

Approved

May 7, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagon, Chairperson, at 11:30 a.m. on Monday, April 6, 1992 in room 526-S of the Capitol.

All members were present except:

Rep. Joan Adam, excused; Rep. Rex Crowell, excused; Rep. Jo Ann Pottorff, excused; Rep J. C. Long, excused.

Committee staff present:

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

Conferees appearing before the committee:

The Chair opened the public hearing on SB 629 and distributed an article on tax abatements from the Wichita Eagle (Attachment 1).

Representative Judy Macy appeared in support of SB 629 and introduced Gary George, ED.D., Superintendent of Schools for Gardner U.S.D. 231. He submitted written testimony (Attachment 2).

Gerry Ray, Intergovernmental Officer for the Johnson County Board of Commissioners, testified in support of SB 629 (Attachment 3). She submitted a letter signed by officers of the five airports directly affected by the bill (Attachment 4).

Representative Eloise Lynch appeared in support of SB 629 and introduced Tim Rogers, Executive Director of the Salina Airport Authority. Rogers appeared on behalf of the Johnson County Airport Commission, the Salina Airport Authority, the Pratt Airport Authority, the Strother Field Airport Commission and the Wichita Airport Authority (Attachments 5 and 6).

Bailis F. Bell, Director of Airports for the Wichita Airport Authority, testified in favor of SB 629 (Attachment 7) and responded to committee questions.

Written testimony was submitted from the following:

R. Lee Metcalfe, Executive Director of the Johnson

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 526-S,
Statehouse, at 11:30 p.m. on Monday, April 6, 1992.

County Airport Commission (Attachment 8)

Robert W. Little, Airport and Industrial Park
Manager for the Pratt Airport Authority (Attachment
9)

Donna J. Avery, Manager of the Strother Field
Airport and Industrial Park serving Winfield and
Arkansas City (Attachment 10)

Patricia E. Baker, Associate Executive
Director/General Counsel for the Kansas Association
of School Boards (Attachment 11)

The Chair closed the public hearing on SB 629.

Rep. Snowbarger made a motion to report SB 629
favorably. Seconded by Rep. Glasscock, the motion
carried.

The meeting adjourned at 12:15 p.m. The next
meeting will be April 7.

The Wichita Eagle

Established 1872
Incorporating The Wichita Beacon
Reid Ashe, Publisher

Davis Merritt, Jr.
Editor

Keith Murray
General Manager

Sheri Dill
Executive Editor

Steven A. Smith
Managing Editor

David Awbrey
Editorial Page Editor

EDITORIALS

Humming Tighten tax abatements but don't eliminate them

Reducing property taxes on businesses that create new jobs can be a valuable tool for increasing a community's wealth. If property-tax abatements are planned and executed properly, the resulting economic activity more than offsets the cost of the abatements.

But there's no denying that cities sometimes grant tax abatements that don't create wealth. One tale circulating in the Kansas Statehouse this year involves a dentist who persuaded his buddies on a certain city council — not Wichita's — to abate the property taxes on his new office building. Because the office switch created no new jobs and generated no new wealth, other taxpayers of that community had the dubious privilege of picking up the tab for the dentist's tax break.

When word of such abuses gets out, the validity of all property-tax abatements — even ones that do boost the Kansas economy — are thrown into doubt. That's why the House Taxation Committee was wise last week to pass a bill that would force city councils and county commissions to grant tax abatements only to businesses that create new wealth.

The bill would permit a city or county to abate the taxes only of businesses that invest in property related to manufacturing, warehousing or research and development. It would require that any payments businesses make in lieu of taxes be shared with school districts. And it would require cities and counties to show that the benefits of tax abatements are higher than their cost.

Tax abatements are a hot topic in this year's legislative session because the Legislature is considering a radical overhaul of the state's school-finance system, and a lot of legislators believe tax abatements impoverish school districts. They accuse Sedgwick County of trying to force property owners elsewhere in Kansas to pay its school costs. Instead, they contend, the Legislature should force the county to put its abated property on the tax rolls.

This argument overlooks the economic benefits that all of Kansas gleans from Sedgwick County's manufacturing base: jobs, sales- and income-tax payments, and contracts for countless small businesses all across the state. And it overlooks the dire consequences that can befall cities and counties whose manufacturers don't upgrade their machinery and equipment; the most common form of abatement that Wichita and Sedgwick County grants gives manufacturers an incentive to upgrade their machinery and equipment to remain competitive with manufacturers in Germany, Japan and Taiwan. If Wichita goes the way of Detroit, all of Kansas suffers.

For a while, it looked like the House tax committee might succumb to such defeatist thinking, and pass bills either eliminating abatements or drastically reducing their scope. By passing a bill that strengthens the abatement process and boosts public confidence in it, committee members demonstrated that they understand how a modern economy works and what it takes to keep it humming.

House Taxation
Attachment 1
04-06-92

Testimony of

GARDNER-EDGERTON-ANTIOCH
UNIFIED SCHOOL DISTRICT NO. 231

Regarding S.B. 629

Before the House Assessment and
Taxation Committee

Presented by:

Gary R. George, Ed.D.
Superintendent of Schools
Unified School District 231

House Taxation
Attachment 2
04-06-92

I want to thank you for allowing me to speak with you today regarding S.B. 629.

The Gardner-Edgerton-Antioch School District consists of 103 square miles mostly in southwestern Johnson County. A small part of our territory is in northwestern Miami County. All of the Johnson County Industrial Airport territory is within the Gardner-Edgerton-Antioch School District. Consequently, decisions regarding assessments, taxes, etc. can have a significant impact on our school district.

In the last session of the Legislature, H.B. 2194 was passed. I believe many legislators thought this would solve many of the problems surrounding airport tax questions.

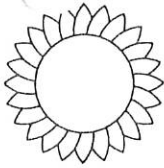
From our perspective, there are several issues that still need attention.

First, the back tax issue still needs to be totally cleaned up.

Second, we believe Section 2(b) of H.B. 2194 could potentially allow for some very long tax exemptions, particularly with renewals of leases. We therefore believe there ought to be a mechanism that permits payment in lieu of taxes that is distributed to the various taxing entities.

Let me conclude by urging you to be sensitive to the needs of local school districts. Sometimes our interests can be lost in the name of economic development.

I urge you to consider S.B. 629 and hope you will act favorably on it.



April 6, 1992

HOUSE TAXATION COMMITTEE

HEARING ON SENATE BILL NO. 629

TESTIMONY OF GERRY RAY, INTERGOVERNMENTAL OFFICER
JOHNSON COUNTY BOARD OF COMMISSIONERS

Madam Chairman, members of the Committee, my name is Gerry Ray representing the Johnson County Board of Commissioners, and appearing today in support of Senate Bill 629.

A great deal of time and effort were given in the 1991 Legislature endeavoring to address the airport tax issue and to develop a uniform statewide policy. The Interim Committee traveled to several airports, to see first hand how they were operated and to give local officials the opportunity to share their views. Although the Committee put forth an exceptional effort to find a solution, there was no recommendation offered by the Committee. In other words there does not seem to be a uniform airport tax policy that will fit the philosophy and needs of all communities across the State.

Although HB 2194 provided significant relief and help to the airports that were included, we have returned this year asking for assistance with a few clean up measures. Each of the airports coming under the bill agree that certain areas of the law are in need of clarification. Saline Airport was not included in HB 2194 but found itself a victim of "fallout" from the legislation. This year Johnson County requested SB 629 and Sedgwick County had SB 524 introduced. The Senate decided to merge the two bills and add Pratt and Salina Airports and Strother Field.

Representatives from the airports included in SB 629 met and agreed that the bill you have before you will provide the necessary solutions to the remaining problems at each airport. In your packet you will find a letter so stating this position.

In the interest of the Committee's time the group decided that only two people would speak rather than five of us presenting similar testimony. However, though some on the Committee may feel they have been told more about airports than they wished to know last year, there are seventeen members who did not have the

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opportunity to receive any of the details on the subject. This is because the bill was heard in the House Local Government Committee without the participation of the Taxation Committee until it had reached the conference committee. To off set this we have all submitted testimony and representatives from each airport are available to answer any questions you may have.

With that, I would like to call upon Tim Rogers, President of the Kansas Association of Airports and Director of the Salina Airport. Mr. Rogers will offer an explanation of the bill and testimony on behalf of the five airports.

Date: March 31, 1992
To: House Taxation Committee
Ref: SB 629 - Airport Facilities


During the 1991 Legislative Session, House Bill 2194 was passed to clarify the tax exemption status of a number of Airports. However, there were problems left unresolved by HB 2194.

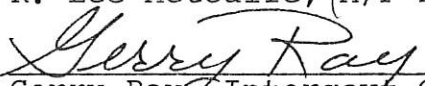
This Session, bills were requested by Johnson and Sedgwick Counties to address the individual problems encountered by their Airports. These two bills were merged in the Senate under SB 629. In addition the Salina and Pratt Airports and Strother Field were amended into the bill and it passed the Senate 37 to 3.

SB 629 now addresses the individual concerns of each of the Airports included in the bill. All Airport, City, and County officials representing these airports are in unanimous support of the bill.

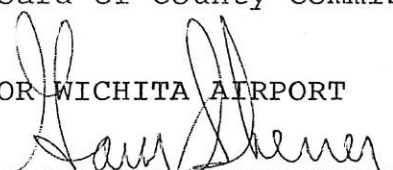
Considering the urgency of this bill to five communities and the regional impact, as well as the time constraints of the legislature, we would respectfully request that no further amendments be offered. In addition we will be seeking the help of House members representing the airport facilities, included in the bill, to strongly support passage of SB 629 in its present form.

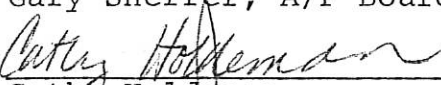
FOR JOHNSON COUNTY AIRPORT

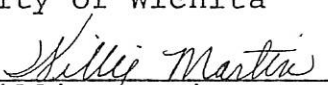

R. Lee Metcalfe, A/P Dir.


Gerry Ray, Intergovt. Officer
Board of County Commissioners

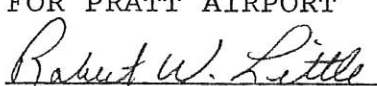
FOR WICHITA AIRPORT


Gary Sherrer, A/P Board

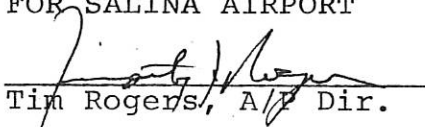

Cathy Holdeman
City of Wichita


Willie Martin, Intergovt. Rel.
Sedgwick Co. Brd. of Comm.

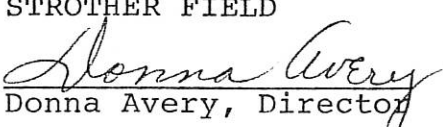
FOR PRATT AIRPORT


Rob Little, A/P Dir.

FOR SALINA AIRPORT


Tim Rogers, A/P Dir.

STROTHER FIELD


Donna Avery, Director

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Attachment 4
04-06-92

Before the
Kansas House
Committee on Taxation
Monday, April 6, 1992

Senate Bill No. 629

Testimony By: Timothy F. Rogers, Executive Director, Salina Airport Authority

On behalf of the Johnson County Airport Commission, the Salina Airport Authority, the Pratt Airport Authority, the Strother Field Airport Commission and the Wichita Airport Authority, I would like to briefly outline the effect of SB 629.

Passage of SB 629 will not result in the exemption of property that is currently on the tax rolls. Passage of SB 629 will clarify the issue of whether such property is subject to prior year taxes.

Passage of SB 629 will result in the placing of newly developed industrial properties at Kansas airports onto the tax rolls of their respective communities.

Section 1 of the bill amends K.S.A. 1991 Supp. 79-201q. This new language will become the general standard for the granting of exemptions from property taxes at Kansas airports. This language clarifies the exemption for the Johnson County Airport. Under this section Johnson County may require payments in lieu of property taxes on existing and future leases. Revenue from such payments shall be apportioned and distributed in the same manner as general property tax revenue.

Section 2 of the bill amends K.S.A. 1991 Supp. 27-319. This new language applies to two surplus military airports, Salina and Pratt, operated by airport authorities established under the Surplus Property and Public Airport Authority Act (K.S.A. 27-315 et. seq.).

Section 3 of the bill applies to the Strother Field airport commission. Strother Field is operated jointly by the City of Arkansas City and the City of Winfield.

Section 4 applies to the Wichita Airport Authority which was established under the provisions of K.S.A. 3-162 et. seq.

All four sections of the bill apply the same general policy:

1. The grant of an exemption from property taxes for all years prior to an established date.



Salina Airport Authority
SALINA MUNICIPAL AIRPORT / INDUSTRIAL CENTER

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2. For all subsequent years, only those properties that are aviation-related or essential to the operation of an airport will continue to receive property tax exemption.
3. For all subsequent years, industrial properties at Kansas airports will be subject to property tax. Qualified new industrial and existing industry expansions can still receive property tax abatements under Kansas constitutional and local government abatement provisions.

SB 629 is a diverse bill that meets the diverse needs of Kansas airports. The large, medium and small airports of Kansas are operated by a wide variety of governmental units. Kansas airports are operated by their respective governmental units in order to meet the various and diverse needs of their respective communities. SB 629 takes into account the operating, statutory and organizational differences among Kansas airports and applies a general policy concerning property tax exemptions.

The airport operators represented here today stand ready to answer your specific questions concerning SB 629. Thank you for your attention to this bill.

Respectfully submitted,

SALINA AIRPORT AUTHORITY



Timothy F. Rogers
Executive Director



Salina Airport Authority
SALINA MUNICIPAL AIRPORT / INDUSTRIAL CENTER

Before the
Kansas House
Committee on Taxation
Monday, April 6, 1992

Senate Bill No. 629

Supplemental Testimony By:
Timothy F. Rogers, Executive Director, Salina Airport Authority

Section 2 of SB 629 will clearly indicate that the Legislature intended for K.S.A. 1991 Supp. 27-319 to operate retroactively. As evidenced by testimony before both the Senate and House Local Government Committees in 1989, the Legislature intended to provide the SAA an exemption for all property it owned prior to and as of January 1, 1989. The passage of HB 2194 by the 1991 Legislature has resulted in the question being raised by the Saline County Counselor's office and the Department of Revenue's Division of Property Valuation of whether the SAA's 1989 amendment operated retroactively for the tax years 1986, 1987, 1988, and other prior years.

Since January 1, 1989, property acquired by the SAA for other than aviation-related purposes has been added to the tax rolls of Saline County. For example, in January, 1990, the SAA purchased a 72,000 sq. ft. manufacturing and warehouse facility for a new industry. The facility had previously been exempt from property taxes since it was constructed with industrial revenue bonds. The building is now leased to the new industry that employs 84 people. The industry will pay \$30,843 in 1991 property taxes.

Section 2 of SB 629 does not grant the SAA exemption from newly acquired or constructed industrial facilities. **Section 2** of SB 629 does not exempt any SAA-owned property currently on the tax rolls of Saline County.

Respectfully submitted,

SALINA AIRPORT AUTHORITY



Timothy F. Rogers
Executive Director



Salina Airport Authority
SALINA MUNICIPAL AIRPORT / INDUSTRIAL CENTER

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The Wichita Airport Authority

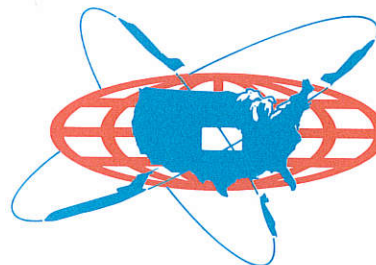
Gary Sherrer, *President*

David S. Elkouri
James T. Calhoun
Linda Ayala
David Bayouth

Bailis F. Bell
Director of Airports

Paul V. Dugan
Milton Glickman
Jerry James
Margalee Wright

April 6, 1992



Wichita Mid-Continent Airport & Colonel James Jabara Airport

Monroe L. Funk, P.E., *Director of Engineering and Planning*
Dwight W. Greenlee, *Director of Administration*
James W. Loomis, A.A.E., *Director of Operations and Maintenance*
Angie Prather, *Director of Marketing and Communications*

Testimony Before the Kansas House committee on Taxation

Regarding Senate Bill 629

The Wichita Airport Authority is in support of SB 629 which is before you for consideration.

SB 629 is a carefully crafted vehicle which, on a long term basis, establishes a policy for the taxation of government-owned properties on Kansas airports. SB 629 clarifies the practices of communities and taxing entities throughout the state while permitting local discretion in many cases when dealing with exemptions.

It is believed that the airport property tax issues in Kansas will be put to rest, and that all communities will benefit from the firm policy that SB 629 has to offer. The bickering will stop, the unknowns will disappear, and Kansas airports can get on about their business of developing aviation and industry for the benefit of all Kansans.


Bailis F. Bell
Director of Airports

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BEFORE THE
KANSAS HOUSE OF REPRESENTATIVES
COMMITTEE ON TAXATION

12:00 p.m., Monday, April 6, 1992

SENATE BILL No. 629

Comments of R. Lee Metcalfe, Executive Director, Johnson County Airport Commission

Ladies and Gentlemen of the Committee:

We appear before you today on behalf of Senate Bill 629, which we view as a "technical corrections" bill of sorts. I would like to very briefly address the two operative aspects of the bill that apply to the situation in Johnson County.

Retroactivity: Lines 23 and 24 of the bill extend the retroactive provision of last year's House Bill 2194 beyond December 31, 1983. The reason this is important to Johnson County is that the Johnson County Appraiser has made his appraisals on the airport property retroactive to 1981, and taxes have been assessed on properties covered by House Bill 2194 retroactive to 1981. The Board of Tax Appeals, in applying House Bill 2194 to Johnson County's exemption applications, has only exempted these properties for the period 1992 to 1983, as provided for in House Bill 2194, and has directed the Appraiser to apply the rule that property shall be taxable unless specifically exempted. This leaves certain properties at the Johnson County airports with outstanding tax balances for 1981 and 1982 and the potential for new retroactive assessments going as far back as 1974. We believe it in keeping with the original intent of the legislation proposed last year to extend the retroactivity of the exemption to cover those years, which enables Johnson County to perform on its original lease agreements.

Payments in Lieu of Taxes: Section 1.(a)(2) of the bill, beginning at line 25, and section 1.(b), beginning at line 33, are intended to allow us to impose payments in lieu of taxes on leases where it was our original intent that these properties become taxable after the revenue bond exemption period. The reason this is important to us is that House Bill 2194 included a provision that properties on which leases were in effect on April 15, 1991 would be exempt until the lease expires. The majority of the leases at the Johnson County airports extend into the second and third decades of the next century. It was never our intent that these properties be exempt for such a long term. We recognize that the airport lease policies in Johnson County may differ from other airports in the state, so rather than seeking to literally put those properties on the tax rolls after 1992, we are asking that we be enabled to impose payments in lieu of taxes on those leases so that we may ensure that public services are properly supported by the private sector tenants at our airports.

Johnson County would greatly appreciate the Committee's favorable recommendation of Senate Bill 629.

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PRATT AIRPORT AUTHORITY

P.O. BOX 867 • PRATT, KANSAS 67124

Testimony of

Robert W. Little
Airport & Industrial Park Manager
Pratt Airport Authority
Pratt, Kansas

In Support of S.B. 629

Before the
Assessment and Taxation Committee
of the Kansas Senate

April 6, 1992

Dear Chairperson, Committee members, thank you for the opportunity to appear on behalf of the Pratt Airport Authority. I appear in support of Senate Bill 629.

In the latter part of 1990 a Task Force was formed to investigate the justification of forming an airport authority to assume the responsibility from the City of Pratt for operating the Pratt Municipal Airport and Industrial Park. This task Force was successful, and the Pratt Airport Authority was established on April 1, 1991.

The success of our airport and industrial park is of utmost importance to the development of the City of Pratt, Pratt County and all of South Central Kansas.

The limitations placed on surplus property airports creates an additional challenge to the already highly challenging task an airport manager faces in maintaining a self sustaining airport facility.

The property tax exemption provided by senate bill 629 will assist the Pratt Airport Authority and other similar surplus property airports in Kansas in maintaining self sufficiency.

The Pratt Airport Authority strongly supports Senate Bill 629 and respectfully encourages your favorable consideration as well.

Thank you,



Robert W. Little
Pratt Airport Authority
Airport & Industrial Park Manager

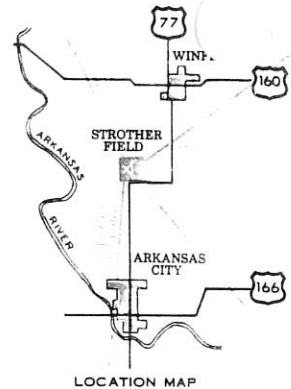
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P. O. BOX 747
WINFIELD, KANSAS 67156

PHONE: 316-442-4470
ARKANSAS CITY, KANSAS

PHONE: 316-221-9280
WINFIELD, KANSAS



OFFICE OF THE MANAGER
Before the
Kansas House
Committee on Taxation
Monday, April 6, 1992

This memorandum is written in support of the testimony given by Timothy F. Rogers, Executive Director of the Salina Airport Authority.

Strother Field Airport/Industrial Park is jointly owned by the cities of Arkansas City and Winfield in Cowley County, Kansas. This property was given to the two cities by the United States government at the end of World War II and has been owned and used by them as an airport facility since that time.

In 1970 the Kansas Supreme Court in the case of the City of Winfield, Kansas, and the City of Arkansas City, Kansas, Municipal Corporations of the Second Class, vs. The Board of County Commissioners of Cowley County, Kansas, et al., 205 Kan. 333, specifically determined that the Strother Field airport facility was exempt from ad valorem taxes. The use of the lands and airport by Strother Field has remained essentially the same as it was at the time of the 1970 Supreme Court decision.

At the present time Strother Field is self sufficient and all their operating costs are paid by revenues received from their operation of the field. This is of great benefit to Cowley County inasmuch as no airport levy is being made or has been requested, nor is Cowley County having to contribute anything from its revenues for the operation of the Strother Field facilities.

Strother Field has embarked on an aggressive industrial retention/expansion/recruitment effort which should ultimately result in an increased tax base for the county. Obviously SB 629 does not result in the exemption of property currently on the tax rolls and further SB 629 specifically addresses the placing of newly developed industrial properties at Kansas airports onto the tax rolls of their respective communities.

We concur with the testimony heretofore presented that SB 629 addresses and meets the diverse needs of Kansas airports, including that of the Strother Field airport. The making of a general policy is, in our opinion, sound public policy.

Respectfully submitted,

STROTHER FIELD AIRPORT/INDUSTRIAL PARK

By Donna J. Avery
Donna J. Avery, Manager

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Testimony on S.B. 629
before the
House Committee on Taxation

by

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

April 6, 1992

Thank you Madam Chairman, I appreciate the opportunity to submit testimony expressing concerns regarding S.B. 629.

The bill in its present form represents the combining of several issues regarding the tax status of airport authorities in Kansas. We understand the need for clarifying legislation to deal with the tax status of airport authorities prior to 1992.

Our concerns are primarily with the future--not the past.

1. For most municipal airports in the state, S.B. 629 exempts leased property only when such property is used for a purpose essential to the operation of the airport, or where nonessential, there is an existing lease agreement.
2. Salina, Pratt and Strother Field are exempt, prospectively as well as retrospectively.
3. New Section 4 of S.B. 629 exempts all property owned by the Wichita Airport Authority. I call your attention to the broader language used in this Section as it relates to leased property. For the Wichita Airport--any leased property which is used for

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aviation related purposes is exempt. For other municipal airports, except Salina, Pratt and Strother Fields, the exemption for leased property applies only when such property is used for purposes essential to the operation of the airport.

KASB's concern has long been that exemption of property from ad valorem taxes should be granted only after thorough and complete analysis of the effects on school finance throughout the state. Not only do we fear a narrowing of the existing tax base, but also realize that improved schools must not be denied the benefit of an expanded tax base.

We support economic development in the state of Kansas--schools can only benefit. But so long as we rely on property taxes to fund education careful scrutiny is called for, on a state-wide basis, when tax exemptions are discussed.

Thank you for taking the time to review these comments.