property locally exempted through the issuance of industrial revenue bonds (IRBs) and the granting of economic development exemptions. Such a measure would be doubly unfair to many school districts across the state.

Since cities and counties, not school districts, are the entities responsible for the granting of the property tax exemptions, those same school districts, which levy the lion's share of all property taxes, have many times opposed the narrowing of the tax base. Schools supported legislation enacted in 1990 which required cities and counties seeking to grant economic development exemptions to hold public hearings following published notice and to notify all affected school districts in writing.

If the Legislature believes too many exemptions are being granted to the overall detriment of the tax base, it has the power to limit or totally prohibit the granting of the exemptions by cities and counties, a move which could be supported by many school districts.

The bill accompanying the Committee report would DOUBLY penalize those school districts with exemptions which have been granted within their boundaries, even though they may well have opposed the granting in the first place. Moreover, the bill is "retroactive" in its application in that it would require the valuation adjustment for all outstanding exemptions (as well as those granted in the future). The implications of this policy decision on school finance obviously were not contemplated by school districts when the outstanding exemptions were granted.

Adding back into district wealth the valuation exempted through the issuance of IRBs and the granting of economic development abatements also raises policy questions about adding back the valuation of other exempt property, including farm machinery, inventories, parsonages, livestock, business aircraft, etc. Also, the market valuation of agricultural land (rather than the use value) conceivably could be calculated for purposes of the school finance formula.

The entire school finance formula and the relationship between the state and its school districts is about to undergo the most dramatic change ever. With the myriad of school finance issues to be resolved, it is far more prudent to hold off on controversial and ill-conceived proposals such as the bill recommended by the Committee.

Session of 1992

SENATE BILL No. 464

By Special Committee on Assessment and Taxation

Re Proposal No. 2

12-23

AN ACT relating to school districts; concerning the determination of district wealth for school district equalization act purposes; amending K.S.A. 1991 Supp. 72-7040 and 72-7054 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 1991 Supp. 72-7040 is hereby amended to read as follows: 72-7040. (a) "Taxable tangible property" means all real and tangible personal property which is subject to general ad valorem taxation.

(b) "Exempt tangible property" means all real and tangible personal property which would be subject to general ad valorem taxation except for the operation of the provisions of section 13 of article 11 of the Kansas constitution, or the provisions of K.S.A. 79-201a Second, and amendments thereto, which pertain to the exemption from property taxation of property constructed or purchased with the proceeds of revenue bonds authorized by K.S.A. 12-1740 et seq. and amendments thereto.

~~(b)~~ *(c)* "Assessed valuation of the district" means the *sum of the* assessed valuation of the taxable tangible property *and the assessed valuation of the exempt tangible property* within a district.

Sec. 2. K.S.A. 1991 Supp. 72-7054 is hereby amended to read as follows: 72-7054. (a) In November of each year, the county clerk of each county shall certify to the state board the current assessed valuation of taxable tangible property *and exempt tangible property* within each district or portion of district within the county.

(b) On or before February 1 of each year, the director of taxation shall certify to the state board the amount within each district of taxable income and the amount within each district of resident individual income tax liability after credits allowed against such tax, with the exception of credits for taxes paid to another state and credits allowed under K.S.A. 79-32,100 and 79-32,104, or amendments to such sections.

Sec. 3. K.S.A. 1991 Supp. 72-7040 and 72-7054 are hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Testimony before the House Taxation Committee
Kay Coles, Kansas NEA
HB 2845
March 18, 1992

Thank you, Madame Chair. Members of the Committee, I am Kay Coles here today representing the 24,000 members of Kansas NEA. We appreciate the opportunity to speak to you in favor of the concept contained in HB 2845.

Now that the House has acted decisively on school finance and property taxes, we believe we need to examine closely the issue of property tax abatements.

Kansas NEA has long supported giving school boards some say in whether or not property should be abated. However, school boards have not been given that opportunity.

While HB 2845 does not extend abatement authority to school boards, it does rescind the ability of cities and counties to abate property from school district property taxes. We believe this is completely appropriate now that we have established a minimum mill levy. Everyone and every business has a responsibility to help fund our public schools. Abatements tend to alleviate some businesses from that responsibility.

We do understand the incentives abatements provide. However, we feel strongly that abatements have significantly eroded the property tax base in some areas of this state.

For these reasons, we urge your support for the concept contained in HB 2845. Thank you and I would be glad to answer questions.

Telephone: (913) 232-8271 FAX: (913) 232-6012

House Taxation
Attachment 2
03-18-92

KANSAS ASSOCIATION OF SCHOOL BOARDS

5401 S. W. 7th Avenue Topeka, Kansas 66606
913-273-3600

Testimony on H.B. 2845 and H.B. 2946
before the
House Committee on Taxation

by

Patricia E. Baker
Associate Executive Director/General Counsel
Kansas Association of School Boards

March 18, 1992

Madam Chairman, Committee members, I appreciate the opportunity to appear before you in support of two bills dealing with the exemption of property from taxation.

Over the last few years we have addressed the issue of property tax abatements before the legislature. Many of the proposals were heard by the Committees on Economic Development. As a result of the positions our organization has taken, we have frequently been accused of being opposed to incentives for economic development. Nothing could be further from the truth. Economic health for the state translates directly to economic health for public schools.

What we <u>have</u> urged is that statutory tax exemptions and locally granted tax abatements be continuously viewed and reviewed with regard to their affect on school finance. Locally elected school boards, who are responsible for levying the largest share of property tax in the state, have been left out of decision-making on changing the tax base. Yet they are the very bodies most affected.

House Taxation
Attachment 3
03-18-92

More widespread attention has been focused on the issue of tax abatements and exemptions since school finance discussions have centered on a statewide minimum mill levy. We are glad that the issue has come to the forefront and urge you to carefully consider the implications of continued narrowing of the tax base. Although a statewide minimum levy puts the issue in bold relief, we think the consequences are significant even under the present school finance system. The effects under SDEA are less obvious. Abatement of taxes in one district affects state aid for others. The ripple effect may be hard to quantify but is significant statewide.

House Bills 2845 and 2946 address the question on two fronts; abatements granted by local units of government and exemptions granted pursuant to the issuance of industrial revenue bonds. Both bills make clear that support of public schools must be a shared responsibility of all in our state. Exemptions and abatements are a tax shift to taxpayers who are not eligible for favorable treatment. We ask your support for both bills.

I have attached two articles from the National School Boards Association--so you will know that Kansas is not the only state facing this dilemma. Thank you.

School Board News

FOR LOCAL GOVERNMENT OF PUBLIC EDUCATION NSBA PUBLISHED BY THE NATIONAL SCHOOL BOARDS ASSOCIATION SEPT 3 1991, VOL. 11 NO. 17

FAST REPORT

Break the mold

■Frank Blount, president of the New American Schools Development Corp., urges public schools, universities, think tanks, businesses, and other organizations to form consortia to develop designs for "new American schools."

The privately funded corporation was launched in July to further President Bush's America 2000 strategy, which calls for creation of at least 535 new "break-the-mold" schools, one in each congressional district.

Bush directed the corporation to select research and development teams to design the new innovative schools. At the corporation's first meeting Aug. 26, Blount said the corporation plans to award contracts next April to up to 30 design teams. Contracts will range from $500,000 to $3 million.

The corporation plans to issue a formal request for proposals in October, with submissions due Jan. 31.

In later years, the corporation will award some of the design teams additional contracts to test their designs and disseminate them to schools across the country.

The corporation set a fund-raising goal of at least $150 million. So far, it has raised $34 million.

SAT scores decline

■The 1991 national average score for the verbal part of the Scholastic Aptitude Test (SAT) hit an all-time low of 422, the College Board reported Aug. 26.

See *Fast Report*, p. 7

Tax breaks for Cleveland's Society Center (at right) are robbing the city's schools of $4.8 million, school leaders charge. JENNIE JONES

Tax abatements are draining revenue from local schools

Business support for schools is overshadowed by tax breaks from local government

By Erica Gordon Sorohan

Stanley Tolliver says his school system has been robbed of more than $100 million.

That's how much the Cleveland school board member estimates the schools have lost to tax abatements granted to businesses by the Cleveland City Council—a practice Tolliver terms "legal larceny."

In a suit seeking to overturn the state's school finance system, the Cleveland school board has challenged laws that give municipal officials the right to grant abatements with barely a nod to school board members.

The Cleveland public school district apparently is the first to raise this issue in a school finance suit. But others have questioned whether tax rollbacks used as an economic development tool ultimately hurt schools more than they help communities. At a minimum, some observors note, school boards need a voice in these decisions.

How much do property tax abatements save U.S. businesses annually, and how much do these breaks cost the nation's schools? No one can say for sure.

Most evidence suggesting that public schools are hurt by abatements is anecdotal.

A May 22 *New York Times* article, for instance, reports that the Corpus Christi, Texas, school system lost $900,000 in tax revenue during the past year because of exemptions. And the Wichita, Kan., school system claims local businesses saved $1.6 million in tax concessions that would have gone to schools.

Robert Reich, an economist at Harvard's John F. Kennedy School of Government, says his research shows manufacturers' share of local property tax revenue has dropped from 45 percent in 1957 to about 16 percent in 1990.

Reich attributes the decline largely to tax incentives offered by communities and states.

City and county officials de-

See *Abatements*, p. 8

School boards: Get ready for National Report Card

Congress is not likely to go along with the Administration's proposals for school choice

As the National Education Goals panel prepares to issue its first National Report Card Sept. 30, many governors are planning to issue their own state report cards and Education Secretary Lamar Alexander is campaigning throughout the nation for America 2000, the Bush Administration's strategy for meeting the education goals.

The major question now is what is Congress going to do about the goals and America 2000?

In the Senate, Labor and Human Resources Committee Chairman Sen. Edward M. Kennedy (D-Mass.) held extensive negotiations with Alexander on an omnibus bill that contains aspects of America 2000 along with Senate education initiatives.

But the negotiators were unable to reach an agreement, particularly over the Administration's insistence on parental choice. House members also are not likely to go along with the Administration's proposals on choice.

Federal funding of education also will top the education agenda when Congress returns after its August recess.

Last spring, the House approved a substantial funding increase for education programs, including a $1 billion increase for Chapter 1.

The bill approved in July by the Senate Appropriations Committee fell far short of the House bill, but there's a strong possibility the full Senate will vote for a more substantial increase when it takes up the bill in September.

Sen. Timothy E. Wirth (D-Colo.) plans to introduce an amendment on the Senate floor calling for significant increases in Chapter 1 and vocational education. NSBA and local school board leaders are urging senators to support the Wirth amendment.

Local school board leaders believe significant funding for education is needed if the national education goals are to be met.

The National Governors' Association (NGA) focused on health care at its annual meeting in Seattle in August, but new NGA chairman Gov. John Ashcroft (R-Mo.) said he will make education the organization's chief priority for the coming year. At the meeting, the National Education Goals Panel further refined what will be included in the first National Report Card.

In his first speech as chairman, Ashcroft said the governors' "primary focus for the year" should be to "convert our national goals and other state and community achievement goals into clear standards, sufficiently specific to permit every student, school, and community to internalize them as a gauge of their own performance."

To help accomplish this task, Ashcroft appointed three "action teams" on these topics: school readiness, chaired by Ohio Gov. George Voinovich (R); the school years, chaired by Wyoming Gov. Michael Sullivan (D); and the after-school years, chaired by Wisconsin Gov. Tommy Thompson (R).

Ashcroft

The action teams, consisting of governors and business leaders, will make recommendations on how to change the structure of education to speed innovation, how to establish the political will and funding incentives that reward achievement, and how to measure and report progress and hold the system accountable for results.

Ashcroft appointed South Carolina Gov. Carroll Camp-

See *Report Card*, p. 5

3-3

Tax abatements drain revenue from local schools

From ***Abatements****, p. 1*

fend the practice as necessary to attract and retain businesses in their communities. Because other localities offer tax breaks, officials say, they must offer them, too, to remain competitive.

The abatement race

"How widely are abatements used? I don't know. But I do know abatements are fairly important to businesses in deciding where to locate," says Julie Gackenbach, senior tax specialist with the U.S. Chamber of Commerce.

The benefits that flow to a community from more jobs, sales and income tax revenues, and increased real estate values more than make up for the initial loss of property taxes, business and municipal representatives say.

"Economic incentives such as abatements, if used prudently, do not injure the schools," says Joseph Marinucci, director of economic development for the city of Cleveland.

Under current circumstances, he says, "we'd be remiss if we did not continue to use them."

According to Marinucci, those circumstances include major cuts in federal funds for economic development, certain state tax laws that make Ohio less appealing to businesses than neighboring states, and hot competition from suburbs, which often offer abatements even though their property tax rates are lower than Cleveland's.

Critics say the practice only pits states and localities against each other, with the stakes spiraling ever higher. "The use of abatements has accelerated not unlike arms escalation," observes Reich.

In the mid-1980s, for example, no less than 38 states competed for a General Motors plant, with at least one state offering a package worth $1 billion in concessions.

Businesses routinely shop around for the best tax deal. "From the standpoint of the nation as a whole, this means far less corporate property taxes flowing to public education than would otherwise be the case," Reich says. He favors a federal policy prohibiting the use of tax rollbacks as an enticement for business.

Businesses maintain they need abatements to compete in the global marketplace. Even if every locality and state stopped offering incentives, business representatives point out, other countries would continue to woo U.S. companies to locate within their borders.

"My gut says eliminating incentives would exacerbate the flight of American business overseas," Gackenbach notes.

She maintains, "The only impetus to get rid of abatements is coming from teachers unions and education groups; most communities realize they are better off" when abatements attract businesses.

Abatements "are not for ever and ever," Gackenbach adds: When the term of an abatement runs out, schools enjoy the full benefits of a richer tax base.

"If that's what happens, terrific," says Kent McGuire, program director of education for the Lilly Endowment in Indianapolis.

"But I've seen companies come in, negotiate very long-term abatements, then close up and leave," McGuire says. "How to guarantee that doesn't happen, I don't know."

Hypocrisy and hoopla

It strikes some observors as hypocritical that while corporate leaders are calling for extensive—and expensive—school reforms, their companies are quietly reaping profits from tax breaks that cost schools dearly.

"Many business leaders haven't quite made the link between their decisions in interests of profitability and their posture in terms of being positive members of the education community," says McGuire.

Business representatives counter that businesses support schools in other ways.

"Look at the level of corporate contributions to schools in dollars, individuals, and time," Gackenbach says. "I think when all is said and done, abatements are in the best interests of schools and communities."

Business support for schools is both important and welcome, say school representatives, but policymakers might need to evaluate whether abatements ultimately hurt or help schools and communities.

No accurate statistics are available about business donations to schools or business tax breaks, but school finance specialists say they doubt any business gives as much to schools as it saves from a tax break. More typically, they say, a new business strains a school system by adding students.

And Harvard's Reich contends that despite the "hoopla" over school-business partnerships, the rate of corporate support for education declined during the 1980s. Moreover, says Reich, most corporate funds don't flow to public elementary and secondary schools but to private schools and higher education.

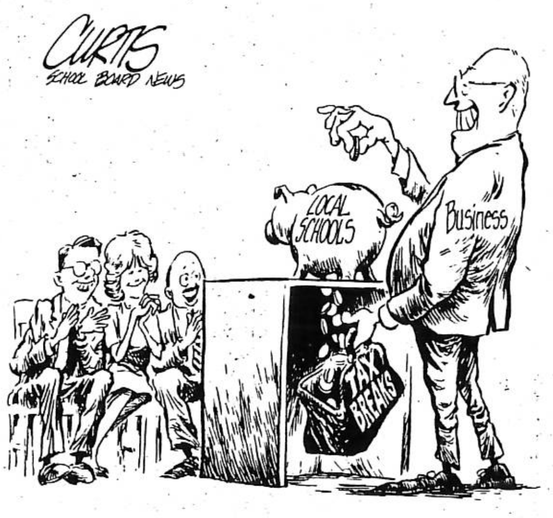
More data needed

Many local school board members might not consider how abatements affect their budgets, but they should, experts say.

"If I'm a school board person, I want to know how to assess the aggregate impact of policies that reduce my tax base," says McGuire. "What's difficult is to predict far into the future what the size and impact of abatements will be."

NSBA this fall will survey local school boards to assess the impact abatements have on school budgets. NSBA also will survey state school boards associations about whether and how their states regulate the use of tax breaks to attract business.

"This is not an anti-business thing," stresses NSBA Associate Executive Director Michael Resnick. Businesses have shown they are willing to work with the public schools on a "variety of fronts." But he adds, "one fundamental responsibility is to pay the taxes necessary to finance the enterprise."



Links to state funding

States might start scrutinizing tax abatements because of worsening problems in school finance, some observors suggest. Many states are having trouble funding their public schools, and more than half face lawsuits that seek to overturn their school finance systems.

Gackenbach disputes any connection between tax incentives for businesses and school financing. "States may need to look at another way to fund schools—that's a whole other debate," she says.

"That's unrealistic," counters John Augenblick, a Denver attorney and expert on public school finance. "There aren't that many sources of revenue for schools—how high can you push sales and income taxes?"

In Ohio, the Cleveland school board, along with the system's administrators, teachers, and parents, has filed a lawsuit to overturn the state's system of school finance. Among its claims, the suit says state laws allowing municipalities to offer abatements contribute to inequities among school systems.

Timothy Armstrong, an attorney representing the school system estimates tax concessions granted by the city council have taken $1 billion out of the school system's property tax base.

"Our city council never saw an abatement it didn't like," Armstrong says, noting that state law does not give school boards any voice in municipal decisions to grant tax rollbacks.

He cites as one example the Society Center, a multi-use development that includes a hotel and a 55-story office building. At a 2.1 percent tax rate, the $400 million complex would generate $8 million in property taxes. But the city of Cleveland has given the developers a 100 percent abatement, so the entire $8 million—including the district's $4.8 million share—is lost.

Cleveland's Marinucci confirms those figures but says the school system's analysis fails to consider whether the project would have gone through without the abatements. "If not, the community as a whole suffers, and then the schools suffer."

Also, he adds, state aid will compensate the schools for about half the lost revenue.

Tightening loopholes

But state legislatures, struggling with their own diminishing resources, might not be willing to shoulder that burden much longer.

According to McGuire, as legislators try to devise more equitable funding systems, among the factors they'll look at is the ability of communities to raise funds locally for schools and policies that might impair that ability.

In Minnesota, the legislature has tightened laws governing localities' use of "tax increment financing," which was draining both local and state school funding sources.

The financing relies on low-interest bonds issued by a city or county. Property taxes assessed on businesses financed through the bonds are used to subsidize the costs of the development, instead of flowing into the general treasury.

Schools lost access to these local property taxes, and the state wound up paying more in school aid to compensate.

In 1988, the state legislature required local governments, under certain circumstances, to make up to school systems some of the local tax dollars they lose to the bonds. Also, cities and counties that provide incentive financing see the extra costs for school aid incurred by the state deducted from their own state aid packages.

A federal role?

As long as some jurisdictions play the abatement game, every other jurisdiction is forced to play, too, says Reich. That's why "ultimately, the federal government must preempt states and communities from getting into the game of competitive bidding for companies," he says.

Another option, Reich suggests, would be for states and communities to enter into so-called treaties in which all parties stop the practice.

The nation's governors plan to assess whether businesses are playing states off against each other to garner lucrative tax deals, reports Jay Kayne, a policy analyst for the National Governors' Association.

But governors would adamantly oppose any attempt by the federal government to preempt their authority to offer businesses tax incentives, Kayne stresses.

"The costs of doing business vary from region to region, from state to state," he explains, and states must have the flexibility to compensate for those differences.

School boards might have legitimate gripes, if their states' laws exclude them from decisions about tax breaks, Kayne says, even though the U.S. Supreme Court has upheld these laws.

Texas' solution

That ruling resulted from a case filed in Texas by the El Paso School District against El Paso County, says Kayne, who, at the time, served as deputy director of the state's Economic Development Agency.

Despite the high court's decision, the agency worked with the state legislature to change the law to protect Texas school boards' ability to raise funds locally.

The amended law requires Texas municipalities to establish guidelines for abatements through a public hearing process in which school officials can participate.

The law allows school boards to opt out of any deal, Kayne says. "Without participation by schools, the value of an abatement is considerably lessened," he notes, which strongly motivates localities to strike deals the schools can live with.

"In the long-run," he says, "especially with the quality of education as important as anything else to a business, it's worth making an investment in the schools through property taxes."

3-4

Metzenbaum uges federal curbs on tax abatements

Incentives to businesses take money out of school board pockets

Sen. Howard Metzenbaum (D-Ohio) blasted business leaders who "pontificate and boast about their commitment to public education" and then "pull the tax base out from under local public schools."

"It's ironic," Metzenbaum told the audience at NSBA's Federal Relations Network (FRN) conference Feb. 3 that it's the "American business leaders who decry the state of American public education" who also seek tax abatements from local governments in return for agreeing to locate a plant in a community.

Metzenbaum says this practice has had a "horrendous" impact on local school systems.

For example, he cited a report that Cleveland lost $100 million in tax revenue. St. Louis lost $17 million, 13 percent of its budget, to tax abatements. And to attract a United Airlines maintenance facility to Indianapolis, he says, the state and local government gave the company $364 million in tax subsidies. (NSBA surveyed local school systems on tax abatements and is drafting a report based on the findings.)

Metzenbaum

Of the $2 billion that business invested in education, only $260 million went to K-12 education, Metzenbaum says. "Business took far more out of your schools than it ever gave back."

Tax abatements just pit one community and state against another, he charges. "There is no evidence these tax breaks do any good in terms of job creation," Metzenbaum told the FRN members.

Metzenbaum had introduced a bill to force states to require that abatements not come out of school district funds or risk losing federal economic development funds.

Lacking the votes for Senate passage, he withdrew the bill and instead proposed a measure—which the Senate passed—calling for the U.S. General Accounting Office to carry out a study on the extent to which tax abatements reduce education funding.

The impact on schools is "horrendous."

Metzenbaum urged the FRN members to tell local government leaders and members of Congress to "get off your butts" and do something, because "tax abatements have gotten out of hand." ■

COMMENTS IN BEHALF OF PANHANDLE EASTERN CORPORATION

Re: House Bill 2845

By Jack Glaves

March 18, 1992

Panhandle Eastern Corporation's subsidiary, National Helium, operates a large helium extraction facility near Liberal that was recently reconstructed to produce 20% of the world's helium supply. A tax abatement application has been on file with the Seward County Commission since last year, but an issue has been raised (over the relationship of new employment by the operator versus the owner of the subject facilities) as to whether the facility qualifies for an abatement. An Attorney General's Opinion has been requested and we are concerned as to whether it can be obtained and action taken prior to the effective date of the Bill.

Accordingly, we urge amendment of the Bill by inserting "or applied for" after the word "granted" on line 23, and by changing the effective date from "statute book" to "Kansas Register" on line 26.

We believe this would avoid the retroactive affect on this particular project and would not invite applications that could be filed to avoid the restriction of the Bill.

House Taxation
Attachment 4
03-18-92

TESTIMONY ON SEDGWICK COUNTY ECONOMY AND USE OF TAX EXEMPTIONS
HOUSE TAXATION COMMITTEE
CARLENE HILL FORREST
CENTER FOR ECONOMIC DEVELOPMENT AND BUSINESS RESEARCH
THE WICHITA STATE UNIVERSITY
MARCH 18, 1992

Members of the committee, I'm Carlene Hill Forrest, Director of the Center for Economic Development and Business Research at the Wichita State University. I appreciate this opportunity to appear today.

I want to start out by reviewing the magnitude of Sedgwick County's contribution to the State's economy. By almost any measure you consider, one county out of the 105 counties contributes almost 1/5th of the state total. The only other county that comes close is Johnson County. The two counties together account for about 40 percent of the state's sales and 45 percent of the state's income tax revenues.

Sedgwick County alone accounts for 32 percent of the manufacturing jobs and 38 percent of all dollars earned in manufacturing jobs.

The portion of the state's manufacturing industry based in Sedgwick County is important. Without a strong manufacturing sector the Kansas economy cannot continue to grow and prosper. The only way the overall size of our economy can grow is by adding value to products for export. We estimate that every dollar earned in a manufacturing job generates $2.00 statewide.

We are fortunate in Kansas to be a center for aircraft production, an industry in which the United States is still the world leader.

Kansas is often thought of as an agricultural state, but you may be surprised to see how we compare in terms of manufacturing to the rest of the nation. Thirteen percent of all jobs in Kansas are manufacturing jobs. Nationwide, 15 percent of all jobs are manufacturing jobs, a proportion that has been steadily declining over the past 20 years. However, in Sedgwick County the share of jobs in manufacturing is fairly stable, at 22 percent.

The picture is even more dramatic if we look at earnings from manufacturing. Manufacturing jobs account for 19 percent of the earnings in Kansas, just one percentage point below the national average of 20 percent. In Sedgwick County, $34 out of every $100 is earned at a manufacturing job.

House Taxation
Attachment 5
03-18-92

In fact, in Sedgwick County, a higher proportion of jobs are manufacturing jobs than in Michigan, a state once a world leader in the production of automobiles.

If we look at earnings, Kansans earn a higher percentage of their dollars from manufacturing than Californians.

The most important point is the general trend of decline in these states and the nation as a whole, in contrast to the stable manufacturing base in Sedgwick County. In the face of global competition, this strong manufacturing base is not a given. Asia and European counties have stated objectives to develop their own aerospace industries.

Second, it's important to note that the strength of the state's manufacturing base is in Sedgwick County. One out of three of the states manufacturing jobs is in Sedgwick County.

While 13% of the jobs in Kansas are manufacturing jobs, 19% of the earnings are from manufacturing. This is because manufacturing jobs tend to be higher paying jobs. The average annual income per job across all industries in Kansas is $19,629. In manufacturing jobs the average is $29,171. The average income per job in the Service sector is $18,527, 64 percent that of a manufacturing job.

In Sedgwick County, the average annual income for a manufacturing job is $35,218, primarily due to the highly skilled nature of the work required to produce aircraft.

What does it mean for the state to have a county in which manufacturing growth exceeds national averages? We asked the question, "What if the number of manufacturing jobs in Sedgwick County had grown at the same pace as the national average?"

Between 1986 and 1989 the number of manufacturing jobs in the United States increased by 2%. In Sedgwick County during those same four years, the number of manufacturing jobs increased 9% - from 54,222 to almost 59,000. If we had just matched the national trend, we would have added 3,448 fewer jobs during those years.

Those fewer jobs would have meant $121,425,724 less earnings in Sedgwick County and $242,851,448 in lost personal income statewide. Based on our estimate that 8.08 percent of all earnings go to state and local revenue, the total loss to the state would have been $19.6 million. This estimate does not include corporate tax revenues that would have been lowered.

One of the common misconceptions that we hear is that the business growth in Sedgwick County is at the expense of other areas of the state. The data shown earlier is based on "Earnings by Place of Work." It shows the jobs and earnings in the county where people work, rather than where they live.

We can gain some insight into how much people in other areas of the state depend on Sedgwick County directly by studying an adjustment called the "Earnings Residential Adjustment". It shows the net inflow and outflow of a county or state based on people traveling back and forth to work.

In 1989, people living outside of Sedgwick County drove home from their jobs inside Sedgwick County with paychecks amounting to more than $507 million. In Johnson County the opposite situation exists. That is, people drove home to Johnson County from jobs in other counties with paychecks amounting to $1.4 billion.

We can't say exactly where the money goes to in the Sedgwick County case or comes from in the Johnson County case, but we can look at the State as a whole and the Kansas City Metropolitan area and get some ideas. Kansas had an inflow of earnings from jobs in other states equalling 2.5 percent of all personal income. Missouri had an outflow of $2.5 billion.

This is not necessarily all good or all bad, but it does remind one of how thin state lines are. While we benefit from the personal wealth generated by jobs in Missouri, we cannot capture any portion of the corporate wealth generated outside our state.

What is different about Sedgwick County? More specifically, where has the growth in Sedgwick County been concentrated? We looked at City of Wichita records on all firms who have received tax abatements under the Kansas constitutional authority since its implementation in 1987.

The jobs growth is shown below.

Year	No. of Firms	No. of Employees In Year of Exemption	No. Employees In 1991
1987	9	630	886
1988	1	30	33
1989	12	674	847
1990	5	208	320
Total	27	1,542	2,086
Net Increase			544

Average Annual Growth Jobs = 20%.

Using an average annual income for those jobs of $18,000, based on company reports, the net increase to the State's personal income was almost $20 million, resulting in a gain in state and local revenue of $1.6 million. Again this does not include any corporate income taxes.

It is interesting to note the average size of these companies at the time of their requests was 57 employees. All of the companies were manufacturing plants.

We also looked at companies receiving IRB's through the City of Wichita. Among the 37 companies for which we could obtain data, there was a net increase of 10,562 jobs between 1971-1991. This translates to an average annual growth rate of 11 percent. (Total impact is more difficult to estimate because not all of the companies receiving IRB's were manufacturing plants.)

One of the common misconceptions about tax abatements is that property is taken off of the tax roles when abatements are granted. Tax exemptions apply only to the new property and only for a limited amount of time. Existing property is not taken off the tax roles. The new property is added to the tax base once the exemption expires.

Based on City of Wichita records, we estimate that by 1994, $377 million new taxable property will have been added to the City tax roles as a result of investments in real estate and machinery financed in prior years by IRB's.

In summary, Sedgwick County makes significant contributions to the state's wealth in many ways. The most important contribution is probably the strong manufacturing base, which provides highly paid jobs not only for Sedgwick County residents, but for people living in rural areas surrounding the county. This manufacturing base leads to exports and thus increases the state's wealth.

But the only way this can continue is if Sedgwick County manufacturing companies continue to modernize, train their workers, and increase productivity. If the United States had increased its productivity growth rate by just 1/2 of one percent during the last 20 years, its been estimated our Gross Domestic Product would have been $600 billion more in 1991, enough cover the defense budget twice.

The same rules apply in Sedgwick County and in Kansas.

Thank you for your time today.

SEDGWICK COUNTY PERCENT CONTRIBUTIONS TO THE KANSAS ECONOMY

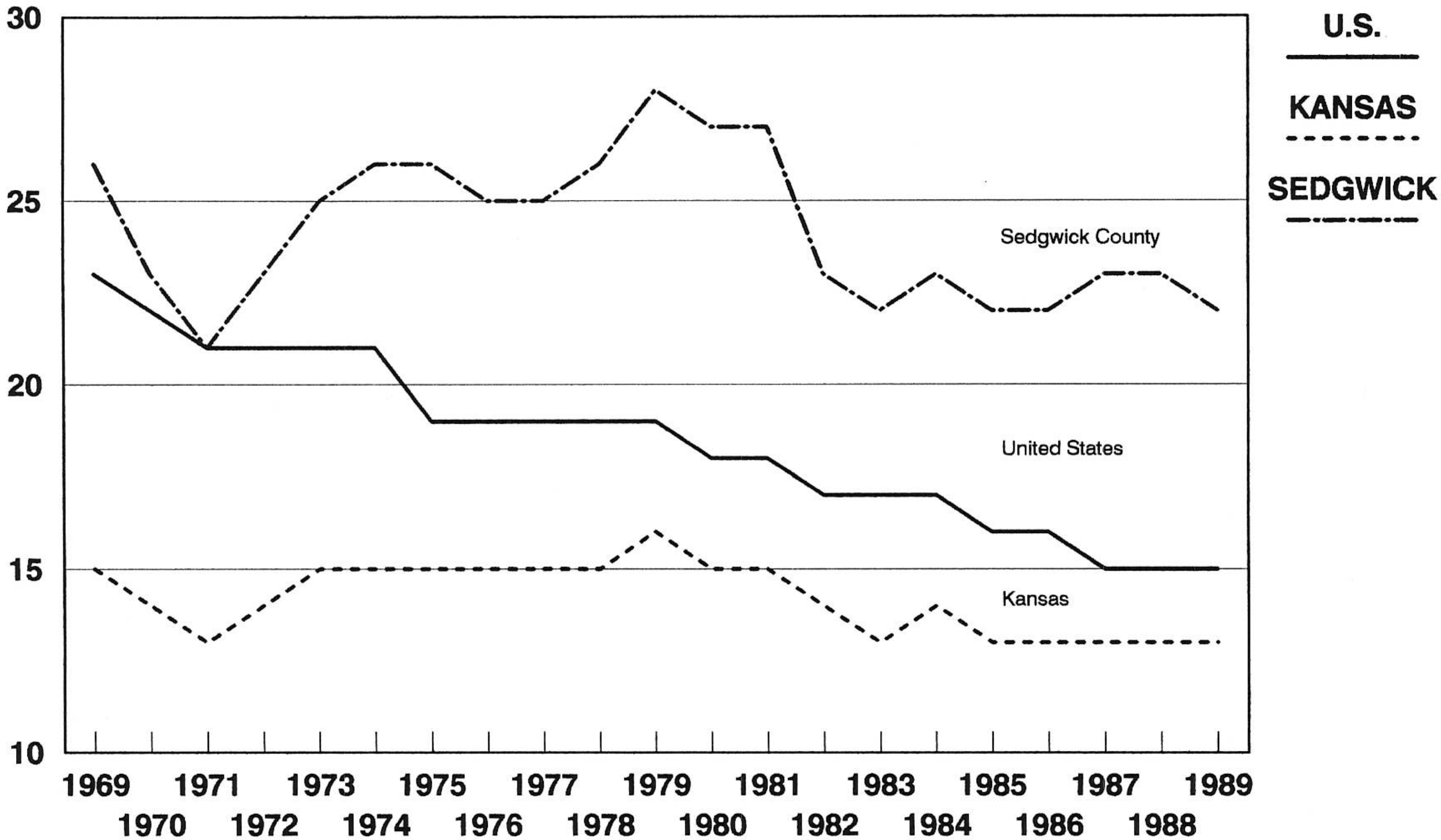
- 19% OF STATE'S TOTAL RETAIL SALES
- 20% OF TOTAL STATE INCOME TAX LIABILITIES
- 17% OF TOTAL STATE PERSONAL INCOME
- 18% OF ALL THE STATE'S JOBS
- 21% OF ALL EARNINGS
- 32% OF ALL MANUFACTURING JOBS
- 38% OF ALL MANUFACTURING EARNINGS

Compiled by The Center for Economic Development and Business Research, WSU.

5-6

MANUFACTURING EMPLOYMENT

AS A PERCENTAGE OF TOTAL

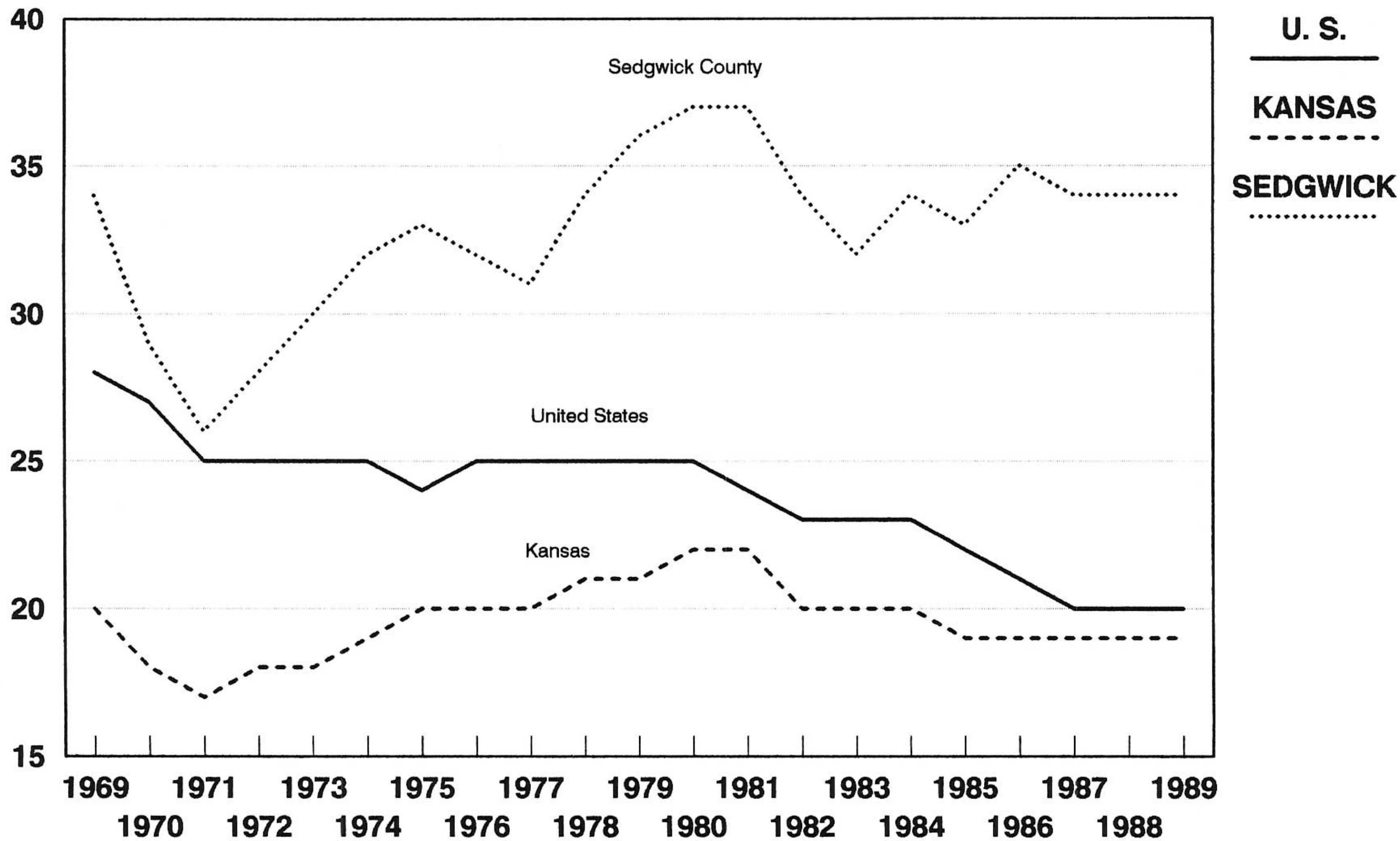


Source: U. S. Department of Commerce, Bureau of Economic Analysis.

Compiled by The Center for Economic Development and Business Research, WSU.

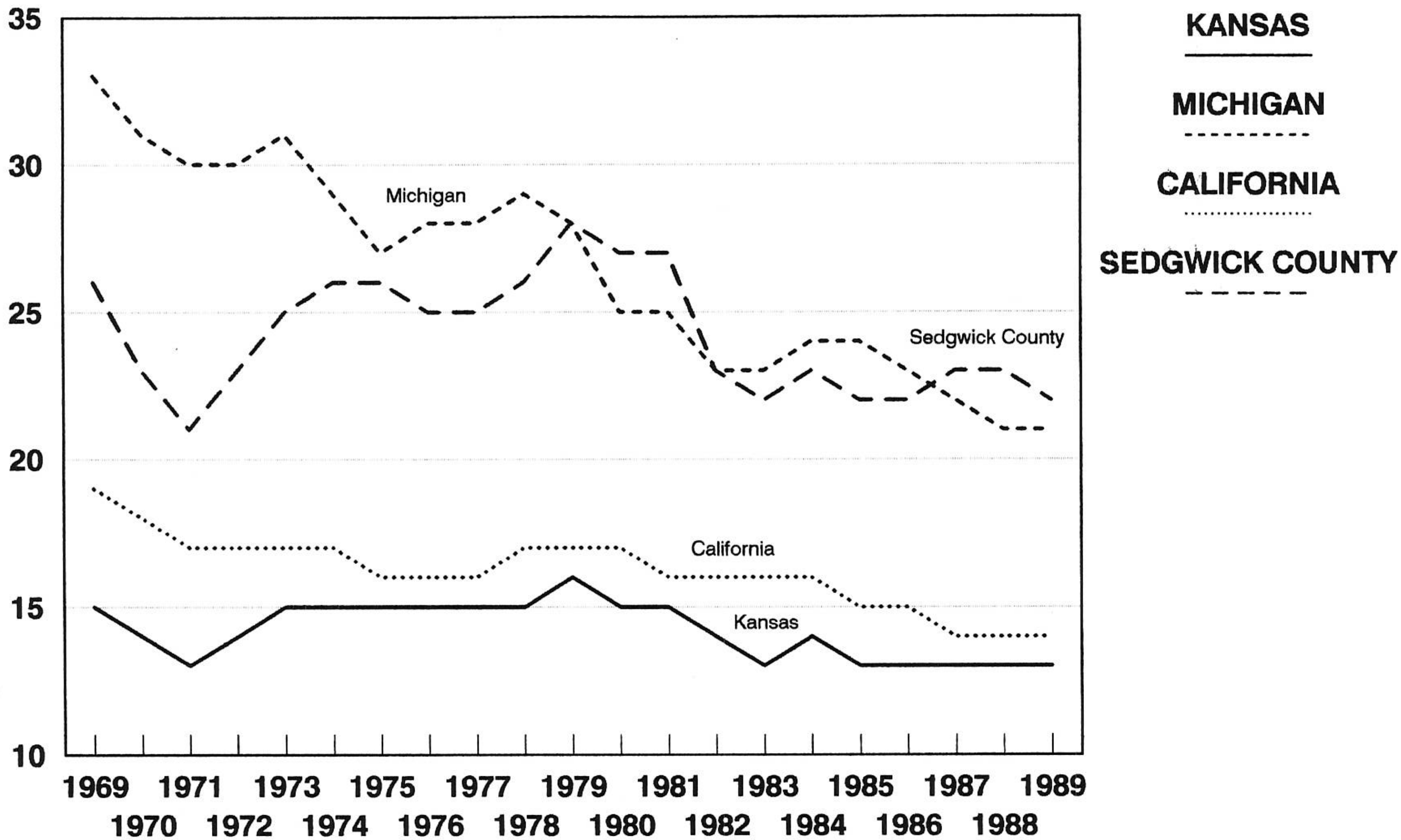
5-7

MANUFACTURING EARNINGS
AS A PERCENTAGE OF TOTAL EARNINGS BY PLACE OF WORK



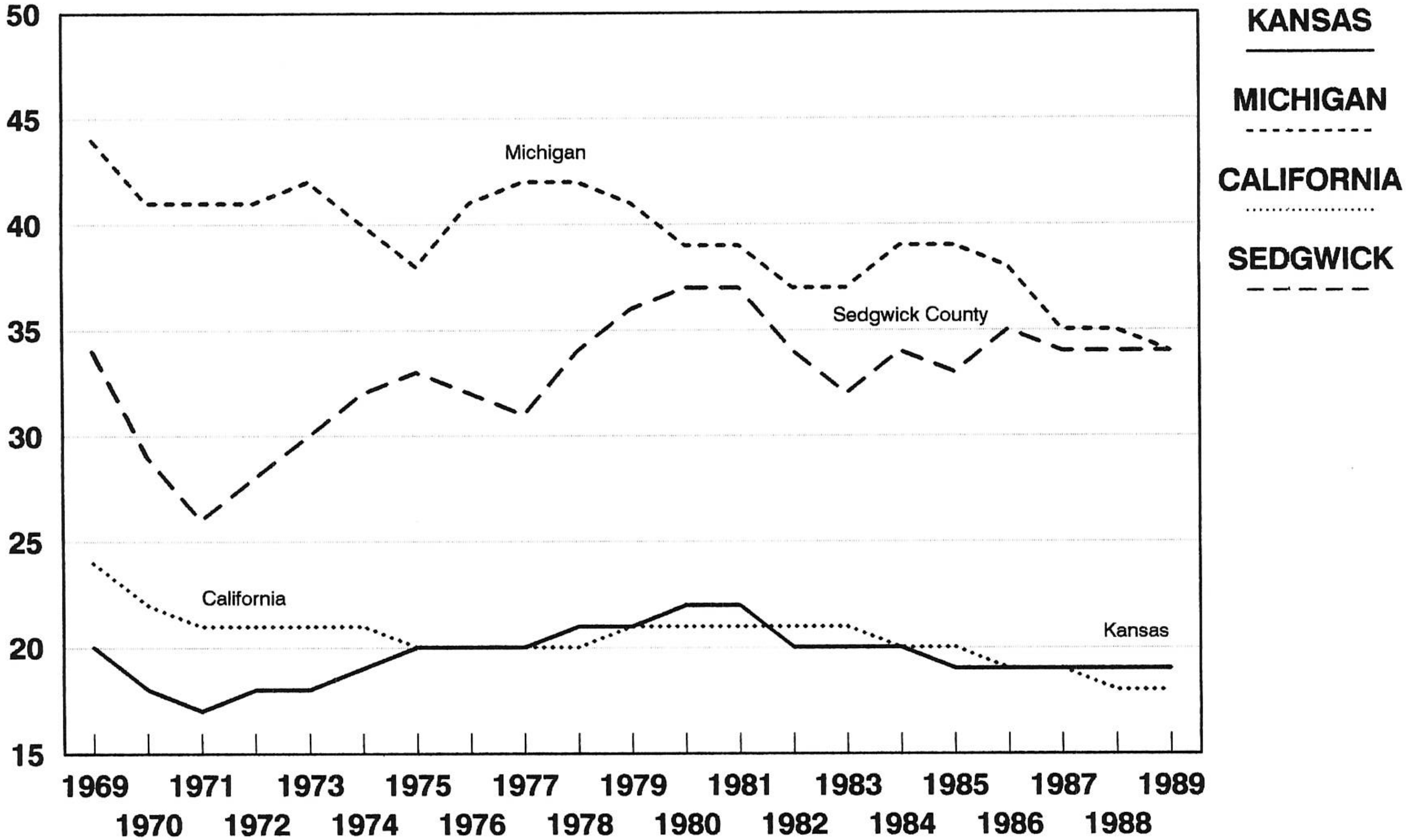
Source: U. S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research, WSU.

MANUFACTURING EMPLOYMENT AS A PERCENTAGE OF TOTAL



Source: U. S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research, WSU.

MANUFACTURING EARNINGS
AS A PERCENTAGE OF TOTAL EARNINGS BY PLACE OF WORK

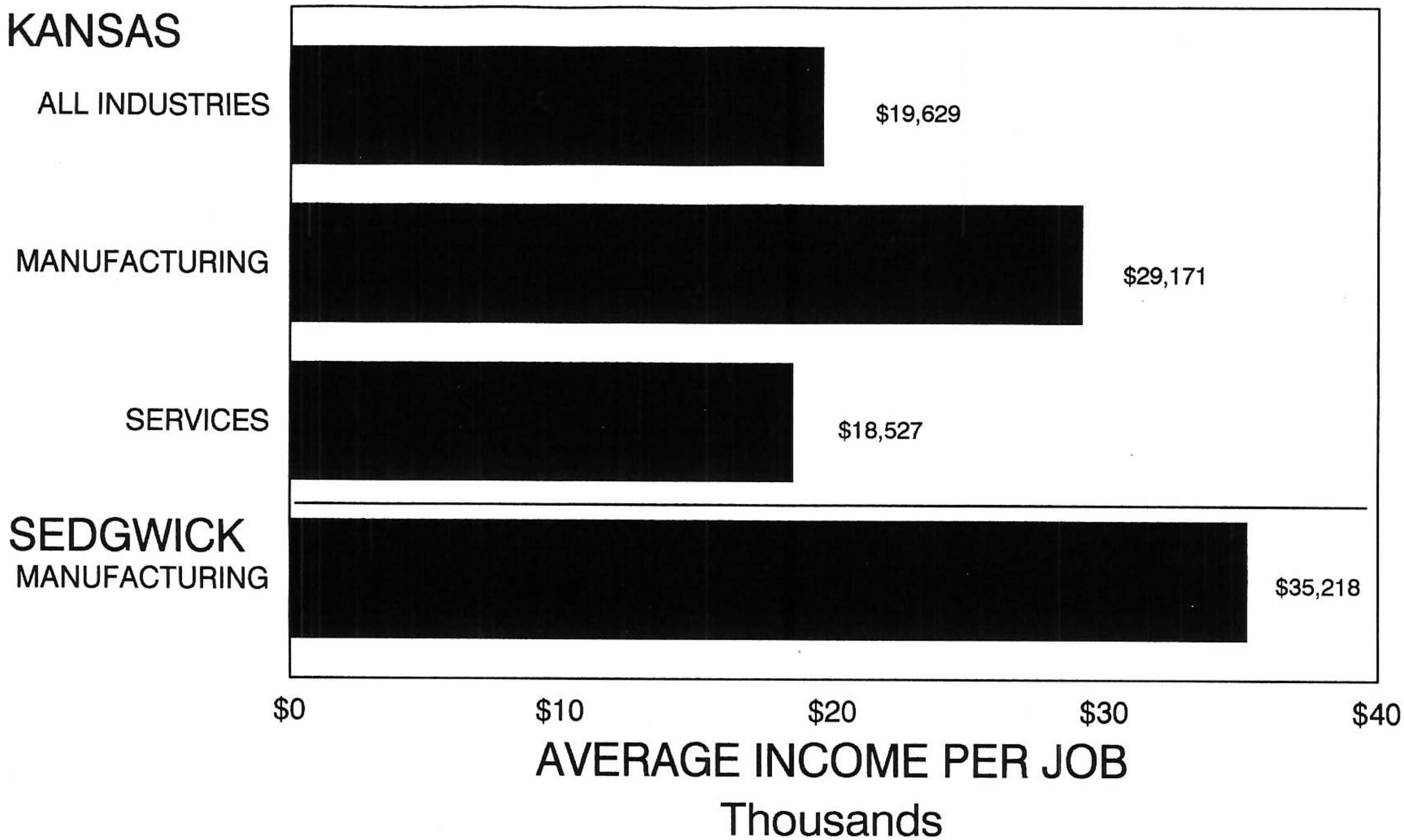


Source: U. S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research.

5-9

5-10

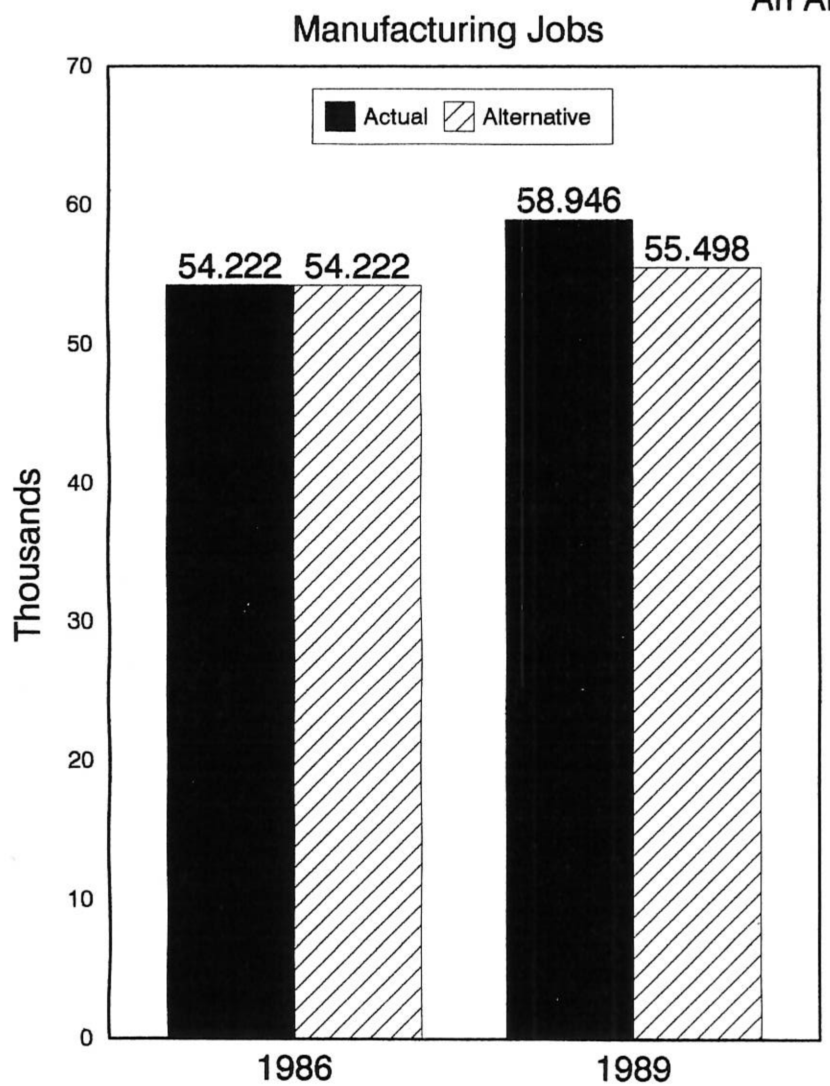
AVERAGE INCOME PER JOB BY INDUSTRY
1989



Source: U. S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research.

SEDGWICK COUNTY MANUFACTURING GROWTH

An Alternative Scenario

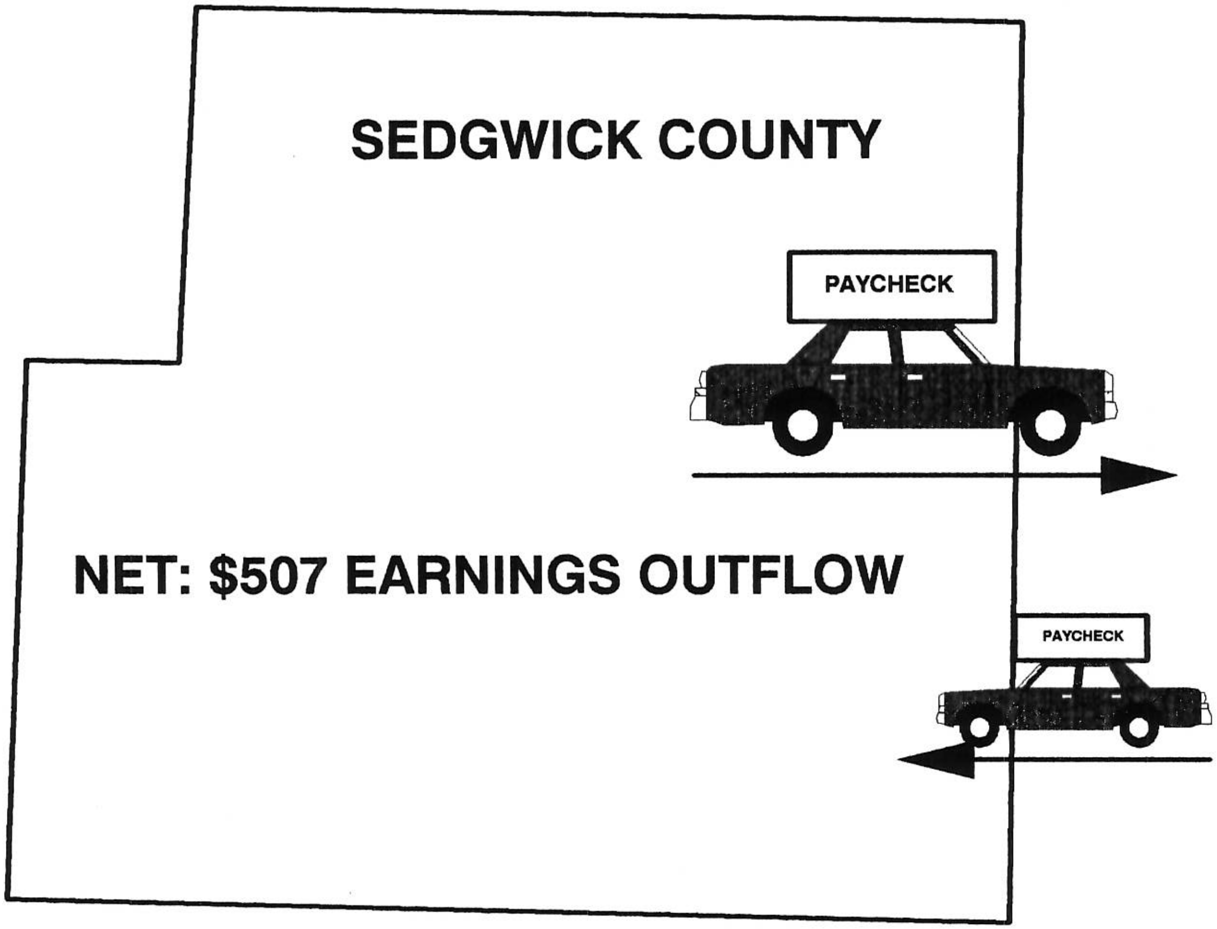


Source: Employment Data, U. S. Dept. of Commerce, BEA., Compiled by CEDBR, WSU.

- U.S. GROWTH 1986-1989, 2 %
- SEDGWICK COUNTY 1986-1989, 9 %
- IF OUR GROWTH MIRRORED THAT OF U.S.
  - 3,448 FEWER JOBS IN MANUFACTURING
  - $35,218 AVERAGE EARNINGS EACH
  - $121,425,724 LESS INCOME IN COUNTY
  - $242,851,448 LOST PERSONAL INCOME STATEWIDE
  - $19,622,397 LOST STATE AND LOCAL REVENUE (DOES NOT INCLUDE BUSINESS TAX REVENUES.)

5-12

EARNINGS RESIDENTIAL ADJUSTMENTS
INCOME INFLOWS AND OUTFLOWS



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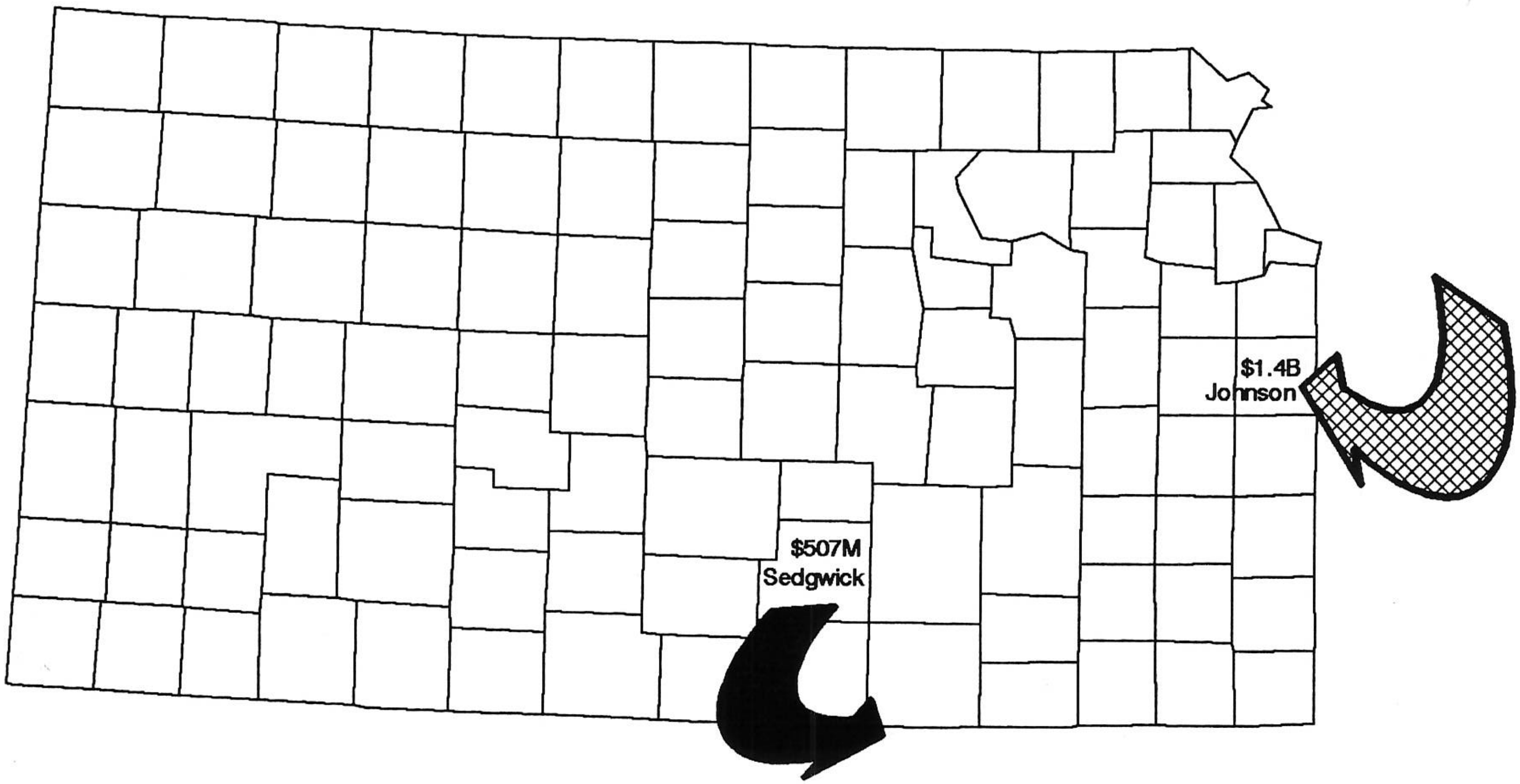
EARNINGS RESIDENTIAL ADJUSTMENTS

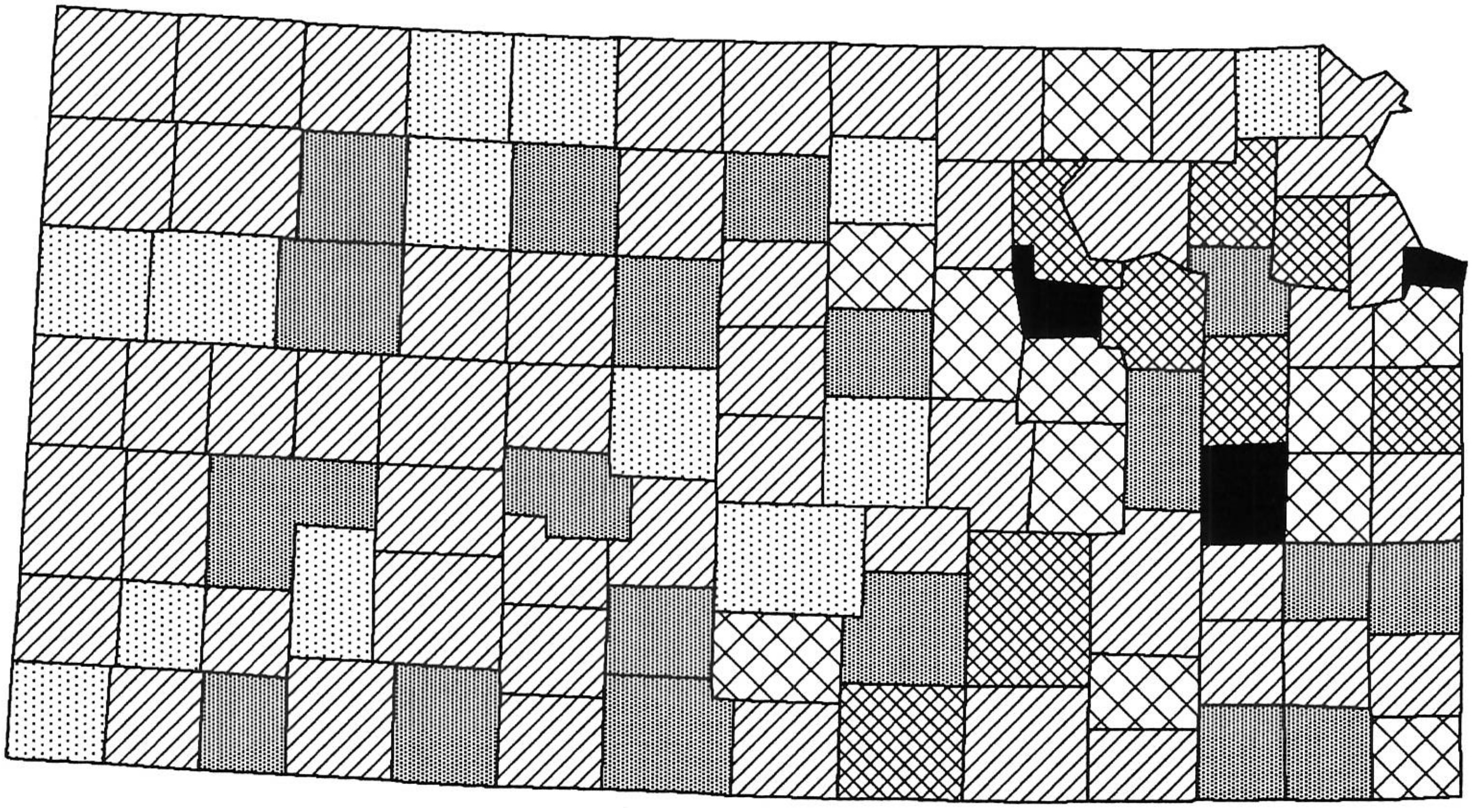
INFLOWS AND OUTFLOWS



Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research, WSU.

5-14

Value of Residential Adjustment, 1989
Percentage of County Total Personal Income

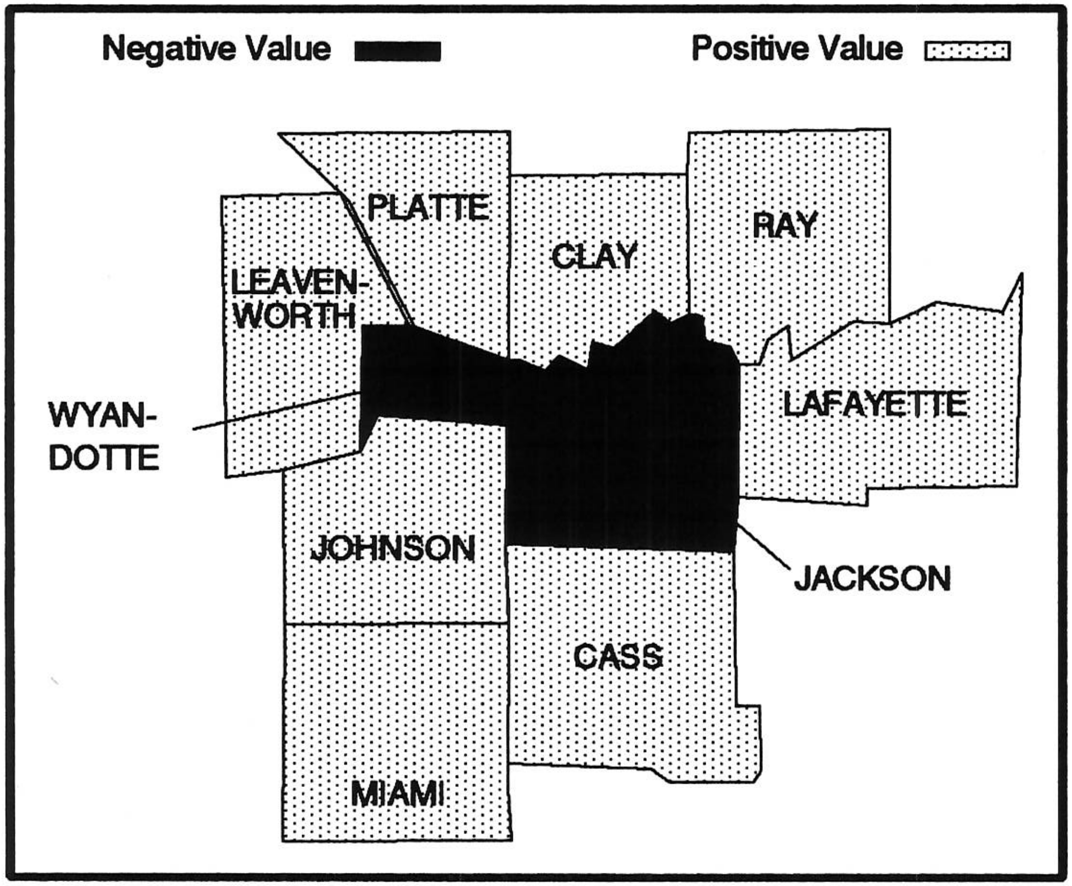


Negative Value		Positive Value	
(solid black)	Greater Than 10.0%	(dense crosshatch)	Greater Than 20.0%
(dense dots)	1.0% - 10.0%	(crosshatch)	10.0% - 20.0%
(light dots)	Less Than 1.0%	(diagonal lines)	Less Than 10.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center for Economic Development and Business Research, WSU.

5-15

Value of Residential Adjustment, 1989 In Thousands
Percentage of County Total Personal Income
Kansas City, MO-KS Metropolitan Statistical Area



	Residential Adjustment 1989	Percentage of Total Personal Income, 1989
Kansas	1,046,718	2.5
Johnson	1,363,895	16.2
Leavenworth	59,752	6.8
Miami	88,324	25.9
Wyandotte	(585,873)	(26.6)
Missouri	(2,523,305)	(3.0)
Cass	471,582	47.2
Clay	448,581	16.4
Jackson	(2,546,753)	(22.8)
Lafayette	118,233	24.4
Platte	93,455	8.8
Ray	147,228	44.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Compiled by The Center For Economic Development and Business Research, WSU.

PERSONAL INCOME FOR KANSAS COUNTIES, 1989
IN THOUSANDS OF NOMINAL DOLLARS

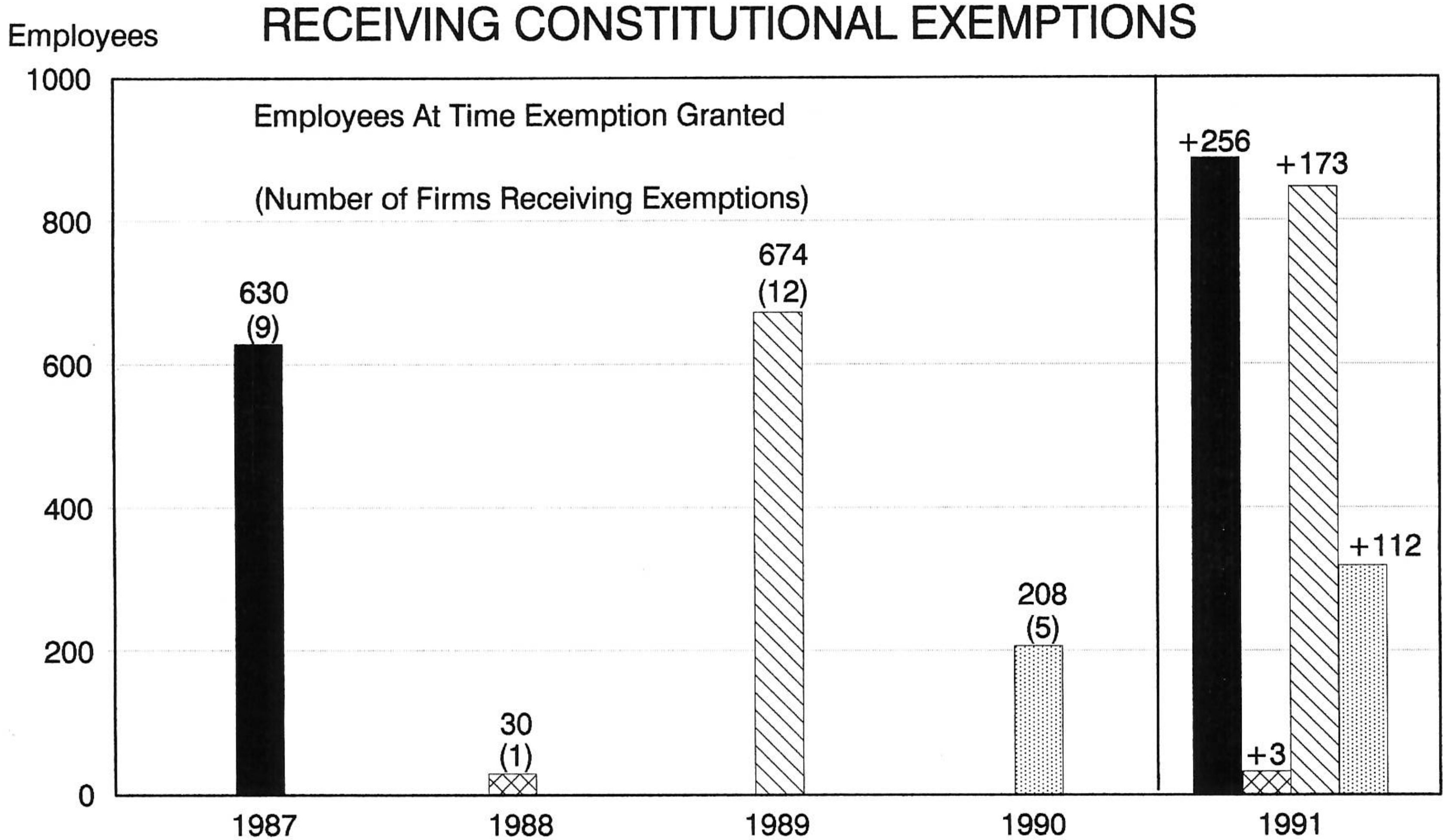
COUNTY	TOTAL PERSONAL INCOME	RESIDENCE ADJUSTMENT		COUNTY	TOTAL PERSONAL INCOME	RESIDENCE ADJUSTMENT		COUNTY	TOTAL PERSONAL INCOME	RESIDENCE ADJUSTMENT	
		LEVEL	% OF TPI			LEVEL	% OF TPI			LEVEL	% OF TPI
Johnson	8,396,960	1,363,895	16.2	Woodson	54,753	4,008	7.3	Wallace	30,591	(63)	-0.2
Butler	827,459	260,194	31.4	Harper	121,825	3,778	3.1	Gray	82,120	(168)	-0.2
Riley	844,943	191,371	22.6	Kearny	69,757	3,624	5.2	Graham	52,101	(191)	-0.4
Sumner	402,291	114,302	28.4	Jewell	58,191	2,658	4.6	Morton	54,714	(281)	-0.5
Jefferson	233,136	93,795	40.2	Ford	439,012	2,577	0.6	Logan	49,170	(331)	-0.7
Miami	341,607	88,324	25.9	Stevens	115,772	2,424	2.1	Norton	88,274	(396)	-0.4
Osage	217,196	69,955	32.2	Stanton	48,925	2,406	4.9	Sheridan	45,702	(444)	-1.0
Douglas	1,086,599	61,966	5.7	Lincoln	49,156	2,225	4.5	Cloud	157,963	(601)	-0.4
Leavenworth	874,878	59,752	6.8	Linn	110,734	2,094	1.9	Phillips	104,373	(609)	-0.6
Franklin	311,956	55,459	17.8	Rush	58,715	2,045	3.5	McPherson	180,456	(615)	-0.3
Jackson	160,813	54,775	34.1	Stafford	90,518	1,941	2.1	Brown	161,422	(636)	-0.4
Dickinson	284,981	37,522	13.2	Hodgeman	31,025	1,726	5.6	Gove	59,799	(672)	-1.1
Cherokee	268,205	35,374	13.2	Osborne	74,316	1,650	2.2	Clark	46,744	(891)	-1.9
Wabaunsee	89,806	28,078	31.3	Ellsworth	89,956	1,532	1.7	Grant	136,162	(1,212)	-0.9
Harvey	457,768	23,166	5.1	Chautauqua	56,645	1,481	2.6	Pratt	161,261	(1,605)	-1.0
Marshall	181,482	21,356	11.8	Decatur	86,524	1,459	1.7	Rooks	84,299	(2,003)	-2.4
Pottawatomie	226,875	20,361	9.0	Neosho	250,547	1,412	0.6	Barber	101,049	(2,088)	-2.1
Anderson	113,302	16,588	14.6	Smith	76,774	1,388	1.8	Allen	200,568	(2,804)	-1.4
Crawford	530,458	16,262	3.1	Sherman	111,195	1,016	0.9	Pawnee	125,378	(3,324)	-2.7
Cowley	559,237	15,198	2.7	Nemaha	159,200	1,012	0.6	Bourbon	218,928	(3,528)	-1.6
Marion	442,083	13,221	3.0	Ness	75,412	1,002	1.3	Russell	130,596	(3,609)	-2.8
Kingman	116,711	11,975	10.3	Edwards	68,418	979	1.4	Mitchell	101,364	(4,156)	-4.1
Atchison	237,651	10,806	4.5	Haskell	70,299	959	1.4	Barton	472,890	(4,418)	-0.9
Morris	82,193	10,343	12.6	Lane	41,181	942	2.3	Reno	956,761	(5,752)	-0.6
Ellis	386,337	9,421	2.4	Greeley	40,791	815	2.0	Lyon	507,045	(7,245)	-1.4
Ottawa	70,491	9,177	13.0	Trego	56,582	718	1.3	Labette	354,481	(8,885)	-2.5
Chase	49,317	8,279	16.8	Kiowa	62,954	701	1.1	Finney	469,818	(9,260)	-2.0
Clay	131,940	7,950	6.0	Scott	90,857	675	0.7	Saline	850,313	(12,982)	-1.5
Greenwood	115,108	7,793	6.8	Comanche	37,189	508	1.4	Montgomery	554,689	(16,952)	-3.1
Wilson	146,603	6,426	4.4	Republic	102,168	498	0.5	Coffey	127,941	(22,589)	-17.7
Elk	50,541	5,723	11.3	Rawlins	53,625	466	0.9	Seward	289,898	(23,509)	-8.1
Washington	95,172	5,174	5.4	Wichita	57,229	276	0.5	Shawnee	2,977,494	(238,632)	-8.0
Rice	154,484	4,844	3.1	Thomas	139,133	265	0.2	Geary	347,041	(278,890)	-80.4
Doniphan	105,206	4,437	4.2	Cheyenne	54,694	177	0.3	Sedgwick	7,215,287	(507,315)	-7.0
Meade	67,872	4,384	6.5	Hamilton	49,668	164	0.3	Wyandotte	2,199,151	(585,873)	-26.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Table CA5, Data on Disk.

Compiled by The Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University.

5-17

EMPLOYMENT GROWTH AMONG FIRMS RECEIVING CONSTITUTIONAL EXEMPTIONS



Source: City of Wichita Reports
Compiled by CEDBR, WSU, March, 1992.

TOTAL 544 NEW JOBS
AVERAGE AGR 20%

5-18

EARNINGS FROM JOB INCREASES

- **544 NEW JOBS AT PLANTS RECEIVING EXEMPTIONS UNDER CONSTITUTION**
- **AVERAGE ANNUAL INCOME $18,000 (Firm Reports)**
- **544 X $18,000 = $9,792,000**
- **$9,792,000 X 2 = $19,584,000 (Multiplier Effect)**
- **$19,584,000 X 8.08% = $1,582,387 STATE AND LOCAL REVENUE IN ONE YEAR (DOES NOT INCLUDE ANY CORPORATE TAXES.)**

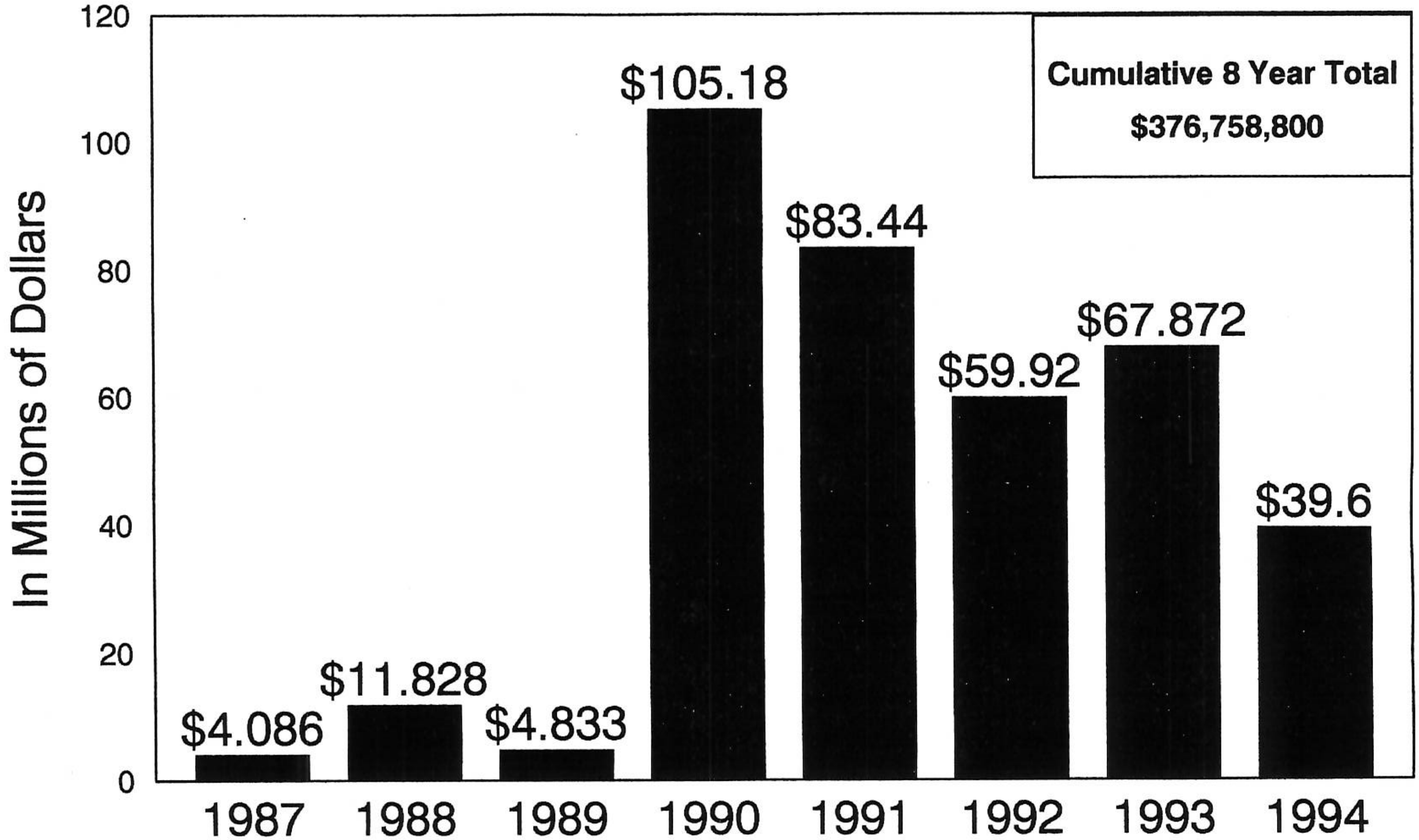
5-19

EMPLOYMENT GROWTH FROM FIRMS RECEIVING IRB'S CITY OF WICHITA

- 37 FIRMS
- 10,562 NEW JOBS 1971-1991
- AVERAGE ANNUAL GROWTH RATE OF 11%

5-20

ESTIMATED TAXABLE BASE OF NEW ENTRIES DUE TO PREVIOUSLY GRANTED IRB'S CITY OF WICHITA



*Assume 80% of Bond Issue Amount Becomes Taxable

Compiled by CEDBR, From City Finance Reports

HOUSE TAXATION COMMITTEE
March 18, 1992

Testimony of Bernie Koch
Wichita Area Chamber of Commerce
House Bill 2845

Representative Wagnon, members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce, appearing on House Bill 2845. Thank you for the opportunity to appear before you today.

The argument seems to be that we in Sedgwick and other counties are abating away our wealth. We believe that we are using abatements as one of many tools to create wealth, wealth that we share with the rest of the state. That wealth has been used in the past and will be used in the future for the financing of our own and many other school districts in Kansas, as well as other state functions.

In 1990, 48.4% of all state sales tax collected was in Sedgwick, Johnson, Shawnee and Wyandotte Counties.

In 1989, 56.2% of all Kansas individual income tax came from Sedgwick, Johnson, Shawnee and Wyandotte Counties. Much of that wealth can be attributed to the success of companies which receive tax abatements.

In Sedgwick County, we target our property tax abatements very carefully. The City of Wichita's policy on constitutional property tax abatements has been revised at least three times since the constitutional amendment went into effect. That policy makes it very difficult to receive a 100% abatement.

About 75% of the total constitutional abatements granted are not for real property. They are for machinery and equipment. The strategy is to encourage our manufacturers to invest in machinery and equipment which will keep them competitive with the rest of the country, and in particular, the rest of the world.

Our major competitors in the aircraft industry are in Europe. Do they have incentives? You bet they do. European aircraft manufacturers are heavily subsidized by their governments. In some cases, national governments actually own the aircraft companies.

You've all heard of the Concorde, the supersonic transport that can cross the Atlantic in three hours. We don't build a supersonic transport in this country. France and England allowed it to happen in Europe by pouring millions into research, development, and manufacturing subsidies.

House Taxation
Attachment 6
03-18-92

Boeing's biggest threat right now is a company called Airbus, which is heavily subsidized by four European countries. Airbus has cut deeply into McDonnell-Douglas and Lockheed sales over the past decade. An Airbus executive recently said, "We are going after Boeing and we're going to make them bleed and scream."

Boeing isn't screaming yet, but the company was scratched this month. Delta Airlines, a longtime Boeing customer, announced that it will purchase nine Airbus Jets for $600 million. These Airbus planes are what they call "white tails." They are spec planes not built for any particular customer. Airbus can afford to build spec planes because the company is heavily subsidized. Our Kansas companies do it, but not very often.

As I've said to you before, I don't think most Kansans appreciate how lucky we are to have this industry. At a time when U.S. auto manufacturers are laying off thousands of people, when Japanese government officials are criticizing U.S. workers as being non-productive, and when manufacturing jobs, jobs that produce wealth, are declining all across this country, we are bucking the trend.

In 1986, 19.1% of the U.S. work force was engaged in manufacturing. That dropped to 17.5% last year. Meanwhile, 24.5% of the Japanese work force is in manufacturing. But we in Sedgwick County beat the Japanese. 26.5% of our work force is manufacturing.

Our rate of employment growth has increased each year since 1985. Manufacturing jobs are increasing. We sell airplanes to people all over the world, including the Japanese.

I think the point I want to make was brought home very dramatically two weeks ago. General Motors announced that it lost $4.5 billion in 1991. GM is closing 12 plants and laying off 16,000 people. By 1995, the company will eliminate 74,000 jobs. Part of it is the recession, but another big part of it is that U.S. automakers did not invest in new technology and equipment while the Japanese did. They lost their share of the market.

We want to encourage our healthy Kansas manufacturers to keep their share of the worldwide market. One major way to do that is to offer incentives to stay on the cutting edge with their products. Property tax abatements are such an incentive.

One of the GM plants to be closed is in Ypsilanti, Michigan. Workers there thought they were safe, that the company would close the Arlington, Texas plant rather than the one in Michigan. But the Arlington workers voted to give the company some concessions, and the state of Texas teamed up with the city of Arlington to give GM a tax abatement package of $30 million. No similar incentive plan came from Michigan or Ypsilanti.

In your deliberations on this issue, please consider that we do not exist in a vacuum. Other states in our region have the ability to provide 100% abatements, as well as other tools to attract new and expanding businesses.

Consider Oklahoma City. With a high unemployment rate, Oklahoma City is trying to attract aerospace industry. Tinker Air Force Base, with thousands of civilian workers, has a skilled work force familiar with aircraft. As the military downsizes, unemployment in the area is likely to go up. What does Oklahoma have to offer?

- A good vocational training system administered by a separate state board.
- A corporate income tax rate of 6%, compared to Kansas' current top rate of 6.75%.
- A legislature with a history of enacting company specific incentives.
- A sales tax exemption for machinery and equipment.
- A sales tax exemption for manufactured goods, such as aircraft, sold out of state.
- In lieu of ad valorem taxes, aircraft manufacturers only pay a registration fee of $250 for each aircraft manufactured.

Commander Aircraft is a new company located on Wiley Post Airport in Bethany, Oklahoma, a suburb of Oklahoma City. The company is reviving the old 4-place Commander 114 single-engine 260 Horsepower piston-powered aircraft. Commander forecasts 100 aircraft per year production and employs about 120 people, with plans to add another 80 in the next six months. It reportedly receives its funding from Kuwait. The company did not receive any special financial assistance from the community. It relied totally on existing Oklahoma economic development incentives and Oklahoma's tax structure, which is very favorable.

The company has said its competition is the TLS Mooney and the Beech Bonanza.

We are in competition for jobs with other states and other countries. Abatements help level out the playing field.

I'm not saying that there are not abuses out there. If that's your concern, I would suggest an alternative approach. Tighten up the law. Limit what abatements can be used for. Require at least a simple cost benefit analysis of each tax abatement and its effects on school funding. Such a study can show the costs to education as well as the benefits generated by way of new sales taxes, income taxes, and property taxes.

This is already being done in Kansas.

An economic model constructed by K-U for Lawrence is being adapted to the Wichita area by Wichita State University. It requires estimates of what a new or expanding firm requesting abatements will cost schools, including the cost of new students. The cost per pupil in the school district, including capital outlay, is multiplied by the estimated number of new students brought to the community by the business asking for the abatement.

We want to know as accurately as possible the costs and benefits of abatements, and this model will give us very specific information. We are taking abatements very seriously.

We do not take property off the tax rolls. No tax base is lost. We delay the placement of new property on the tax rolls. I think that's an important distinction often lost in the debate.

A 100% abatement can actually increase revenues to the state, above and beyond any of the costs associated with it. Those are revenues that can be used for the benefit of all Kansans, including school children across the state. You may lose that revenue if local governments don't have the flexibility to grant a 100% abatement.

Thank you for the opportunity to testify.

6-5

TAX LIABILITY RANK OF EXISTING FIRMS BY INDIVIDUAL URBAN AREA

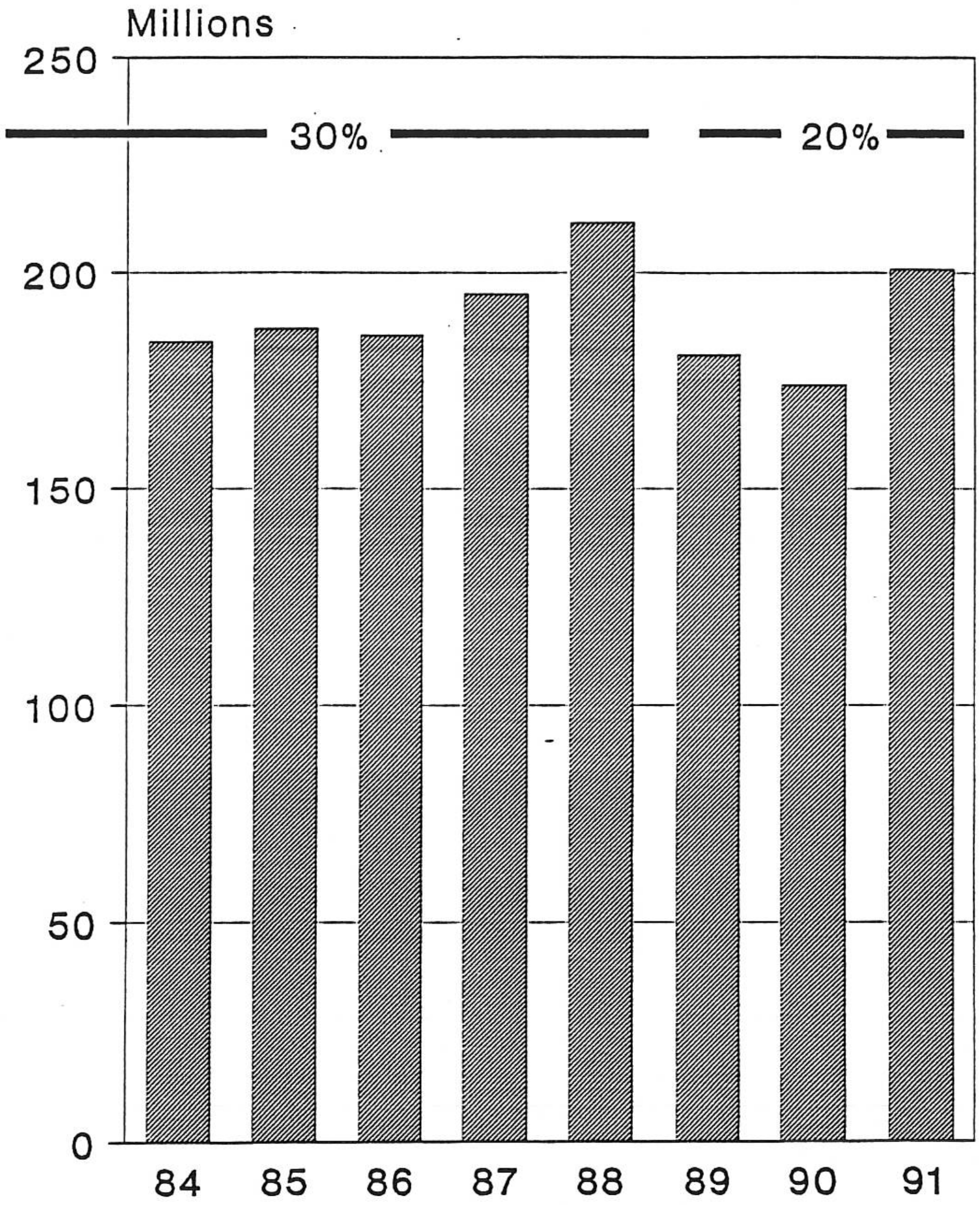
TAXES BASED ON FIFTEEN SELECTED INDUSTRIES

(1 = Lowest Tax Liability)

TULSA, OK	1
OKLAHOMA CITY, OK	2
DES MOINES, IA	3
KANSAS CITY, MO	4
DAVENPORT, IA	5
ST. LOUIS, MO	6
OMAHA, NE	7
DENVER, CO	8
JOHNSON COUNTY, KS	9
SEDGWICK COUNTY, KS	10
WYANDOTTE COUNTY, KS	11

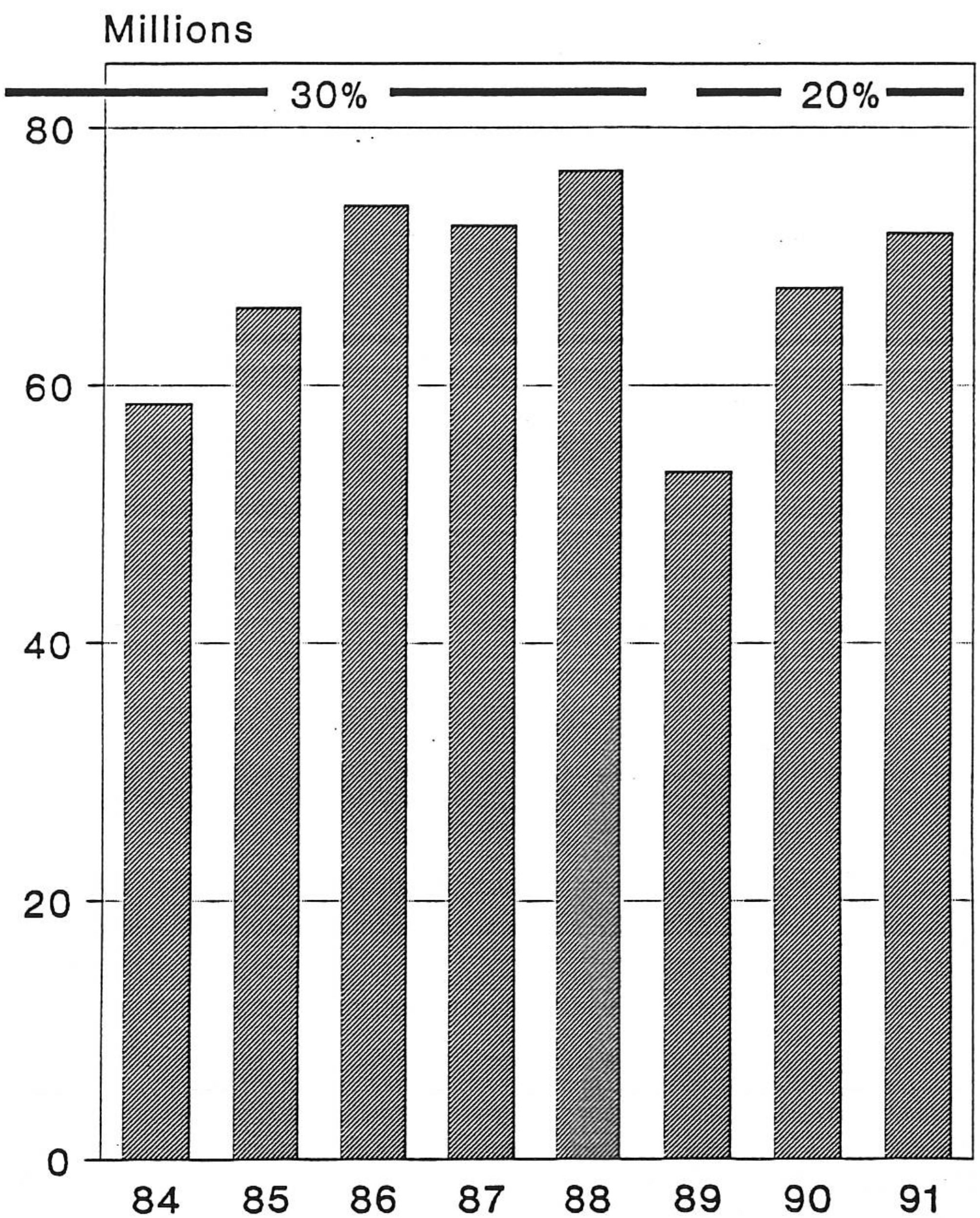
Source: IPPBR/Kansas Inc. Tax Simulation Model - 1990

ASSESSED VALUE
MACHINERY & EQUIPMENT
SEDGWICK COUNTY



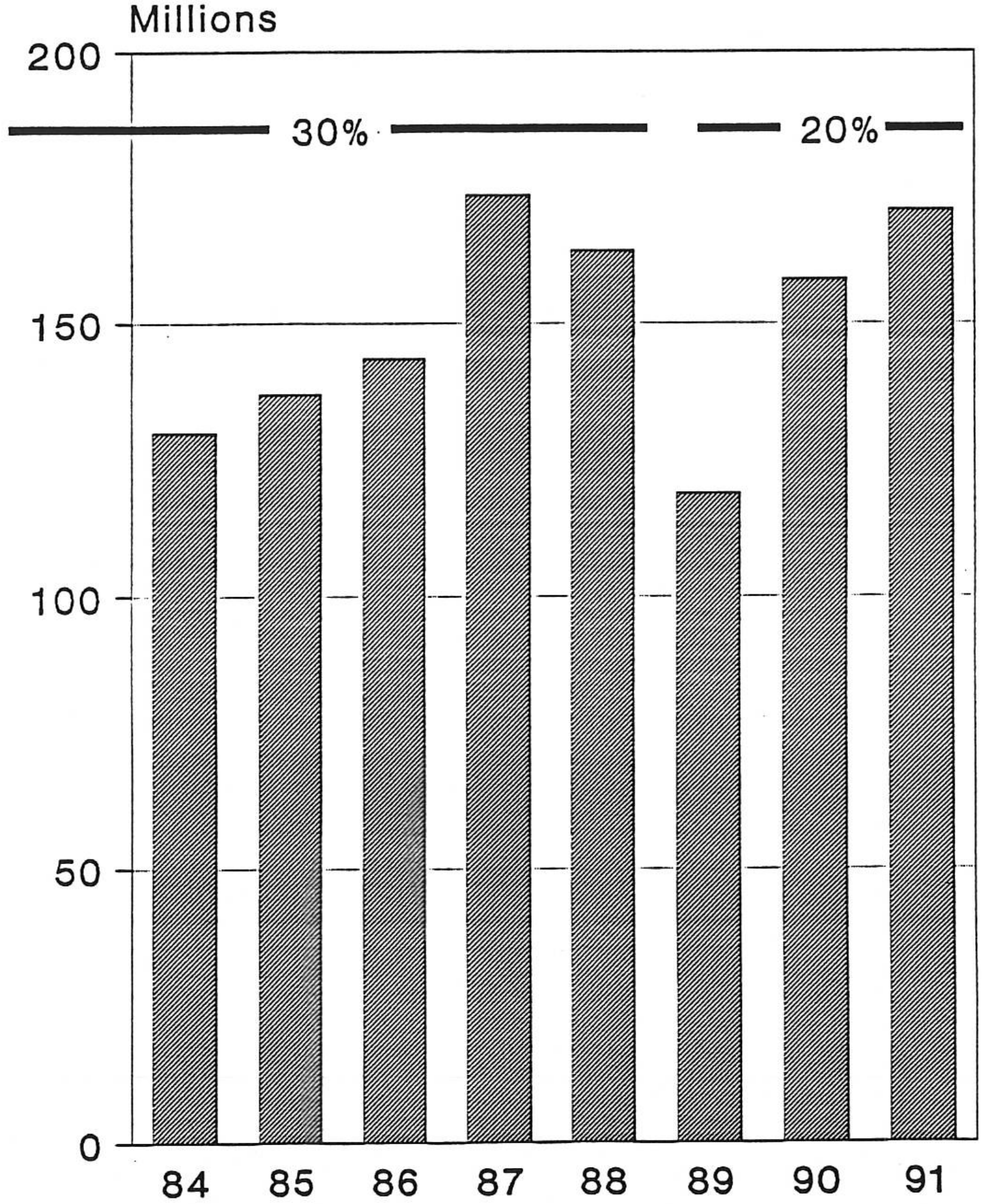
Source: Sedgwick County Clerk

ASSESSED VALUE
MACHINERY & EQUIPMENT
WYANDOTTE COUNTY



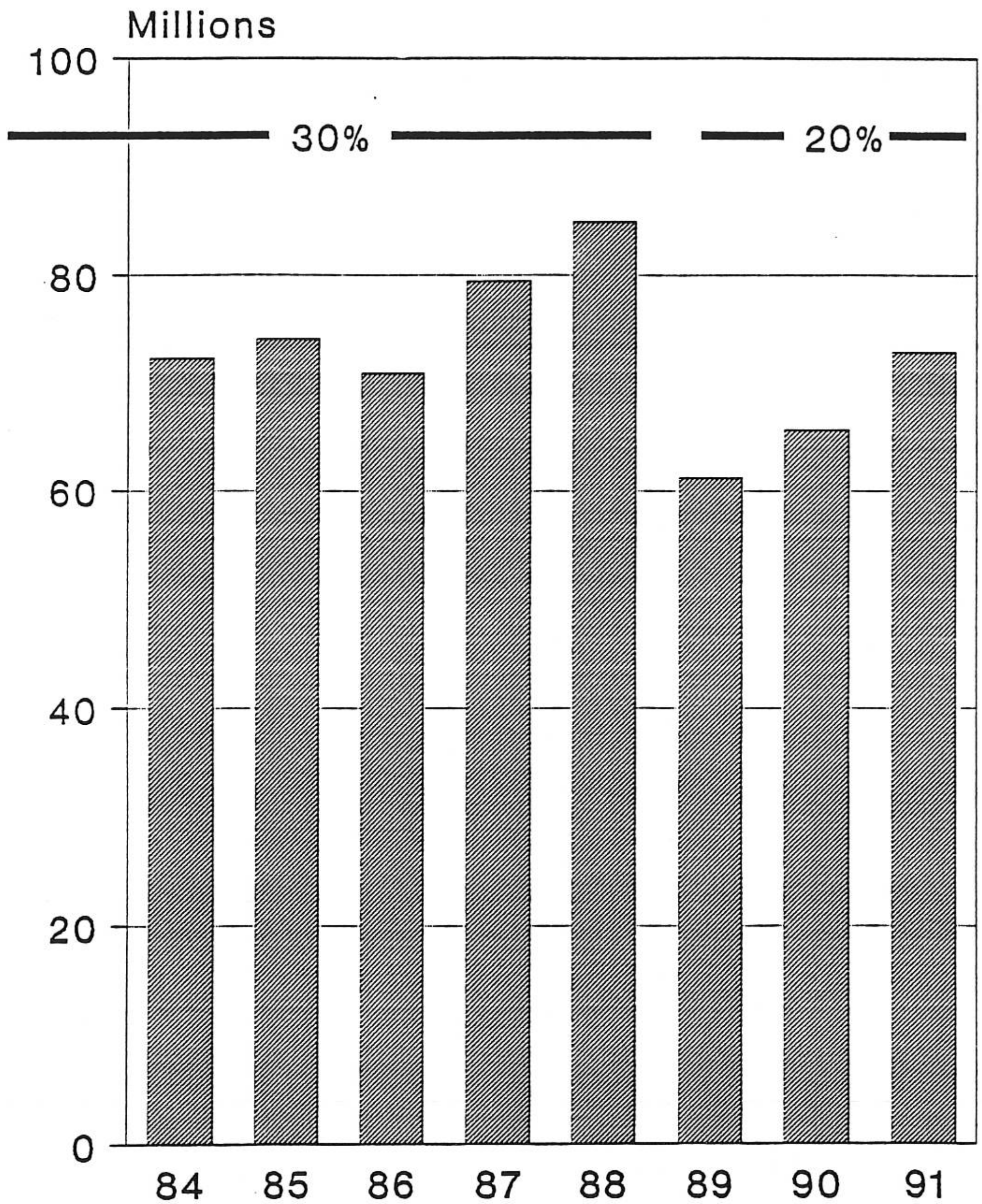
Source: Wyandotte County Clerk

ASSESSED VALUE
MACHINERY & EQUIPMENT
JOHNSON COUNTY



Source: Johnson County Clerk

ASSESSED VALUE
MACHINERY & EQUIPMENT
SHAWNEE COUNTY



Source: Shawnee County Clerk

ASSESSED VALUE OF COMMERCIAL MACHINERY AND EQUIPMENT PER COUNTY
1984-1991

Reno

1984	$20,579,489
1985	$19,544,531
1986	$17,618,588
1987	$19,730,665
1988	$20,051,026
1989	$14,689,867
1990	$14,268,540
1991	$14,699,673

Harvey

1984	$12,081,095
1985	$ 8,545,905
1986	$ NA
1987	$ 7,558,200
1988	$ 8,151,900
1989	$ 6,932,946
1990	$ 6,933,354
1991	$7,460,328

Shawnee

1984	$72,262,570
1985	$74,078,765
1986	$70,880,075
1987	$79,480,510
1988	$84,894,630
1989	$61,203,604
1990	$65,600,498
1991	$72,838,818

Johnson

1984	$130,055,746
1985	$137,063,805
1986	$143,508.425
1987	$173,575,780
1988	$163,457,805
1989	$118,900,057
1990	$158,202,315
1991	$170,891,812

Wyandotte

1984	$ 58,573,685
1985	$ 65,974,605
1986	$ 73,969,190
1987	$ 72,397,029
1988	$ 76,677,786
1989	$ 53,328,666
1990	$ 67,532,666
1991	$ 71,839,539

Sedgwick

1984	$183,930,207
1985	$187,085,820
1986	$185,445,528
1987	$195,126,906
1988	$211,576,704
1989	$180,826,219
1990	$173,948,298
1991	$200,900,750

FIGURE 1
KANSAS EARNINGS BY INDUSTRY, 1989
(PERCENT OF TOTAL EARNINGS)

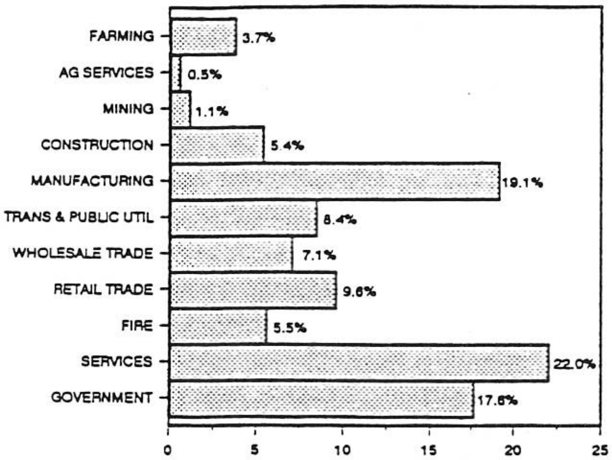


TABLE 1
EARNINGS BY PLACE OF WORK, 1989
IN THOUSANDS OF NOMINAL DOLLARS

	LEVEL	PERCENTAGE OF TOTAL	CUMULATIVE % OF TOTAL
Kansas	28,578,843	-	-
Sedgwick	6,085,399	21.3	21.3
Johnson	5,250,902	18.4	39.7
Shawnee	2,375,229	8.3	48.0
Wyandotte	2,239,864	7.8	55.8
Douglas	740,388	2.6	58.4
Reno	638,005	2.2	60.6
Saline	610,334	2.1	62.8
Leavenworth	592,894	2.1	64.8
Geary	527,527	1.8	66.7
Riley	443,454	1.6	68.2

FIGURE 2

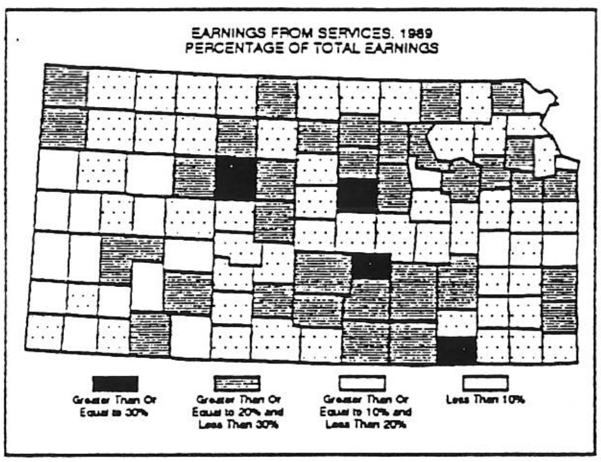


TABLE 2
EARNINGS FROM SERVICES, 1989
IN THOUSANDS OF NOMINAL DOLLARS

	LEVEL	PERCENTAGE OF TOTAL	CUMULATIVE % OF TOTAL
Kansas	6,278,224	-	-
Johnson	1,459,999	23.3	23.3
Sedgwick	1,417,596	22.6	45.8
Shawnee	577,019	9.2	55.0
Wyandotte	370,633	5.9	60.9
Saline	190,583	3.0	64.0
Douglas	177,189	2.8	66.8
Reno	145,205	2.3	69.1
Riley	101,052	1.6	70.7
Cowley	98,325	1.6	72.3
Harvey	89,633	1.4	73.7

FIGURE 3

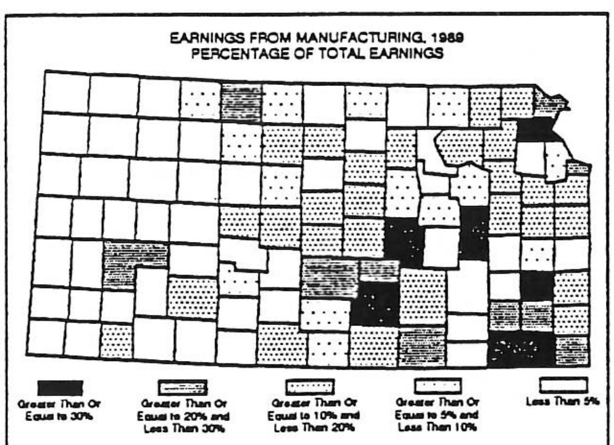


TABLE 3
EARNINGS FROM MANUFACTURING, 1989
IN THOUSANDS OF NOMINAL DOLLARS

	LEVEL	PERCENTAGE OF TOTAL	CUMULATIVE % OF TOTAL
Kansas	5,452,838	-	-
Sedgwick	2,075,974	38.1	38.1
Johnson	578,952	10.6	48.7
Wyandotte	577,167	10.6	59.3
Shawnee	302,889	5.6	64.8
Reno	148,604	2.7	67.6
Douglas	130,326	2.4	69.9
Saline	121,076	2.2	72.2
Montgomery	120,695	2.2	74.4
Lyon	117,985	2.2	76.5
Finney	97,383	1.8	78.3

6-11

CITY OF WICHITA

A POLICY FOR GRANTING AD VALOREM TAX ABATEMENTS AS AN INCENTIVE FOR BUSINESS DEVELOPMENT AND EXPANSION IN WICHITA, KANSAS

WHEREAS, Section 13 of Article 11 of the Kansas Constitution authorizes the governing body of any city to grant property tax exemptions for certain economic development purposes; and

WHEREAS, the Wichita City Council has determined that under certain circumstances the granting of property tax exemptions can be an effective economic development tool; and

WHEREAS, state statutes require that the governing body develop and adopt official policies and procedures prior to granting such exemptions; SO NOW, THEREFORE,

BE IT RESOLVED by the governing body of the City of Wichita, Kansas:

Section 1. Purpose. The purpose of these provisions is to establish the official policies and procedures of the City of Wichita for the granting of property tax exemptions for real and tangible personal property used for qualified economic development purposes under Section 13 of Article 11 of the Kansas Constitution.

Section 2. Authority and Discretion. The authority to grant tax exemptions within the City of Wichita is vested solely in the Wichita City Council. The Wichita City Council is under no obligation to approve any requested exemption and reserves the right to deviate from the policies and criteria contained herein if circumstances exist to warrant such deviation. Such circumstances may include, but not be limited to: (1) economic development projects which, due to their unusual nature or magnitude, offer extraordinary benefits to the community, and (2) projects which are essentially local in nature and do not enhance the local economy by importing new wealth into the community.

Section 3. Notice and Hearing. Prior to granting a tax exemption, a public hearing shall be held by the Wichita City Council. Notice of the public hearing shall be published at least once seven (7) days prior to the hearing and shall indicate the purpose, time and place thereof. The City Clerk shall also notify in writing the governing body of Sedgwick County and the appropriate unified school district, depending upon the location of the project.

Section 4. Criteria for Granting Exemption. Each application for property tax exemption shall be evaluated in accordance with the following criteria:

A. Demonstration of Economic Benefit. The City Council may consider granting said tax exemption only upon clear and factual demonstration of direct economic benefit. The project shall create additional permanent full-time equivalent jobs, increase private capital investment in new plant and/or equipment and import new wealth into the community. To be eligible for a tax abatement, the applicant must export at least 50% of its product outside the state of Kansas.

B. Preservation of Existing Tax Base. It is the intent of this policy to promote expansion of the tax base and ensure that the taxing districts having authority to levy taxes on the property affected will receive, in the future, not less than the amount received prior to granting the exemption except in situations where an existing building is vacant and is acquired by a new owner who otherwise qualified for an abatement.

C. Eligible Businesses. In accordance with Article 11 of the Kansas Constitution, a tax exemption will be considered only for businesses engaged in the following activities:

1. Manufacturing articles of commerce as defined by the Standard Industrial Classification Manual which describes manufacturers as "establishments engaged in the mechanical or chemical transformation of materials or substances into new products;" or

2. Conducting research and development relative to the manufacturing of a product; or

3. Storing goods or commodities which are sold or traded in interstate commerce.

D. Eligible Property. The City Council may exempt from ad valorem taxation all or any portion of the appraised valuation of:

1. All newly constructed buildings or additions to existing buildings used exclusively for eligible business activities which are necessary to facilitate the formation of a new business or expansion of an existing business if, as a result of such formation or expansion, new employment is created.

2. All newly acquired or existing tangible personal property used exclusively for eligible business activities, except that no existing tangible personal property located in the state of Kansas may be granted an exemption unless said exemption is required, based on a factual determination, to retain jobs in the state of Kansas. Personal property not utilized in the production process such as office equipment, motor vehicles, tractors, fork-lifts, etc. shall be ineligible for exemption.

No exemption will be granted for the land upon which qualified buildings or building additions are located, existing buildings already built (unless such building has been vacant for a minimum of six months and is being acquired/occupied by a new tenant having no fiscal or legal relationship with the former occupant or property owner; or unless the new business is appreciably different than the old use and will create in excess of 50 new jobs), or any property rented or leased to outside interests by other than a not-for-profit local economic development corporation. No exemption will be granted for buildings or building additions for which a building permit has been applied or construction commenced before the date said exemption is granted. No exemption will be granted for any existing tangible personal property located in the City of Wichita nor any newly acquired tangible personal property ordered or purchased prior to the date said exemption is granted.

Section 5. Amount and Term.

A. Incentive Exemption. An exemption will be given up to 50% based on the following scale regarding the amount of capital investment and number of new employees:

1. New Job Creation. A tax exemption may be granted for each additional new job (FTE) as follows: 3% for the first five new positions, 1½% for six to fifteen new jobs, and 1% for each new job in excess of 15. FTE jobs are defined as those full-time employees of more than 2,000 hours per year or part-time or temporary employees consolidated to obtain the full-time equivalent of 2,000 hours per year.

2. Capital Investment. A tax exemption may be granted for each $50,000 of investment as follows: between $50,000 and $500,000 - 1.0%; between $500,000 and $1 million - .75%; between $1 million and $2 million - 0.5%; above $2 million - 0.25%.

3. Location Premium. Businesses shall be encouraged to locate and/or expand within special redevelopment areas of the City. To foster such action, businesses may receive an additional premium equal to twenty percent (20%) for location into special redevelopment areas. The special redevelopment areas shall be designated by separate resolution of the City Council.

B. Export Premium. An additional exemption up to 50% shall relate to the total sales volume exported outside the state of Kansas, either directly or indirectly through a customer who exports. For that export percentage of the total sales, the business may receive a premium of 1% exemption for each 2% of exported sales.

C. Descending Scale. The calculated total tax exemption will be applied according to the following scale:

		Real Property	Personal Property
Years 1 thru 5	-	100%	100%
Years 6 thru 10	-	50%	0%

D. Term of Exemption. No tax exemption shall be in effect for more than 10 years after the calendar year in which the business commences operations or completes an expansion. Any applicant receiving a tax exemption shall be required to make payments in lieu of taxes equal to the amount of property tax not exempted. Said payments shall be payable to the Sedgwick County Treasurer for distribution, under the provisions of K.S.A. 12-148, to the general fund of all taxing subdivisions, excluding the state, which levy taxes on property where the business is situated. This apportionment shall be based on the relative amount of taxes levied by each of the applicable taxing subdivisions. Any tax exemption granted shall not affect the liability of any special assessments levied or to be levied against such property. No tax exemption granted shall be continued if the business ceases operations or ceases to be engaged in eligible business activities.

Section 6. Preliminary Review. Prior to submittal of a formal application, a business may inquire as to eligibility for tax exemption and the anticipated amount based on preliminary employment and capital investment figures. The business shall complete a preapplication form and submit same to the City Manager's Office. City staff will review the information submitted and respond to the business regarding apparent eligibility and potential amount of tax exemption if granted. The response from City staff shall in no way represent definitive findings or be seen as an expression of intent or obligation of the City Council to favorably consider or approve a formal request for tax exemption. The preapplication form and staff response shall be deemed to be proprietary business information and shall be kept confidential.

Section 7. Formal Application.

A. Filing Fee. An application for a tax exemption shall be accompanied by a filing fee of $500 which shall be non-refundable after the application is considered by the Council, whether approved or disapproved. Said fee shall be used to defray expenses incurred in processing and evaluating the application. This fee may be adjusted annually to be consistent with the City's Cost Allocation Plan.

B. Application Contents. The City will not consider the granting of any tax exemption unless the business submits a full and complete application and provides such additional information as may reasonably be requested. The application shall contain the following:

1. Name and address of business, principal owners and officers, contact person and telephone number.

2. A general description of the nature of the business, business history and experience, and a list of principal competition in the local market. If the property is leased, a description of the lease arrangement and information sufficient to show that the lessor has a 51% or more ownership interest in the lessee, that the lessee has a 51% or more ownership interest in the lessor, or that the lessor is a qualified community based not-for-profit economic development corporation. A copy of the lease should be provided.

3. Name and address of the owner of the land and building occupied or to be occupied by the business.

4. A general description of the proposed building project or improvements, including estimated capital costs, plus the amount or percentage of tax exemption being requested.

5. A site plan of the proposed building project or improvements.

6. If an existing business, average total monthly employment figures for the past 12 months.

7. Number of new jobs (FTE) to be created by type or position.

8. A statement describing the type of new jobs (FTE) and an estimate on wages/earnings of these jobs.

9. A statement explaining why the requested tax exemption is a critical factor in determining whether the proposed project is to be completed.

C. Review Procedures. Each application for tax exemption shall generally follow the following procedures:

1. The business submits a completed application and pays the required filing fee to the City Clerk.

2. The City Manager makes an analysis of the costs and benefits of such exemption and authorizes the placing of the application on the Council agenda.

3. The City Clerk publishes required notice of the hearing and sends written notice of the hearing to the Sedgwick County Commission and U.S.D. 259 or other appropriate unified school board, depending upon location of the project.

4. The City Council reviews the analysis of costs and benefits and receives comments from the applicant, affected taxing districts, and the general public. At the conclusion of the hearing, the City Council will take formal action on the application. Approval shall be in the form of an ordinance.

5. If approved, the business will file the initial exemption application with the County Appraiser after review by the City. The business will also be responsible for filing the annual claim for exemption as required by state statute. The annual claim must include a signed statement from the City Clerk that the property continues to meet the terms and conditions of the exemption. The business will be responsible for submitting any evidence or participating in any hearing before the Board of Tax Appeals relative to the exemption. As a condition of the grant of exemption, the business must keep the City informed of any administrative or judicial proceedings involving the exemption. The City has the right but not the obligation to participate in such proceedings.

D. Terms and Conditions. In granting a tax exemption, the City Council may impose any terms or conditions as deemed necessary to fulfill the purpose and intent of this policy.

Section 8. Completion Review. Each tax exemption granted shall be subject to a review of project completion. This review shall be for the purpose of determining if the economic benefits were achieved, if the percent and term of exemption remain valid, if the business is in compliance with any established terms or conditions. In the event the capital investment project has not been completed, the review status shall be considered to be in-progress and no tax exemption shall be granted. If the capital investment project is complete but the employment goal has not been reached and hiring remains active, the applicant business may choose to be considered in-progress and receive no tax exemption or be considered partially complete and receive a one-time prorated tax exemption for the subject year. A project shall be considered complete if more than 18 months have elapsed since initial approval of the tax exemption ordinance.

A. Filing Date and Fee. The application for completion review shall be filed on an annual basis no later than January 15 of each year until the project has been completed. The filing fee shall be $500 for 75% to 100% exemption, $250 for under 75% exemption and is non-refundable. There shall be no filing fee for an in-progress review.

B. Business Information. The recipient business shall provide information pertaining to the number of full-time permanent jobs created as a result of the project, the actual wages/earnings paid on those full-time permanent jobs, the actual amount of capital invested in the project, the ongoing nature of business activities, a sworn affidavit signed by the owner of the business, and any other data as may reasonably be requested.

C. Review Process. The City Manager will review the application for compliance with the original City Council approval criteria. If the project has been developed in accordance with the approval, the City Manager will issue a certification of compliance for the tax exemption. An exemption claim form filed by the property owner with the County Appraiser shall include a written statement, signed by the City Clerk, that the property meets all terms and conditions established as a condition of granting the exemption.

D. Revocation. The City Council reserves the right to revoke a granted tax exemption due to submittal of a fraudulent application, failure to submit the completion review application and supporting information, failure to meet qualifying criteria, or failure to comply with established terms or conditions. Failure to produce the stated economic benefits will result in a reduction or loss of tax exemption.

Section 9. Monitoring Review. Following receipt of certification of compliance, each tax exemption granted shall be subject to an annual monitoring review of business status. This review shall be for the purpose of determining if the business continues to meet eligibility criteria and remains in compliance with any established terms or conditions.

A. Filing Date and Fee. The application for monitoring review shall be filed on an annual basis no later than January 15 of each year for the term of the exemption. The filing fee shall be $50 and is non-refundable.

B. Business Information. The recipient business shall provide information pertaining to the ongoing nature of business activities, total monthly employment, the increase in full-time permanent employment as a result of the tax exemption, the amount of wages/earnings paid to those new full-time permanent employees, any change in majority ownership of the business and any other data as may reasonably be requested.

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C. Review Process. The City Manager will review the application and, unless ineligibility or noncompliance is evident, shall direct the City Clerk to issue a certificate of compliance. In the alternative, the City Manager shall submit a report to the City Council for their determination of compliance.

D. Certification. If compliance is deemed to exist, the exemption claim form filed by the property owner with the County Appraiser shall include a written statement, signed by the City Clerk, that the property continues to meet all terms and conditions established as a condition of granting the exemption.

E. Phase In. If the expansion is phased in over a period of years (up to three years), the exemption may be approved for that entire period of time. At the end of that period, should the applicant not have met all of the conditions stated in the application, a new exemption will be calculated based on the actual performance and applied retroactively to the entire three-year period and utilized to adjust the exemption percentage for the fourth year.

F. Revocation. The City Council reserves the right to revoke a granted tax exemption due to submittal of a fraudulent application, failure to submit the monitoring review application and supporting information, failure to meet qualifying criteria, or failure to comply with established terms or conditions.

Section 10. Confidentiality. All applications and records pertaining to a formal tax exemption request shall be subject to the provisions of the Kansas Open Records Act.

Section 11. Amendments. The City Council reserves the right to amend, revoke, change or otherwise modify this policy from time to time to promote the best interests of the City of Wichita.

Section 12. Effective Date. This policy shall apply to all applications for tax exemption submitted on or after the date of adoption.

Adopted by the Wichita City Council and signed by the Mayor this ______ day of May 1991.

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
THE UNIVERSITY OF KANSAS

Cost-Benefit Analysis of the Fiscal and Economic Impact of New or Expanding Firms Requesting Tax Abatements

Name of Firm:	Oread Laboratories, Lawrence, Kansas
Type of Project:	Expansion
Nature of Business:	Research and Development
Abatement Request:	50% for 10 years
Date of Analysis:	October 9, 1991

prepared by:

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Research Associate

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Professor of Business and
Director of Business Research

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Professor of Business and
Executive Director

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This report summarizes the results of a cost-benefit analysis of an expansion project by Oread Laboratories in Lawrence. The analysis is based on the Fiscal and Economic Impact Model of the Institute for Public Policy and Business Research at the University of Kansas. The Institute's model is an extension and refinement of a cost-benefit model originally developed by Dr. David Darling of Kansas State University's Extension. (For a detailed description of the Institute's current version of this model, refer to IPPBR Technical Report No. 10.)

The cost-benefit analysis obtained through the Fiscal and Economic Impact Model is an attempt to weigh the pros and cons of a project from the perspective of fiscal and economic benefits to the community itself and its residents. Thus, a project should only be undertaken if the benefits clearly outweigh the costs, and/or if the benefit-cost ratio is favorable. For a better understanding and a meaningful interpretation of the results, it is imperative to be aware of the basic scholarly principles applied in cost-benefit analysis.

I. GUIDING PRINCIPLES OF A COST-BENEFIT ANALYSIS

The Fiscal and Economic Impact Model of the Institute for Public Policy and Business Research represents a sophisticated approach to conducting a cost-benefit analysis. It employs 240 input variables to estimate the fiscal and economic impact of a project. Unlike a simplified accounting method, a cost-benefit analysis that meets professional standards will incorporate four important underlying principles. It will:

(1) Identify all relevant impacts, which implies thoroughness in analyzing all possible costs and benefits associated with a project.

(2) Monetize the impacts, which implies generating a dollar value for measurable costs and benefits (e.g. per capita municipal expenditures, capital costs incurred to the community etc.).

(3) Employ the 'opportunity cost' concept, which perceives costs as the value of the best forgone alternative course of action (i.e. value of the required resources in their best alternative use).

(4) Discount future costs and benefits for time and risk, which means tackling the problem of time dimension. (It is an important economic concept to discount costs and benefits to present values, since a dollar obtained today is worth more than a dollar obtained in the future. As an example, receiving full property taxes after 10 years is worth less than if it would be obtained in the first year. Similarly, an adjustment for risk is necessary to account for the probability of a company leaving the community a few years after a property tax abatement was granted.)

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Intangible Costs and Benefits

While some costs and benefits can be directly measured, it is more difficult to put a monetary value on intangible costs and benefits such as social or environmental impacts (traffic congestion, pollution, environmental changes on the cost side, or improvement of the quality of life including job security on the benefit side). While it will depend on the type of project or industry, intangible costs are likely to be higher than intangible benefits in most instances.

Benefit-Cost Ratios to Assess a Project's Acceptability

The use of benefit-cost ratios as an indicator for a project's acceptability requires the setting of a lower bound for these ratios. It is suggested that the following guidelines for the benefit-cost ratio should lead decision making: For a project's acceptance, the benefit-cost ratio should exceed 1.25 to 1. Since the Institute's Fiscal Impact Model is not designed to estimate or monetize intangible social or environmental benefits or costs and does not fully account for the probability of a firm locating in the community without a property tax abatement, the overall costs (tangible and intangible) may be understated relative to the overall benefits (tangible and intangible), and may make the project seem more beneficial than it really is. Since there is a likelihood that unmeasurable intangible costs will be higher than the unmeasurable intangible benefits, projects with a benefit-cost ratio of less than 1.25 to 1 but greater than 1 to 1 may be only marginally favorable and should require closer scrutiny by decision makers.

Reliability of the Outcome

The outcome of this cost-benefit analysis is intended to facilitate political decision making and does not represent precise values, but rather reasonable approximations of the magnitude of the fiscal and economic impact of the project. The sensitivity of some variables such as the rate of inmigration of new employees suggests that one should view the results within a range rather than a single outcome. Furthermore, the benefits and costs derived from this cost-benefit analysis do not include the intangible social costs or benefits, the benefits occurring during the construction phase of the project, and the costs associated with the chance that a firm might locate or expand in the community without a property tax abatement.

II. OUTCOME OF A COST-BENEFIT ANALYSIS FOR THE EXPANSION PROJECT BY OREAD LABORATORIES

The outcome and key inputs of the 240 input variables of the cost-benefit analysis for Oread Laboratories are summarized in the subsequent tables. Results are shown as a best estimate as well as a range, the latter indicating the sensitivity of the Model's outcome to slight variation of some key input variables (e.g. in-migration of new employees). Table 1A displays the amount of the 50% property tax abatement requested for 10 years ($283,270). The most important firm-related inputs such as new taxable real estate investment ($1.9 million), projected operating expenses by new firm ($592,000), and initial

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new employment (33) are listed in Table 1B. Table 1C shows the key community-specific input variables generated through budget analysis, a survey of new employees, and other sources (literature, national surveys, census data, etc. - see Appendix A and IPPBR Technical Report No. 10 for a detailed description of the Model and its 240 input variables). Table 2 summarizes the present value of total net benefits to the community over a 15-year period from a fiscal perspective and contains the estimated benefit-cost ratios. Table 3 reveals the present value of net benefits to the city, county and school district, respectively. (See Appendix B for more detail.). Additional benefits to the private-sector are shown in Table 4.

Overall, the outcome of the cost-benefit analysis shows that the ratio of the present value of net benefits and costs is in the range of 1.3-1.6 to 1.0. The best estimate is 1.4 to 1.0 (Table 2). This suggests that there will be a net fiscal and economic benefit to the community and its residents from the granting of a 50% property tax abatement for 10 years on the company's taxable real estate investment and equipment. Further, unmeasured intangible benefits are likely to exceed unmeasured intangible costs for this R & D project in that it could enhance further R & D location and R & D entrepreneurship in the community. Hence, the overall benefit-cost ratio for this project is likely to be higher than this measured best estimate of 1.4 to 1.

Table 1A

AMOUNT OF PROPERTY TAX ABATEMENT REQUESTED
Oread Laboratories, Lawrence

	Total	City	County	School District
Abated Tax in Year 1	$38,389	$8,917	$9,193	$20,279
Present Value of Abated Tax (10-year period, current-year dollars)	$283,270	$65,796	$67,838	$149,637

Table 1B

KEY FIRM-RELATED INPUT VARIABLES OF THE MODEL
Expansion of Oread Laboratories, Lawrence

1.	Real Estate Investment	$1,950,000		
2.	Taxable Equipment	$450,000		
3.	Annual Operating Expenses (locally)	$592,000		
4.	Initial New Employment	Number	Average Salary (excl. FICA)	Fringe Benefits
	Total	33	—	—
	-Professionals	29	$31,700	12%
	-Other	4	$17,375	12%

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Table 1C

KEY COMMUNITY-SPECIFIC INPUT VARIABLES OF THE MODEL
Expansion of Oread Laboratories, Lawrence

1.	Residential Location of New Employees	Lawrence:	61.9%
		Rest of County:	15.6%
		Commuters into Dgl. Co.:	22.5%
1A.	In-migration of New Professionals		50.4 out of 100 (initial round)
	In-migration of Production Workers		14.5 out of 100
1B.	Estimated Number of New Housing Units	Lawrence:	12.7
		Rest of County:	15.9
1C.	Estimated Number of New Residents	Lawrence:	32.5
		Resto of County:	40.7
1D.	Estimated Number of New School Children (USD 497)	4.8	
2.	Proportion of Disposable Income of New Employees Spent in the Community		58% in Lawrence
3.	Employment Multiplier	1.69	
4.	Operating Expenditures Associated with New Development (plant and new residents)	city:	$13,480
		county:	$10,568
		USD 497:	$17,620
5.	Capital Costs incurred to community by new residents	city:	$30,410
		county:	$11,251
		USD 497:	$81,252
6.	Capital Costs incurred to community by plant only	city:	$20,617
		county:	$3,229

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Table 2

COMBINED NET FISCAL BENEFIT TO COMMUNITY
Expansion of Oread Laboratories, Lawrence

	Best Estimate	Range
Present Value of Benefits Net of Costs (current-year dollars, 15-year period)	$227,266	$191,776 - $265,715
Benefit/Cost Ratio:	1.4 to 1	1.3 - 1.6 to 1

Table 3

NET FISCAL BENEFITS FOR CITY, COUNTY AND SCHOOL DISTRICT
Expansion of Oread Laboratories, Lawrence

(Results are shown as present value of benefits net of costs in current-year dollars, discounted over a 15-year period)

	Best Estimate of		Best Estimate of	Range of Net Benefits
	Benefits	Costs	Net Benefits	
City of Lawrence:	$247,847	$183,396	$64,450	$62,047 - $67,054
Douglas County:	$172,112	$117,763	$54,349	$51,142 - $57,824
USD 497:	$356,914	$248,447	$108,467	$78,586 - $140,837

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Table 4

NET CHANGE IN PRIVATE SECTOR INCOME AND SALES IN LAWRENCE
(First year of operation of the proposed expansion of Oread Laboratories)

Net Change in Income to Current and New Residents[1]:	$837,817
-Disposable Personal Income	$479,689
-Secondary Income (through plant spending and multiplier effect)	$358,128
Net Change in Private Sector Sales for existing and new businesses[2]:	$1,150,244
-Taxable Retail Sales	$321,575
-Other Nontaxable Sales	$828,669

[1]Includes income to new residents (in-migrants due to new employment). Since a cost-benefit analysis is concerned with the benefits to the current residents making the decision regarding the new development, the proportion of income received by new residents ought to be subtracted from $837,817. However, the proportion of incremental income to the current residents from the new project is not straightforward calculation because of multiplier and other effects.

[2]Includes sales involving existing as well as new businesses which may locate in the community due to the new development. Only sales involving existing businesses can be counted in a cost-benefit analysis as net private-sector benefits.

APPENDIX A

Data Input Section

Fiscal and Economic Impact Model

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH, UNIV. OF KANSAS

FISCAL AND ECONOMIC IMPACT MODEL

DATA INPUT SECTION

I. FIRM-RELATED/PROJECT-RELATED INPUTS
(Data to be obtained from new firm/project) — Inputs

A. Firm's/project's market value of investment:			
1. Real Estate (land and building)		1,950,000	Name of Firm or Project:
2. Taxable Equipment and Machinery		450,000	
			OREAD LABS
C. Percent of assessed valuation	1.Real Estate:	50%	(name of firm/project)
given property tax exempt status	2.Equipment:	50%	
E. Square footage of facility		16,000	Date of Analysis:
F. Annual operating expenses of new firm/project:			Oct. 9, 1991
Total excluding LABOR COSTS and DEBT SERVICE		800,000	(month/day/year)
G. Proportion of total operating	Lawrence	74%	
expenses spent locally:	Eudora	0.0%	
	Baldwin	0.0%	
	Rest ofCo	0.0%	
H. Proportion of local plant operating expenses subject to LOCAL sales tax (CITY & COUNTY TAX)		10%	
I. New firm's or project's employment		Number:	Base Salary Per Employee:
Number of managers earning > $40,000		0	$0
Number of profess./tech. earning $20,000-40,000		29	$31,700
Number of prod.workers earning < $20,000		4	$17,375
K. Annual plant sewage bill to city		$600	
L. Annual plant water bill to city	(# meters: ______)	628	
TOTAL plant bill for municipal utilities		1,228	
M. Annual plant utility bills:	1. Gas	10,777	
	2. Electr.	22,520	
3. Local telephone bill subject to city sales tax:		51	
4. Number of new phone lines:		3	
5. Cable TV:		0	
-- Annual plant franchise fees (gas,elec.,phone)		$1,216	
-- Annual city sales tax on utilities (plant only)		$340	

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II. NEW EMPLOYMENT AND VACATED JOBS	LAWRENCE	BALDWIN	EUDORA	REMAINDER OF COUNTY	OUTSIDE COUNTY
A. Salaries, Benefits, Taxes, Unearned Income (in Dollars)					
1. New firm's manager(s)					
a) Base Salary	$0	$0	$0	$0	$0
b) Plus Fringe benefits, (12%)	0	0	0	0	0
c) Minus SS,Fed & State Taxes	0	0	0	0	0
d) Plus unearned income(rent, interest, dividents, etc.)	0	0	0	0	0
2. New firm's professional staff					
a) Base Salary	$31,700	$31,700	$31,700	$31,700	$31,700
b) Plus Fringe benefits, (12%)	3,804	3,804	3,804	3,804	3,804
c) Minus SS,Fed & State Taxes	10,826	10,826	10,826	10,826	10,826
d) Plus unearned income(rent, interest, dividents, etc.)	0	0	0	0	0
3. New firm's prod.workers					
a) Base Salary	$17,375	$17,375	$17,375	$17,375	$17,375
b) Plus Fringe benefits, (12%)	2,085	2,085	2,085	2,085	2,085
c) Minus SS,Fed & State Taxes	4,643	4,643	4,643	4,643	4,643
d) Plus unearned income(rent, interest, dividents, etc.)	0	0	0	0	0
4. Displaced workers					
a) Base Salary	0	0	0	0	0
b) Plus Fringe benefits, (12%)	0	0	0	0	0
c) Minus SS,Fed & State Taxes	0	0	0	0	0
d) Plus unearned income	0	0	0	0	0
5. Long-term vacated jobs and/or long-term unemployed getting a new job in new company					
a) Base Salary	0	0	0	0	0
b) Plus Fringe benefits, (12%)	0	0	0	0	0
c) Minus SS,Fed & State Taxes	0	0	0	0	0
d) Plus unearned income	0	0	0	0	0

III. INPUTS RELATED TO DEMOGRAPHIC IMPACT (Data generated through employee survey)	LAWRENCE	BALDWIN	EUDORA	REMAINDER OF COUNTY	OUTSIDE COUNTY
A. Living Patterns of new Employees					
distribute 100 new workers so that 22.5% commuters, 15.6% live outside Lawrence)					
1. New firm's manager (1 or more)	0.0	0.0	0.0	0.0	0.0
2. New firm's professional staff (#)	18.0	1.5	1.5	1.5	6.5
3. New firm's production workers (#)	2.5	0.2	0.2	0.2	0.9
B. Percentage of migrants among new employees		NO SURVEY OUTSIDE LAWRENCE !			
1. % of manager(s) migrating in	100.0%	100.0%	100.0%	100.0%	0.0%
2. % of professionals migrating in	50.4%	50.4%	50.4%	50.4%	0.0%
3. % of prod. workers migrating in	14.5%	14.5%	14.5%	14.5%	0.0%
C. Percentage of job changers					
among managers	0				
among new professional employees	53.9%				
among new production workers	62.2%				
D. Living Patterns of former Workforce					
1. Number of displaced workers	0	0	0	0	0
2. Actual jobs vacated (ENTER #)	0	0	0	0	0
3. Maximum number of vacated jobs	11.2	0.9	0.9	0.9	4.1

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IV. INPUTS RELATED TO CONSUMER SPENDING AND PLANT SPENDING

	LAWRENCE	BALDWIN	EUDORA	REMAINDER OF COUNTY	OUTSIDE COUNTY
A. Spending Patterns of Employees					
1. In plant community	58%	50%	50%	50%	5%
2. In community-2	1%	10%	0%	0%	0%
3. In community-3	1%	0%	10%	0%	0%
4. In rest of county	0%	0%	0%	0%	0%
B. Lost Personal Income					
1. Spent by residents	0%	0%	0%	0%	---
2. Spent by outsiders	0%	0%	0%	0%	---

		COUNTY
C. Proportion of employees' income spent in county which eventually becomes personal income to other residents	BY DEFAULT	35%
D. Proportion of employees' income subject to LOCAL sales tax (CITY & COUNTY TAX)		47%
E. Proportion of plant operating budget spent in county which eventually becomes personal income locally	BY DEFAULT	35%

V. INPUTS RELATED TO MUNICIPAL GOV.	LAWRENCE	BALDWIN	EUDORA	REMAINDER OF COUNTY	OUTSIDE COUNTY	
A. Property tax rate,levy 1990 for 1991	26.42	23.58	14.25	26.42	NA	
B. City option sales tax rate	1.0%	0.5%	0.5%	0%	NA	
C. Residential assessment ratio	12%	12%	12%	12%	NA	
D1.Industrial assess.ratio, r.est.	30%	30%	30%	30%	NA	
D2.Industrial assess.ratio, equip.	20%	20%	20%	20%	NA	
E. Community-Specific Housing Factor to Estimate Purchase Price of New Home (data provided by S&Ls)						
1. Manager	1.80					
2. Professionals/Tech.	2.51					
3. Production Worker	3.56					
F. City assessed valuation in 1990	$248.71 (millions)					
G. City population 1990	65,608		NA			
H. City total housing units 1990	25,615		NA			
I Per capita muni.op.exp.	164	0	0			
K. Per capita muni.rev. incl.LAVTR,fees,fines,regis.,permits, intergov. revenues, charges, excl.property and sales taxes)	69	0	0			
L. Cost of capital investment (road, public facilities, library, fire, police.....) to accomodate one new housing unit	794	0	0			
DO NOT ENTER NEXT 8 INPUTS (WILL BE AUTOMATICALLY CALCULATED)						
1. Persons per housing unit			2.56	OR USE 2.64 PERSONS PER HOUSEHOLD (SURVEY,		
2. Adj.Factor for Housing (workers per housing units)			1.25			
3. New housing units (mgr)	0.0	0.0	0.0	0.0		
4. New housing units (prof)	12.2	1.0	1.0	1.0		
5. New housing units (prod.wrk)	0.5	0.0	0.0	0.0		
6. New residents expected	32.51	2.73	2.73	2.73		
7. Employment Multiplier	1.69	1.69	1.69	1.69	1.69	sum
8. Total New Employment (Multipl.Effect	34.5	2.9	2.9	2.9	12.5	55.7

VI. MUNICIPAL GOV. UTILITY INPUTS	LAWRENCE	BALDWIN	EUDORA
A. Costs To New Home Owners (annual)			
1. Avg. annual sewage bill	0	0	0
2. Avg. annual water bill	0	0	0
TOTAL muni util. bills	300	0	0
4. Franchise fees per h.unit	36		
B. Capital Costs:Expansion of Utilities (per new housing unit)	1602	0	0
C. Operating costs per new housing unit for utilities (oper.cost for water,sewer,sanit. divided by # housing units)	166	0	0

VII. MUNICIPAL GOV.: Plant related Costs and Revenues	(plant community) LAWRENCE
EXPENDITURES RELATED TO NEW FIRM/DEVELOPMENT:	
A. Total capital cost - city invest., new plant (incl.road, fire, police, and other)	4273
B. Annual cost to operate expanded city services needed to accomodate new plant (based on a per employee cost of $162.37)	5358
C. Total city capital cost for local public util. to accom. new plant (water, sewer - National Survey)	16344
D. Annual operating cost to local public utilities incurred to service new plant (WKSH 6) '(35,000 wage earners assumed) 30386.679	697
E. Payment in lieu of taxes (if applicable) (property tax due prior to acquisition of property by new firm)	0

VIII. INPUTS RELATED TO COUNTY GOVERNMENT	Douglas County
A. Property tax rate (mill levy 1990 for 1991)	27.24
B. County option sales tax rate	0.0%
C. Residential assessment ratio	12%
D. Industrial assessment ratio for real estate	30%
E. County population 1990	81,798
F. County assessed valuation in 1990 (millions)	341.20
REVENUES AND COSTS FROM NEW RESIDENTS:	
G. Per capita county revenue (exclude property & sales tax	69
H. Per capita county operating expenditures	187
I. Total cost of county capital investment to accomodate new residents (per housing unit - road and other costs)	708
REVENUES AND COSTS FROM NEW PLANT:	
K. Total cost of county capital investment to accommodate new firm	3229.6
L. Annual county cost to operate expanded county services to accomodate new firm (based on a per employee cost of $90.12)	2974
M. Payment in lieu of taxes (if applicable) (property tax due prior to acquisition of property by new firm)	0
NEXT 3 INPUTS WILL BE AUTOM.CALCULATED (DO NOT ENTER)	
-- New housing units expected within county boundaries	15.9
-- Total value of new housing units, all in-county communities	$1,253,643
-- New Residents (in-migrants) expected	40.7

IX. INPUTS RELATED TO SCHOOL DISTRICTS	USD 497	USD 348	USD 491
CALCULATIONS FOR GENERAL FUND ONLY			
A1. Prop.tax rate(Gen.Fund Mill Levy 1990 for 1991)	60.09	NA	NA
A2. Prop.tax rate (Total Mill Levy 1990 for 1991)	69.56	69.96	58.01
NEW HOUSING UNITS IN EACH SCHOOL-DIST.			
B2 Number of new housing units(prd.wk)	0.5		
B2 Number of new housing units (prof)	12.2		
B2 Number of new housing units (mgr)	0.0		
RATIO OF NEW SCHOOL-CHILDREN FROM IN-MIGRANTS			
C1. Ratio per new working in-migrant in 1990	0.353		
C2. Ratio per new working in-migrant five years later	0.559		
C3. Ratio per new working in-migrant (AVG 1990,1995)	0.456		
NUMBER OF NEW SCHOOL CHILDREN DUE TO IN-MIGRANTS			
D1. Number of School Children (manager)	0.0		
D2. Number of School Children (professionals)	4.6		
D3. Number of School Children (prod.workers	0.2		
ADJUSTMENT FACTOR FOR WORKING SPOUSES,PARTNERS etc.	1.5		
E. State Aid per student (ADA) (Gen.Fund portion,1989-90)	82		
F. Annual operating expenditures per new student (based on General Fund, 1989-90)	3,653		
G. Expected annual cost of capital expenditures to accomodate new students, PER USD 497 HOUSING UNIT	6402		
INTERGOVERNMENTAL REVENUES			
H. State Income Tax Return (General Fund only)	4,627,547		
I. Nonfarm Wage and Salary Employment in School District	22,958		
K. Motor Vehicle Property Tax Return (Gen.Fund only)	2,663,870		
L. Number of Total Residents in School District	65,608		
NUMBER OF NEW RESIDENTS TO SCHOOL DISTRICT	32.5		
N. Payment in lieu of taxes (if applicable) (property tax due prior to acquisition of property by new firm)	0		

APPENDIX B

Results of Fiscal and Economic Impact Model

1. Present Value of Net Benefits to City, County and School District
(Discounted for Time and Risk over a 15-year period)

2. Present Value of Combined Net Benefits to the Community
(Discounted for Time and Risk over a 15-year period)

PRESENT VALUE OF COSTS AND BENEFITS TO THE CITY GOVERNMENT (50% Tax Abatement)

YEAR (t)	CAPITAL COST	OPERATING COST	TOTAL COST	TOTAL BENEFIT	7.50% DISCOUNT RATE 1/(1+disc)^(t-1)	DISCOUNTED COSTS	DISCOUNTED BENEFITS	NET BENEFIT B-C	CUMULATIVE NET BENEFITS
1	51,027	13,950	64,976	24,136	1.0000	64,976	24,136	(40,840)	(40,840)
2		13,950	13,950	24,136	0.9302	12,976	22,452	9,476	(31,365)
3		13,950	13,950	24,136	0.8653	12,071	20,886	8,815	(22,550)
4		13,950	13,950	24,136	0.8050	11,229	19,429	8,200	(14,350)
5		13,950	13,950	24,136	0.7488	10,445	18,073	7,628	(6,723)
6		13,950	13,950	24,136	0.6966	9,717	16,812	7,095	373
7		13,950	13,950	24,136	0.6480	9,039	15,639	6,600	6,973
8		13,950	13,950	24,136	0.6028	8,408	14,548	6,140	13,113
9		13,950	13,950	24,136	0.5607	7,822	13,533	5,712	18,825
10		13,950	13,950	24,136	0.5216	7,276	12,589	5,313	24,138
11		13,950	13,950	33,053	0.4852	6,768	16,037	9,269	33,406
12		13,950	13,950	33,053	0.4513	6,296	14,918	8,622	42,028
13		13,950	13,950	33,053	0.4199	5,857	13,877	8,021	50,049
14		13,950	13,950	33,053	0.3906	5,448	12,909	7,461	57,510
15		13,950	13,950	33,053	0.3633	5,068	12,009	6,940	64,450
			$260,270	$406,623	Total	$183,396	$247,847	$64,450	

Annualized averages over the lifetime of the project:

COST	BENEFIT	NET BENEFIT
$13,755	$18,589	$4,834

PRESENT VALUE OF COSTS AND BENEFITS TO THE COUNTY GOVERNMENT (50% Tax Abatement)

YEAR (t)	CAPITAL COST	OPERATING COST	TOTAL COST	TOTAL BENEFIT	7.50% DISCOUNT RATE 1/(1+disc)^(t-1)	DISCOUNTED COSTS	DISCOUNTED BENEFITS	NET BENEFIT B-C	CUMULATIVE NET BENEFITS
1	14,480	10,884	25,365	16,093	1.0000	25,365	16,093	(9,271)	(9,271)
2		10,884	10,884	16,093	0.9302	10,125	14,971	4,846	(4,426)
3		10,884	10,884	16,093	0.8653	9,419	13,926	4,508	82
4		10,884	10,884	16,093	0.8050	8,761	12,954	4,193	4,275
5		10,884	10,884	16,093	0.7488	8,150	12,051	3,900	8,175
6		10,884	10,884	16,093	0.6966	7,582	11,210	3,628	11,804
7		10,884	10,884	16,093	0.6480	7,053	10,428	3,375	15,179
8		10,884	10,884	16,093	0.6028	6,561	9,700	3,140	18,319
9		10,884	10,884	16,093	0.5607	6,103	9,024	2,921	21,239
10		10,884	10,884	16,093	0.5216	5,677	8,394	2,717	23,956
11		10,884	10,884	25,287	0.4852	5,281	12,269	6,988	30,944
12		10,884	10,884	25,287	0.4513	4,913	11,413	6,500	37,445
13		10,884	10,884	25,287	0.4199	4,570	10,617	6,047	43,492
14		10,884	10,884	25,287	0.3906	4,251	9,876	5,625	49,117
15		10,884	10,884	25,287	0.3633	3,954	9,187	5,233	54,349
					Total	$117,763	$172,112	$54,349	

Annualized averages over the lifetime of the project:

COST	BENEFIT	NET BENEFIT
$8,832	$12,908	$4,076

PRESENT VALUE OF COSTS AND BENEFITS TO THE SCHOOL DISTRICT (50% Tax Abatement)

YEAR (t)	CAPITAL COST	OPERATING COST	TOTAL COST	TOTAL BENEFIT	7.50% DISCOUNT RATE 1/(1+disc)^(t-1)	DISCOUNTED COSTS	DISCOUNTED BENEFITS	NET BENEFIT B-C	CUMULATIVE NET BENEFITS
1	81,252	17,620	98,872	33,103	1.0000	98,872	33,103	(65,769)	(65,769)
2		17,620	17,620	33,103	0.9302	16,390	30,794	14,403	(51,366)
3		17,620	17,620	33,103	0.8653	15,247	28,645	13,398	(37,967)
4		17,620	17,620	33,103	0.8050	14,183	26,647	12,464	(25,504)
5		17,620	17,620	33,103	0.7488	13,194	24,788	11,594	(13,910)
6		17,620	17,620	33,103	0.6966	12,273	23,058	10,785	(3,125)
7		17,620	17,620	33,103	0.6480	11,417	21,449	10,033	6,908
8		17,620	17,620	33,103	0.6028	10,620	19,953	9,333	16,241
9		17,620	17,620	33,103	0.5607	9,879	18,561	8,682	24,922
10		17,620	17,620	33,103	0.5216	9,190	17,266	8,076	32,998
11		17,620	17,620	53,382	0.4852	8,549	25,901	17,352	50,350
12		17,620	17,620	53,382	0.4513	7,952	24,094	16,141	66,491
13		17,620	17,620	53,382	0.4199	7,398	22,413	15,015	81,506
14		17,620	17,620	53,382	0.3906	6,882	20,849	13,967	95,474
15		17,620	17,620	53,382	0.3633	6,401	19,394	12,993	108,467
					TOTAL	$248,447	$356,914	$108,467	

Annualized averages over the lifetime of the project:

COST	BENEFIT	NET BENEFIT
$18,634	$26,769	$8,135

PRESENT VALUE OF TOTAL COMBINED BENEFITS AND COSTS
(NON-CUMULATIVE, CURRENT-YEAR DOLLARS)

Year	Benefits	Costs	Net Benefit
1	$73,332	$189,213	($115,880)
2	68,216	39,492	28,725
3	63,457	36,736	26,720
4	59,030	34,173	24,856
5	54,911	31,789	23,122
6	51,080	29,571	21,509
7	47,517	27,508	20,008
8	44,201	25,589	18,612
9	41,118	23,804	17,314
10	38,249	22,143	16,106
11	54,207	20,598	33,608
12	50,425	19,161	31,264
13	46,907	17,824	29,083
14	43,634	16,581	27,053
15	40,590	15,424	25,166
TOTAL	$776,873	$549,607	$227,266

Annualized averages over the lifetime of the project:

COST	BENEFIT	
$58,265	$41,220	$17,045

Total Present Value of Net
Benefits in Current-Year Dollars: $227,266
15 year period

Benefit/Cost Ratio: 1.4 to 1 — 50.4% migr. ratio for prof.worker (survey)

Total Amount of Tax Abatement (year 1): $38,389

Present Value of Abated Tax
Current-Year Dollars (15 years): $283,270

Ratio of net benefits to
present value of total
amount of abated prop. tax: 0.8 to 1

City of Olathe

TO: Members of the House Taxation Committee

FROM: Donald R. Seifert, DRS Assistant Director, Administrative Services

SUBJECT: House Bill No. 2845 - Excluding School Tax Levies from Constitutional Tax Abatement Authority

DATE: March 18, 1992

On behalf of the city of Olathe, thank you for the opportunity today to express opposition to HB 2845. This bill would limit a city's authority to grant property tax abatement under the 1986 constitutional amendment by excluding school taxes from the abatement. The Olathe governing body opposes legislation that would further restrict the use of property tax abatements as an economic development tool.

Under current law, we believe there is ample opportunity for school districts to provide input into the decision making process on abatements. The 1990 Legislature enacted a law which requires cities and counties to adopt a written policy on tax abatements, which must include procedures for conducting a fiscal analysis, providing notice to affected entities including school districts, conducting a public hearing on each request, and monitoring compliance. These were reasonable restrictions, which placed into law responsible public policy in the use of tax abatements.

Attached to my testimony is a copy of Olathe's property tax abatement policy. It states that no tax abatement shall exceed 50% of the amount that would ordinarily be levied, and property taxes on existing facilities shall not be reduced. Thus, the city considers tax abatement requests only for 50% of the new incremental valuation added to community. The term of the abatement may vary from 3 to 10 years, based on the capital investment in the project.

Since the 1986 amendment, Olathe has granted partial property tax abatement to four projects representing approximately $5.3 million in assessed valuation. This amounts to slightly more than 1% of the assessed valuation of the Olathe School District. In general, the school board has not opposed the city's decisions

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in this area because it will receive at least 50% of the property taxes that might otherwise have not occurred.

It is no secret that high property taxes, particularly those for schools, are a dominant topic in Olathe. However, the community believes that one long term answer to its property tax crisis is increasing its tax base through the expansion and attraction of industry. To do this in today's competitive environment, we need to preserve the economic development tools that are available to us.

We suggest that current law provides a framework for local units of government to adopt a responsible tax abatement policy tailored to local needs, and urge the Committee not to recommend this bill for passage.

rc

RESOLUTION NO. 92-1013

A RESOLUTION ESTABLISHING A POLICY FOR PROPERTY TAX ABATEMENTS FOR THE CITY OF OLATHE, KANSAS; FURTHER REPEALING RESOLUTION NO. 90-1170.

WHEREAS, the City of Olathe recognizes that it is essential to stimulate economic growth and development in order to provide services, employment and tax revenues for the benefit of the community; and

WHEREAS, it is further recognized that the stimulation of balanced economic development is a joint responsibility of the private and public sectors, working closely together creating a positive business environment and to induce industry to locate and expand in the City of Olathe; and

WHEREAS, the economic development program goals of the City of Olathe include economic diversification, broadening of the property tax base, stimulation of private investment, enhancement and support of existing development, maintenance of environmental quality, creation of employment opportunities, and increased per capita income; and

WHEREAS, to meet these economic development goals, the city recognizes the occasional necessity to grant property tax exemptions and tax incentives for real and personal property pursuant to the provisions of Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: CRITERIA FOR ABATEMENT. It shall be the policy of the city that economic development projects pay their fair share of property tax, special improvement district assessments, and cost of utility services. The Governing Body shall consider the following criteria and conditions as precedents to granting property tax incentives pursuant to Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq.

A. The project must add significantly to the needed diversification of the economy or have an economic impact on a particular physical area of the community where economic assistance is needed.

B. The project shall be one in which a substantial part of its total products and/or services are exported from the Olathe area, or items for local consumption that would add jobs and replace purchases now being made by Olathe citizens in areas outside the city.

C. Preference shall be extended to existing Olathe industries to facilitate expansion or retention, provided that the amount of property taxes paid on the existing facilities shall under no circumstances be reduced.

D. No such property tax abatement shall be in excess of 50% of the amount the property would have paid had it been fully taxed during the abatement period determined in Section Two.

E. The amount and diversity of additional employment opportunities which would be provided shall be a primary consideration.

SECTION TWO: TERM OF ABATEMENT. The abatement period for a project approved under this Resolution shall be determined by the amount of new capital investment in the community. Capital investment shall include investment in land, building, and personal property subject to ad valorem taxation. The maximum term of abatement for each project shall be determined according to the following schedule:

Capital Investment	Maximum Term
less than $4 million	3 years
$4 million to $8 million	5 years
greater than $8 million	10 years

The abatement term for projects considered under authority of Section 13 of Article 11 of the Kansas Constitution shall begin in the calendar year after the calendar year in which the business commences its operations or the calendar year in which expansion of an existing business is completed, as the case requires. The abatement term for projects considered under authority of K.S.A. 12-1740 through 12-1749 shall begin in the calendar year after the calendar year in which the bonds are issued.

SECTION THREE: PROCEDURE. The city shall consider granting a tax exemption pursuant to this Resolution after receipt of a complete application from the applicant in a form prescribed by the city. Based on each application and such additional information as may be requested by the city, the city shall prepare or cause to be prepared a cost/benefit analysis of the proposed exemption, which analysis shall be used by the Governing Body in considering the request. Prior to formal action on each resolution of intent, the Governing Body shall conduct a public hearing thereon, to be scheduled at least seven days after publication of notice. Notice of the hearing shall also be sent to the Governing Body of Johnson County and the Olathe School District.

SECTION FOUR: PERFORMANCE AGREEMENT. Any tax exemption granted pursuant to this Resolution shall be accompanied by a performance agreement between the applicant and the city, which is subject to annual review and determination by the Governing Body that the conditions qualifying the business for the exemption continue to exist.

SECTION FIVE: APPLICATION AND RENEWAL FEES. The Governing Body shall establish an application fee of $250 and an annual renewal fee of $100 for projects considered under this Resolution.

SECTION SIX: SUNSET DATE. Since the justification for tax abatements will be lessened as the local economy moves towards its goals of balance and diversification, this policy shall automatically expire on December 31, 1992, unless it is readopted for an additional term. No such tax abatement shall be granted following such expiration, unless this policy is readopted.

SECTION SEVEN: PREVIOUS RESOLUTION REPEALED. Resolution No. 90-1170 is hereby repealed.

SECTION EIGHT: EFFECTIVE DATE. This Resolution shall take effect immediately.

ADOPTED by the Governing Body this 21st day of January, 1992.

SIGNED by the Mayor this 21st day of January, 1992.

Mayor

ATTEST:

City Clerk

(SEAL)

APPROVED AS TO FORM:

Thomas [signature]

Municipal Counsel

CHAMBER OF COMMERCE

March 17, 1992

TO: Joan Wagnon, Members of the House Tax Committee

FROM: Donald R. Goss, President, Olathe Area Chamber of Commerce

SUBJECT: House Bill 2845, An Act Relating to property taxation

Representative Wagnon and members of the House Tax Committee, I appreciate the chance to visit with you today about House Bill 2845. I recognize that school finance and all its ramifications are creating many unusual situations for this body and others in the Legislature to deal with. Among those issues is the one addressed in House Bill 2845.

As a border community, it concerns me that we are creating almost a half-billion dollars in new taxes for business and residents. They are taxes that make it more difficult to compete with communities in Missouri who jump at the chance to lure Kansas industry across the border. It becomes a bigger concern when one realizes that business cannot deduct these new taxes. Couple that with removing an incentive that will help keep our community's overall tax picture somewhat in equal balance between Kansas and Missouri and we have helped slow dramatically the growth potential of our community.

I would suggest that a more palatable alternative is to look at the restrictions enacted in 1990 on tax abatements and continue that modification process. Our community recognizes the need to carefully analyze how an industry will impact on our community. It examines the long term benefits the business will bring to the community, the costs to our schools, the city and the county. It weighs carefully the alternative sources of income the industry will produce to offset taxes that might be abated. It then considers the level of abatement the community will give.

I must stress that our community does not agree with state statutory authority to abate 100 percent of ad valorem taxes for ten years. Because we do not agree with 100 percent abatements, our council will not to consider abatements that will exceed 50 percent of the taxes to be paid. They will only consider abating taxes on new tax value added by expansion of an industry, or new tax value brought to the community by a new industry. The council's policy does not allow it to consider abating taxes on property already on the tax rolls.

We feel these are decisions that should be left up to the local community. If legislation must be passed to deal with the issue, set a maximum that can be abated. Don't remove a tool that assists us remain competitive in the marketplace.

128 S. CHESTNUT
P.O. BOX 98
OLATHE, KANSAS
6 6 0 6 1
913 • 764 • 1050

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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

HB 2845

March 18, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Taxation

by

Bob Corkins
Director of Taxation

Madam 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 express our members' opposition to the proposal specified in HB 2845 regarding tax abatements for economic development.

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.

We believe that the current abatement authority allowed by Kansas' Constitution is an essential tool for attracting jobs and increased tax revenue for this state and its subdivisions. Kansas must compete for economic growth with all other states which now

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authorize school ad valorem tax abatements. HB 2845 would eliminate this tool from our competitive options.

There is a basic analysis which local officials should conduct whenever development issues come before them: will a given abatement proposal generate more money for this community than it will cost?

Not all local government expenditures can, nor should, satisfy this type of test. However, economic development initiatives can and should pass this sort of a short term or long term cost/benefit analysis. Otherwise, they should not be undertaken.

These are local decisions which should not be dictated by the legislature. Our constitution now leaves the abatement policy <u>option</u> where it appropriately belongs...at the local government level.

Statewide calculations suggest that local officials have not abused this option. Roughly $10 million in tax revenue is forfeited from property which has been abated under the constitution's economic development provision since 1986. Lost school district revenues would only be a portion of this amount. Furthermore, many abated businesses make payments to school districts "in lieu of" such property taxes.

When you compare the "cost" of school tax abatements to the $950 million in property tax revenue now collected by USDs, it is clear that the revenue "advantage" of HB 2845 would be minimal.

Furthermore, we believe that tax abatements would have very little effect on school financing if Kansas adopts a uniform statewide property tax for USDs. Our current SDEA formula creates an incentive for school districts to quietly accept all abatement proposals and forego payments "in lieu of" property taxes. However, district wealth plays a much smaller role in the HB 2892 school finance package and could be omitted completely, thereby <u>decreasing</u> the incentive to abate school property taxes.

Consequently, KCCI urges you to reject this proposal and reaffirm the policy which two-thirds of the House and Senate, and a majority of the voting Kansas public, has already endorsed.

Thank you for considering our views.

Greater Topeka
Chamber of Commerce
Three Townsite Plaza
120 East Sixth Street
Topeka, Kansas 66603
913/234-2644
FAX 913/234-8656

TOPEKA

TEN YEARS
ACCREDITED
CHAMBER OF COMMERCE
CHAMBER OF COMMERCE OF THE UNITED STATES

Testimony before the House Taxation Committee
March 18, 1992
Christy Young, Vice President Government Relations
Greater Topeka Chamber of Commerce

I am here today to oppose HB 2845 and 2946. The first bill will drastically limit the authority of local governments in providing incentives for the expansion and development of manufacturing, research and interstate warehousing. The second bill would artificially raise the wealth of a community affecting the school districts' funding formula. School districts, including the urban #501 Topeka School District, are unable to expand. The only way to increase their district's taxable wealth is to induce business expansions and location within the urban area. School officials in Topeka have long realized the importance of growth to our community and have supported tax abatements as a means to develop that wealth. These abatements do not take property off the rolls they assist in developing new dollars for the school districts over a period of time.

I have asked Al Bailey, Director of Community and Economic Development, to tell you how the City of Topeka determines their use of the constitutional tax exemption; how the local school districts are involved in the abatement decision; and, he will give you information on five companies who have been granted abatements since the law was passed.

Also here today is Mark Russell, President of La Siesta Foods in Topeka. La Siesta has utilized the tax exemptions to make it possible for this home-grown business to flourish.

Before these two gentlemen speak, I would like to address one other issue. There has been a perception among some that since the constitutional tax abatements were approved by the voters, that local communities, chambers of commerce in particular, are out raiding other Kansas communities to entice their local companies to relocate. This is not true. The Topeka Chamber does not design programs to recruit companies from other Kansas communities. We target market to those companies outside our state like those in California, Illinois or to international business. We believe the growth of business and jobs in Lawrence, Wichita, Hays, or any other Kansas community, benefits our state as a whole, and, we work together with other chambers across the state to make all our communities strong.

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TESTIMONY ON HOUSE BILL 2845
BEFORE THE HOUSE COMMITTEE ON TAXATION
By Mark B. Russell, President of La Siesta Foods, Inc.

Madam Chair and members of the Committee, my name is Mark Russell and I am the president of La Siesta Foods, Inc. in Topeka, Kansas. I appreciate this opportunity to address this committee in opposition of House Bill No. 2845 exempting property taxes levied by school districts from economic development programs offered by cities and counties.

La Siesta has benefitted from property tax abatements on our expansions in the past. When my father first purchased the company in 1978, we were a small manufacturer of corn tortillas, tacos and chips and distributed our products in Kansas. In 1982, we expanded our plant, and as part of that expansion the City of Topeka agreed to a reduced property tax program for the first 10 years after that expansion. In 1985, 1988, and 1990 we again expanded our facilities. Each time, the City of Topeka was there as a partner and offered us reduced property taxes as well as other business incentives to help us with those expansions. Each expansion was an extremely difficult time for our company. Resources were tight, and the budget was exceeded each time by unforeseen difficulties. Every bit helps in getting a new operation going, and the ability to avoid property tax expense while we incurred the expense of learning how to make the new products each time we added a production line was critical.

What has been the result? La Siesta has grown from 14 to 230 employees. We use 500,000 pounds of flour per week from the Cargill Mill in Topeka. Based upon the conversion of 2.3 bushels of wheat for every hundredweight of flour, the average yield of 35 bushels of wheat per acre, and the average farm size in Kansas of 694 acres, La Siesta buys the equivalent of almost 25 Kansas farms' production each year. We purchase soybean products from PMS Foods in Hutchinson, meat from Flint Hills Foods in Alma, plastic packaging from Midco Plastics in Enterprise, and boxes from Lawrence Paper in Lawrence. Our products are now being distributed throughout the United States (including Alaska and Hawaii), Canada, and Puerto Rico. The investment by the City of Topeka has benefitted the entire State.

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I do not think our school district has suffered by not receiving any property taxes on our expansions. First of all, we paid at least as much in property taxes before the expansion as we did after. The tax abatement policy did not remove property from the school district's tax rolls, rather it exempted taxes on something that may not have been built were it not for this policy. Our abatement only applied on the property added as a result of the expansion, we still paid property taxes on the assets we had before the expansion. The 216 additional employees in the community do pay property taxes on their property, as well as sales and income taxes. In short, the tax abatement policy does create tax revenues.

I assisted the Greater Topeka Chamber of Commerce and the City of Topeka in convincing Reser's Fine Foods, Inc. to locate their new salad plant facility in Topeka. It was completed in 1991. As part of that process and due to my close working relationship with Reser's, I became aware of the economic development packages being offered by other communities. 10 year property tax abatements, along with state-funded employee training programs, and utility reduction programs are the minimum being offered by other states. Some communities will also offer buildings as part of the package. It is tough enough attracting businesses to Kansas when other communities are offering the same thing that we are plus a building. Further reducing the economic benefit program by exempting the sizeable property tax component represented by the school district levy will, in my opinion, pretty much be put an end to any economic development programs in Kansas.

I also become concerned about the advantage that it will give my competitors in other states. If my competitor expands in a state with a normal economic development package, this bill will put me at a disadvantage. My competitor's pricing can be better because they will have lower overhead due to their tax abatements, and in this age of computers it only takes a few hundredths of a cent to make a difference. Inhibiting my growth also inhibits the growth of the farmer whose wheat, soybeans and cattle I buy, as well as the other Kansas manufactures that have been accustomed to my annual growth as a part of their annual growth.

11-2

The cost of this program is in property tax revenues that the school district might never see were it not for the property tax abatement program. The true cost of this bill is establishing a poor record for economic development and sending a signal that Kansas is not concerned about a partnership with business in developing our State. While in the short run it may produce additional revenues, in the long run it will cost us a tremendous amount as companies will interpret our business climate as adverse and locate new facilities elsewhere. Our property tax base will become stagnant, and the "brain drain" of our youth to other areas of the country where there are more opportunities will continue. I urge you to take the higher road on this matter, and not just look for more revenues. Defeat this bill right now, and send a signal to business that Kansas has a positive business environment. Let us stop sending confusing messages, and form a partnership that realizes that economic development programs can benefit the farmer as well as the manufacturer.

METAL-FAB INC.

MANUFACTURER OF PRODUCTS FOR ENVIRONMENTAL SYSTEMS

March 17, 1992

The House Taxation Committee
Room 519 South, State Capitol
Topeka, Kansas 66612

Dear Committee Member:

I am writing to you concerning House Bill 2845.

Metal-Fab is a strong advocate of economic development. In 1972 the City of Wichita issued $800,000.00 in Industrial Revenue Bonds to our company. Today those IRB's have been retired, and a company that was struggling at that time to stay in business is now a strong survivor.

We are an employee-owned company, employing some 200 people. All of these people live and pay taxes in Kansas. Today our payroll exceeds $5,000,000.00, and more importantly, 95% of our revenues come from outside of Kansas. In 1972 we built a 200,000 square foot manufacturing facility in Wichita on a vacant eleven acres of land. That land was producing next to nothing in tax revenue. When the IRB's were issued we received a ten-year tax abatement. In 1991 our company paid taxes to the State of Kansas in the amount of $285,000.00.

Taxes are strangling the manufacturers in Kansas. Last year a 24% increase in workman's comp rates, in 1992 an additional 31% increase, and now a 50% decrease in any tax abatements. You are making it very difficult to do business in Kansas.

Placing a larger and larger tax burden on manufacturing in the State of Kansas will not create more jobs, only reduce jobs as those companies either close down or leave our state.

I would urge you to please vote "No" on HB2845 in an effort to increase economic development not destroy it.

Sincerely,

METAL-FAB INC.

Dwayne H Shannon

Dwayne H. Shannon,
President

DHSvss
P9DS317

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FAX (316) 943-2717

House Taxation
Attachment 12
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