

Approved: _____

Phill Kline
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairperson Phill Kline 9:00 a.m. on January 11, 1995 in Room 519-S of the Capitol.

All members were present except:: Rep. Douglas Lawrence - excused

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes
Ann McMorris, Committee Secretary

Conferees appearing before the committee:

Proponents: Bob Baird, General Motors (Attachment 1)
Bert Cantwell, Pres., KCK CofC (Attachment 2)
Don Seifert, City of Olathe (Attachment 3)
David Keil, Frito-Lay/Kansas (Attachment 4)
Donald E. Lilya, Plant Mgr, Goodyear Tire & Rubber Co.
(Attachment 5)
Mark Russell, President, LaSiesta (Attachment 6)
Ken Morse, Legal Counsel, Hill's Pet Nutrition, Inc.
(Attachment 7)
Bernie Koch, VP Govt. Relations, Wichita CofC (Attachment 8)
Bob Corkins, Ks. Assn. of Comm & Industry (Attachment 9)
Christy Young, Topeka Chamber of Commerce
Alan Cobb, Kansas Assn. of Small Business (Attachment 10)
Donald P. Schnacke, EVP, KIOGA (Attachment 11)

Opponents: Marty Bloomquist, Financial Analyst, Shawnee County
(Attachment 12)

Written testimony only from proponents:

Dennis Schwartz, Kansas Rural; Water Assn. (Attachment 13)
Jim Hansen, Owens-Corning (Attachment 14)
LePage Products, Inc. (Attachment 15)
Heatron Custom Designers (Attachment 16)
Gill Studios, Inc. (Attachment 17)
Great Western Mfg. Co., Inc. (Attachment 18)

Others attending: See attached list

The meeting was called to order at 9:00 a.m. by Chairperson Phill Kline.

H.B. 2055 - Sales Taxation: Exempting sales of certain utility services consumed in production

Testimony was presented by 12 proponents and 1 opponent. See attachments.
Action by committee scheduled for January 12.

Moved by Larkin, seconded by Welshimer, the minutes of the January 10 meeting be approved. Motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on January 11, 1995.

The next meeting is scheduled for January 12, 1995.

TAXATION COMMITTEE GUEST LIST

DATE: 1-11-95

NAME	REPRESENTING
Don Seifert	City of Olathe
David Keil	Frito-Lay, Inc.
Bill Jancek	BOEING
Carl Daugherty	EMPIRE DISTRICT ELECTRIC
KEVIN T. STAMPER	INTERN - SEN. MORAN
BERT CANTWELL	KEK CHAMBER
ROBERT BAIRD	GM FAIRFAX PLANT
ORA E MCINTOSH	GM FAIRFAX PLANT
MARK CIARDULLO	KDOR.
Star Stotts	"
Earl Ransom	LOCAL 367 UAW
Gene Conny	GOODYEAR TIRO
Donald Lang	Goodyear Tire
Donald E. Zilka	Goodyear - Topeka Plant
Wayne Markus	75. AFL-CIO
Bernie Koch	Wichita Area Chamber of Commerce
ALAN COBB	KANSAS Assoc. For Small Business
Bob Corkins	Ks Chamber of Commerce & Ind.
Bill Henry	Ks Engineering Society

TAXATION COMMITTEE GUEST LIST

DATE: Jan 11

NAME	REPRESENTING
Harriet Lange	Ks Assn Broadcasters
KEVIN ANDERSON	BACBEE & ASSOCIATES
Clay Vey	SFRMC Wichita
Frank Morris	KCUR FM
Dennis Schwartz	Ks Rural Water
Christy Young	Topeka Chamber of Commerce
John Petersen	Raytheon Aircraft
Jim Alley	EKOGK
Bob Tilly	Olathe
Jon Newman	Ks Governmental Affairs
Patrick Hurley	KCPB
FRANCES KASTNER	Ks Food Dealers Assn
Bob Johnson	WU WU Law & Studies
Mike Hair	Hoin, EBOT & WOPV
Ker Moore	Hill's Pet Nutrition
Ker Johnson	Hill's Pet Nutrition
Jim Ludwig	Western Resources
Nicole Bryant (CURB)	



Fairfax Plant
General Motors Corporation
3201 Fairfax Trafficway
P.O. Box 15278
Kansas City, Kansas 66115-1307

January 11, 1995

Chairperson of Kansas Senate Committee on Taxation

SUBJECT: *Repeal of Sales Tax on Utilities Used in Manufacturing*

General Motors supports the need to repeal the new tax placed on utilities that are used in manufacturing. This tax was initially passed with the idea that industry would just raise the price of their goods to pay for the tax. Recently, the consumer has informed General Motors that more features are required in our automobiles, but these same consumers do not want any price increases. GM has tried to meet these requests by reducing the cost of producing automobiles while adding value to our products. In many cases, inventories have been reduced, employment has been reduced, and costs have been reduced to offset the higher cost of these additional features in GM automobiles.

One area that GM has not been able to control is intermediate taxes, such as sales tax on utilities and construction activities that Kansas recently passed. The marketplace in which GM competes does not have to pay these taxes, and has not allowed GM to raise prices enough to pay for this sales tax. General Motors has paid \$200,000 to \$300,000 per year for this sales tax.

These types of taxes show industry that Kansas does not want industrial growth to help meet the financial needs of the State. Most companies, like GM, have many facilities around the world, and these facilities must compete with each other for new products and growth opportunities. The GM Fairfax Plant is working to be the best facility within all measures in the General Motors system. At this time, we are not the best in all areas, and low operating costs is one area where we are behind the expectations. With the sales tax in place, Fairfax's utility costs rank 24th out of 54 in North America; without the tax, this cost would move Fairfax to 7th best.


The sales tax on utilities used by General Motors ends up being a tax on tax when the company can raise prices to cover the intermediate tax, and then the consumer pays the tax again. This form of tax is hidden to the consumer, and appears that industry is just raising prices to increase profit ratios.

Originally, this tax was put into place because of projected budget shortfalls and the need for relief on property taxes that existed. These conditions are not as severe today, and no longer appear to require the new sales tax on utilities used in manufacturing to remain in effect.

General Motors requests that the sales tax on utilities utilized in manufacturing be repealed.

Should you have any questions, please contact Mr. R. K. Baird at (913) 573-7303.

Very truly yours,


P. H. Clatterbuck
Engineering Manager

PHC:RKB:clc
rkb50111:f6f

cc: T. A. Clarke
B. Cantwell
T. Letterman

ATTACHMENT 1



**Testimony Before The House Committee
on Assessment and Taxation
By
Bert Cantwell, President
Kansas City Kansas Area Chamber of Commerce**

Mister Chairman and Members of the Committee:

My name is Bert Cantwell of the Kansas City Kansas Area Chamber of Commerce; an organization representing 800 business firms and professionals in and around Wyandotte County. I thank you for this opportunity to speak in favor of legislation that would repeal the industry-penalizing sales tax on utilities consumed in the manufacture of goods and products.

We are blessed in Kansas City with local plants of some of the greatest manufacturers in America. Companies such as General Motors, Colgate-Palmolive, Procter & Gamble, Owens-Corning and Certainteed, to name a few. These companies, and others like them provide good jobs to thousands of Kansans. All are adversely affected by the sales tax imposed on electricity, water and gas used in the manufacture of their products.

The average pay of a worker employed in manufacturing in Wyandotte County is approximately \$35,000 per year. These are good jobs - jobs that we don't want to lose. Unfortunately, the folks back at the headquarters of international companies like those mentioned, examine the bottom line very closely, and, when cuts need to be made, they will be made in locations where the costs to produce their products are the highest.

The cost to our General Motors plant for electricity, gas and water consumed in 1995, is estimated to be between 8 and 10 million dollars. Put a 2.5% sales tax on top of that and you have added insult to injury.

Our Armour-Swift-Eckrich facility is one of twenty like it in the U.S. Their cost for utilities and treatment of their waste water is the highest of any of their facilities in the nation. The sales tax on their utilities alone cost them over \$50,000 last year. The cost of this tax to the local Certainteed operation in 1994 was \$177,000.00. Money that could have been used to invest in new equipment or to develop new products.

ATTACHMENT 2-1

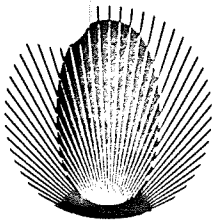
Colgate and Procter & Gamble have both been fixtures in Kansas City, Kansas for most of this century. Both have been forced to make substantial cuts in the recent past in an attempt to remain competitive. The local Colgate plant pays the highest taxes per unit of product produced of any similar facility in the United States. The local Procter and Gamble plant has the dubious distinction of being the highest taxed Procter & Gamble facility in the nation with the tax on the utilities they consume being a significant part of that tax burden.

The manufacturing industry is very important to Kansas. It is severely affected by this tax. Not just the large manufacturers, but smaller ones as well, perhaps they even more so.

The sales tax on utilities consumed in manufacturing, taken in isolation, might not seem too unreasonable. However, when you combine it with the other taxes levied against manufacturers, then it clearly puts Kansas companies at a disadvantage with their competitors located in other states.

On behalf of the business community in Wyandotte County, I urge you to repeal the sales tax on utilities. It is very counter-productive to economic development. It penalizes an industry that provides some of the best jobs for workers in our State; workers who produce Kansas products that are exported around the world.

Thank you again for listening to me. I will be pleased to respond to any questions you may have.



City of Olathe

MEMORANDUM

TO: Members of the House Taxation Committee
FROM: Don Seifert, Management Services Director
SUBJECT: House Bill No. ____; Sales Tax Exemption for Utilities in Production
DATE: January 11, 1995

On behalf of the city of Olathe, thank you for the opportunity to appear today in support of this bill. It would restore the sales tax exemption for utilities consumed in the manufacturing process that was eliminated by the 1992 Legislature.

Unlike many communities in Johnson County, the Olathe economy has a significant manufacturing base. The community is comfortable with manufacturers, and the city and Chamber of Commerce are constantly working to expand the base. A number of our manufacturers, such as Bendix-King, Delco Battery, and Southwest Petro-Chem are quite energy intensive. We believe the 2.5% sales tax imposed in 1992 on utilities consumed in manufacturing was ill advised, adding an additional burden making our Kansas manufacturers that much less competitive in national and world markets. With the addition of local sales taxes, the 2.5% rate is actually 4.1% in our community. We believe this tax is contrary to the economic development efforts of the state to create and retain basic jobs.

The attached figures compiled by Kansas City Power and Light Company isolate the impact of this tax on six actual Olathe manufacturers. Following imposition of the tax in 1992, one company ("Company B"), a heavy power user which lost its prior exemption, experienced an 800% increase in its sales tax liability.

The city urges the Committee to approve this bill, and send a positive message to our basic Kansas industries.

rc

Attachment

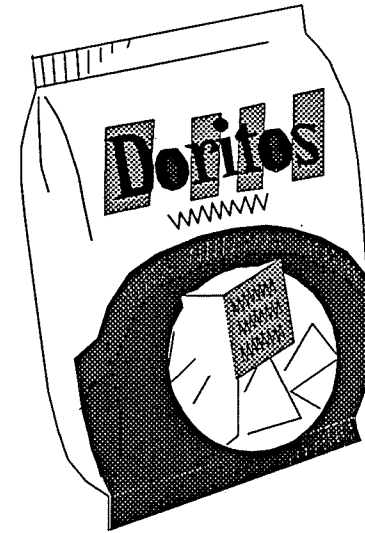
ATTACHMENT 3-1

SALES TAX EXAMPLES

NAME	BASE REVENUE	EXEMPTION	OLATHE			
			OLD TAX	NEW TAX	($\$$) INCREASE	($\%$) INCREASE
COMPANY A	\$435,360	None	\$18,503	\$21,333	\$ 2,830	15
COMPANY B	488,753	93%	1,439	13,032	11,593	805
COMPANY C	15,934	None	677	781	104	15
COMPANY D	148,356	48%	3,026	5,418	2,392	79
COMPANY E	11,486	None	488	563	75	15
COMPANY F	14,621	None	621	716	95	15

FRITO-LAY / KANSAS

- Testimony before the House Taxation Committee
- Phill Kline, Chairman
- January 11, 1995



ATTACHMENT 4-1



Given by: David Keil

Outline

- I. Frito-Lay / Kansas Overview
- II. Competitive Environment
- III. State Tax Comparison
- IV. Summary



Frito-Lay / Kansas

- ▶ 700 People Employed in Kansas
- ▶ \$30,000,000 Salary / Benefits
- ▶ Kansas agricultural commodities purchased 1994 = \$7MM
- ▶ Plant in Topeka since 1952
- ▶ 7 state service area
- ▶ Products:
 - ▶ *Lays* *Ruffles* *Rold Gold*
 - ▶ *Doritos* *Tostitos* *Cheetos*

4-3



Competitive Environment

▶ External:

58% market share locally

Compete on value and variety

Competition: Nabisco, Anheuser-Busch, Borden, Procter & Gamble.

▶ Internal:

Allocation of Jobs dependent on \$/Lb cost

Fixed cost increases:

- ▶ *Labor reduction*
- ▶ *Supply reduction*
- ▶ *Reduced hours*
- ▶ *Passed on to consumer*

State Tax Comparison

<u>Frito Lay Plant</u>	<u>1994 Actual \$</u>	<u>Cost Per Lb</u>	<u>1995 Forecast \$</u>	<u>Cost Per Lb</u>
Topeka	\$ 922,410	\$9.73	\$1,026,926	\$11.16
Frankfort, IN*	\$ 357,685	\$2.90	\$ 431,508	\$ 3.50
Beloit, WI*	\$ 413,671	\$4.61	\$ 574,883	\$ 6.41
Dallas , TX*	\$1,055,263	\$9.36	\$1,491,139	\$13.23

2.5% Utility Tax Impact = \$44,000

* Pay no tax on utilities used in production

4-5



Summary

- ▶ New Manufacturing Line addition pending 1995/96
- ▶ Will be assigned based on current/future \$/Lb
- ▶ Topeka Plant has shell space available
- ▶ We would like the line in Kansas:
 - ▶ *100 + jobs*
 - ▶ *\$3,000,000 in salaries and benefits*

4-6



The Goodyear Tire & Rubber Company

P. O. BOX 1069
TOPEKA, KANSAS 66601

PHONE (913) 295-7111
FAX (913) 295-7134

TESTIMONY BEFORE THE HOUSE TAXATION COMMITTEE

JANUARY 11, 1995

BY DONALD E. LILYA PLANT MANAGER GOODYEAR TOPEKA PLANT

TODAY I WOULD LIKE TO RE-EMPHASIZE THE FACT THAT HIGH TAXES ON BUSINESS AND INDUSTRY ARE A DETRIMENT TO THE GROWTH OF KANSAS IN THE FUTURE.

THERE ARE MANY FAVORABLE INDICATORS IN KANSAS, NAMELY WORK ETHIC, EDUCATIONAL SYSTEMS, AND AVAILABLE LABOR POOLS, ALONG WITH GOOD HIGHWAY SYSTEMS, PLENTIFUL SUPPLY OF UTILITIES, WATER, AND EVEN THE CLIMATE. THE NEGATIVE IS THE TAX LIABILITY OF DOING BUSINESS IN THE STATE OF KANSAS.

DURING THE 1992 LEGISLATIVE SESSION A 2.5% TAX WAS PUT ON UTILITIES USED IN MANUFACTURING. THAT SEEMINGLY INNOCENT TAX INCREASED THE

ATTACHMENT 5-1

COST TO THE GOODYEAR TOPEKA PLANT BY \$250,000 DOLLARS -- ANOTHER
NEGATIVE IMPACT FOR DOING BUSINESS IN KANSAS.

THE TOPEKA PLANT IS THE HIGHEST TAXED GOODYEAR MANUFACTURING FACILITY
IN NORTH AMERICA. WE ACCOUNT FOR 47% OF THE TAX BURDEN OF EIGHT
GOODYEAR FACTORIES IN THE UNITED STATES.

WHEN YOU TOTAL PERSONAL PROPERTY AND REAL ESTATE TAXES, SALES TAX,
CORPORATE INCOME TAX, UNEMPLOYMENT COMPENSATION, WORKERS
COMPENSATION, TAX ON UTILITIES, FEES, ETC. IT COSTS GOODYEAR \$8.4
MILLION DOLLARS TO CONDUCT BUSINESS IN THE STATE OF KANSAS.

THE TOPEKA PLANT LIKE ALL OF GOODYEAR'S' MANUFACTURING FACILITIES IS A
COST CENTER. THAT MEANS OUR RESPONSIBILITY IS TO MAKE THE BEST
QUALITY PRODUCT AT A COMPETITIVE COST. THE TAX ON UTILITIES USED IN
MANUFACTURING IS A DIRECT INCREASE TO THE COST OF OUR PRODUCT, AND
REDUCES OUR COMPETITIVE EDGE. THE NEGATIVE COSTS OF ANY PLANT ARE
TAKEN INTO CONSIDERATION WHEN CAPITAL DOLLARS FOR EXPANSION AND

GROWTH ARE BEING CONSIDERED. WE WANT TO BE CONSIDERED FOR EXPANSION
IN THE FUTURE AND LEGISLATORS IN KANSAS CAN HELP US.

I URGE YOU TO REPEAL THE 2.5% TAX ON UTILITIES USED IN MANUFACTURING.

THANK YOU FOR ALLOWING ME TO ADDRESS THIS IMPORTANT ISSUE.

TESTIMONY OF MARK B. RUSSELL
REPEAL OF SALES TAXES ON UTILITIES CONSUMED IN MANUFACTURING
Before the House Taxation Committee on January 11, 1995

My name is Mark B. Russell, and I am the president of La Siesta Foods, Inc. in Topeka, Kansas. We manufacture Mexican food products for distribution nationally. I am here to testify on behalf of the elimination of the sales tax on utilities consumed in production.

I would first like to make clear that the sales tax exemption on utilities consumed in the production process was not a loophole in the sales tax law as was depicted by the previous administration. In order to obtain this exemption, we had to document where our utility consumption was. This meant that we had to show through an electrical engineering survey where our utility consumption was. Prior to the current law, we paid no sales tax on utilities that we used directly in the manufacturing process. Our telephone bills were subject to sales tax because that utility was not consumed in production. The natural gas that we used to cook our products is consumed in the production process and was exempt from sales tax. The gas that we use to heat the offices was not consumed in the production process, and was subject to sales tax. The electricity that we used to freeze the our product in the manufacturing process to preserve its freshness was exempt from sales tax because that consumption was inside the production process. However, the electricity that we use in our shipping freezers to hold the product's temperature until it is shipped was not exempt from sales tax because it is not consumed in production. In short, some but not all of the utilities our company consumed were exempt from sales taxes.

Charging a tax on utilities consumed in production is not a sales tax, it is a value-added tax. This tax makes me uncompetitive with manufacturers in other states. We have used \$337,000 in utilities in the past year, and have paid \$15,300 in sales taxes. This is about \$11,000 in additional taxes that we pay. In addition, we suffer an economic penalty by doing business with Kansas manufacturers. The amount of flour that we use is about the equivalent of 26 average Kansas farm's production, and we buy that wheat from a Kansas producer. They have had to raise prices to account for the sales taxes that they consume in milling the wheat that we use. We also purchase about 30,000 pounds of beef and 20,000 pound of cheese per week from a Kansas processors, all who now have to pay sales tax on the utilities that they used to produce raw materials for us. If those meat and cheese processors purchase their raw materials from Kansas suppliers, then their raw materials costs also rise to cover the cost of the sales tax. They have had to raise my price to cover for the utilities that they now have to pay. I also purchase boxes from Kansas manufactures, and soybean products that we purchase from a Hutchinson supplier. All of these suppliers now need to increase their costs to account for the sales tax that they now are charged in connection with their utilities. Needless to say, the actual cost of this value-added tax to me is impossible to calculate but becomes much more that the \$11,000 that we can directly identify. My competitors in California or Arizona or Georgia do not have to incur this additional charge. I do not have to pay a sales tax on the flour, or boxes, or soybean products I use in production. All of these items are also consumed in producing my products, much the same as are utilities. However, because we are in Kansas we pay a sales tax on utilities used in production, as to my Kansas suppliers, and as do their Kansas suppliers. My competitors, purchasing the same type of products from their local suppliers, do not have the same tax burden.

Adding a half cent of cost to my product can mean an additional 3 cents once the product gets to the store shelf. If the consumer sees two packages of tortillas on the shelf, one for 89 cents and one for 92 cents, they purchase the cheaper one. My competitors do not pay this sales tax. My national customers do not see the advantage to paying sales taxes in Kansas, and therefore purchase the cheaper product from another state. We do not get the growth that we should, and new jobs go of the other states. Please repeal this tax and put Kansas manufacturers on a level playing field with their competitors. Doing so will let us be competitive in the national marketplace, and help increase employment in our State.

ATTACHMENT 6



Hill's Pet Nutrition, Inc.
P.O. Box 148
Topeka, Kansas 66601-0148
913-354-8523

January 11, 1995

Testimony of Hill's Pet Nutrition, Inc. and Colgate-Palmolive Company

Chairman Kline, members of the House Committee on Taxation. My name is Ken Morse, Vice President of Legal and Governmental Affairs for Hill's Pet Nutrition, Inc. I am here today on behalf of Hill's Pet Nutrition, Inc. and our parent corporation, Colgate-Palmolive Company, to support the proposed repealing of the sales tax on utilities used in the manufacturing process.

Our corporation has two significant operations in Kansas:

Hill's Pet Nutrition, Inc. in Topeka which manufactures dry and canned pet food sold domestically and exported to over 45 countries world-wide. These products include the well-known brands of Science Diet®, Prescription Diet®, and HealthBlend® products. These products were innovative in the field of proper nutritional management of healthy dogs and cats and those with various disease conditions. These products have brought both financial success to Hill's as well as world-wide recognition and acclaim.

The Colgate-Palmolive Company plant in Kansas City, Kansas, manufactures bar soaps and automatic dish washing detergents. They have been in Kansas since the late 1800's.

Collectively these two operations employ over 1200 Kansans with a payroll in excess of \$50 million.

During the past year our two manufacturing facilities have consumed over \$3 million of utilities and paid over \$75,000 in sales tax on these utilities. Over the next five years this would represent a cost to Hill's and Colgate of close to \$400,000. In these days of increasing costs

ATTACHMENT 7-1

and increasing pressure on profit margins, Hill's and Colgate are continually looking for ways to manufacture more efficiently to achieve savings for expanding business opportunities. The passage of this bill can help achieve that goal. Dollars saved by passage of this bill could be reinvested in the capital equipment to maintain modern equipment to allow us to produce products that remain competitive in the market place and lead to expansion that means job opportunities for Kansans.

In general, any tax reduction on production will benefit Kansas in that local operations will be able to compete more strongly with other companies outside of Kansas. This is important for intra-company decisions on the use of facility resources.

For example, Hill's has manufacturing plants in four locations in the United States. Obviously, we will produce our products in the facility that can make the product most economically. Therefore, the plant with the lowest manufacturing costs will be requested to produce the most products. This plant would then receive more support for staffing and capital expansion.

This is also true for all production. For companies to remain in the state, and hopefully to relocate into the state, the costs of production must be competitive. Therefore we all must work to keep all unnecessary costs out of our systems. Obviously, the more production in the state, the more people that can be employed and the larger the overall tax base of the local operations.

Therefore, Hill's and Colgate-Palmolive add their support for the repeal of the sales tax on utility services consumed in the manufacturing process.

Thank you for the opportunity to present these comments.

TESTIMONY TO HOUSE TAXATION COMMITTEE
REPEAL OF UTILITIES CONSUMED IN PRODUCTION

Bernie Koch
Wichita Area Chamber of Commerce

January 11, 1995

Mr. Chairman, members of the committee, I'm Bernie Koch, Vice President for Government Relations with The Wichita Area Chamber of Commerce. Thank you for the opportunity to appear before the committee today.

I will make my remarks brief. The Wichita Area Chamber supports repeal of the 2 and 1/2 percent sales tax on utilities consumed in production.

I believe that more of this tax is collected in South Central Kansas than in other regions of the state. That's because we have more manufacturing than other regions, so we consume more electricity.

1992 figures show that 33 percent of all manufacturing jobs in Kansas were in Sedgwick, Harvey, and Butler Counties. Those figures also indicate that 40 percent of all manufacturing earnings in Kansas come from those three counties. With a larger number of manufacturers, we pay more of this tax. It's not geographically proportional.

It's also a tax on production, and production is something we want to encourage.

Something else I'd like you to consider is that this tax seems to hit at exactly the kinds of business we want to encourage in Kansas, companies with high wage, high tech, high skill jobs. Generally speaking, these kinds of manufacturing companies tend to use more electricity.

How hard does this hit Kansas manufacturers? It depends on what kind of products they make and how much electricity they use, as well as other factors.

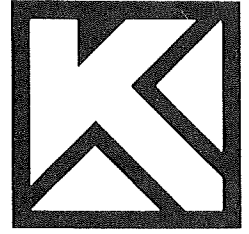
Let me give you an example from one of our members, a foundry in Wichita. They compete with foundries in Nebraska, Missouri and, Oklahoma for business.

Their last electric bill of 1994 showed a sales tax charge of \$563. The owner tells me this is about 10% of the company's net profit.

Thank you again for the opportunity to appear today and for your attention to repeal of this sales tax.

ATTACHMENT 8

LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

HB 2055

January 11, 1995

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by
Bob Corkins
Director of Taxation

Honorable Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I appreciate the opportunity to speak today. KCCI supports HB 2055 with its move away from the industry-penalizing, "value added," inflationary tax policy created by imposing sales tax upon electricity, gas and water consumed in manufacturing processes.

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.

ATTACHMENT 9-1

Many of the arguments you have heard or will hear regarding the sales tax on original construction services are applicable in this context as well. In both cases, the bottom line which should control your policy decision relates to jobs and the disposable income of average Kansas taxpayers. These two sales tax exemptions were created to foster job creation, to protect the competitive position of Kansas businesses, and to avoid the inflationary and inequitable practice of "tax pyramiding."

Also in both cases, the taxes were imposed in 1992 in the name of property tax relief. However, **property tax** relief (if in fact it was experienced at all by an individual taxpayer) does not necessarily equate to **tax** relief.

This is particularly true with respect to industry. Manufacturers are hit hard by the new sales tax on their energy. Manufacturers will be unfairly burdened by the higher property tax rate applied to public utilities. Manufacturers make large scale expansion plans which now entail the added cost of a sales tax on construction services. Many manufacturers have suffered the increase in their state corporate income taxes...up from an already extremely high burden for our region of the country. And manufacturers must also pay property taxes on their machinery (often of much greater value than their real estate) at an assessment rate 25 percent higher than in 1992.

Any of these increases, taken in isolation, may have been reasonable or at least tolerable as part of the overall restructuring of Kansas taxes. Some, like the sales tax on consumed utilities, are more onerous than others.

Clearly, such tax burdens work in opposition to basic economic development. Manufacturers provide on average the state's highest wage jobs, with the greatest potential for spin-off employment in other businesses in their communities. They also offer the best source for generating Kansas wealth through the products which they export.

In the current discussion, the subject of Kansans' wealth is important in the context of its erosion by inflation. My earlier reference to the "value added" character of this utility tax harkens a direct comparison with federal proposals to create a Value Added Tax (VAT). A VAT is employed by Canada, Japan, and several European countries as a means for diversifying their overall tax structure. VATs attempt to tax the difference between each producer's sales and the cost of all inputs used to produce the goods sold. Inflation is a natural byproduct of VAT systems.

Independent studies cited by the National Retail Federation (NRF) support this assessment.

As explained in NRF literature:

VAT advocates and critics alike agree that a VAT would cause a one-time increase in prices immediately after imposition. Depending on the VAT rate levied, however, this one-time increase in prices could be large. One VAT supporter predicts that a 10-percent VAT applied to 80 percent of consumption could raise the cost of consumption by about 8 percent...The price rise induced by the VAT would not necessarily be just a one-time phenomenon. If workers received full compensation for the price increase (e.g. because wage increases were triggered by cost of living allowances in labor contracts), the one-time inflationary effect of a VAT could trigger an inflationary spiral. Value Added Taxes: No Cure for What Ails Us, National Retail Federation, 1993 (citing Charles E. McClure, Jr., American Enterprise Institute, 1987).

Of course, the scope of Kansas' sales tax on manufacturers' utilities is not as broad as a VAT. It is just one portion of a VAT, and is not levied directly upon wholesalers and retailers as would be a VAT. This example nevertheless describes the market effects which our sales tax now sets in motion.

The utilities sales tax runs contrary to the overall purpose of our sales tax code by adopting this VAT-like course: sales taxes are conceived as levies upon end-users rather than upon wealth-generating producers. Manufacturers use energy to produce goods which are then consumed by the final purchaser. By imposing sales tax on product components and passing the tax cost on in the sales price of the final product, the end-user must pay sales tax upon sales tax. Our sales tax system thereby broadens itself into a VAT as it encroaches upon more production inputs. This

dangerous precedent was displayed in Canada where their VAT was adopted as a one-for-one replacement of Canada's previous Manufacturers' Sales Tax.

Inflationary impact, however, is based on the ability of businesses to pass along the cost of such taxes to subsequent purchasers. For those businesses unable to do so, the results will be fewer sales, smaller market potential, pressure to suppress employee wages or force layoffs, production curtailment, or outright plant closure.

Kansas should be especially sensitive to such dangers for one predominant reason: we export a lot of goods. Grain, aircraft, automobiles, tires and processed foods are just a very few examples of our current export power and further economic potential, yet these are the expertises directly burdened by the sales tax in question today. The vast majority of interstate and international competitors recognize the poor policy of raising export costs through taxing the production stages of their own goods. Kansas should recognize that also.

KCCI respectfully asks that you recommend HB 2055 favorably for passage. This Legislature has voted twice since 1992 to repeal the tax and we are hopeful that the third time is a charm. Thank you for your time and consideration.

9-4

KASB

President
Don McGinty
McGinty Machine
Wichita

Vice-President
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Acme Foundry
Coffeyville

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Greenway Electric
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Mid-Central Mfg.
Wichita

Exec. Director
Alan Cobb

Kansas Association for Small Business

532 N. Broadway ♦ Wichita, Kansas 67214 ♦ (316)267-9992 ♦ Fax (316)267-1448

January 11, 1995

Chairman Kline and members of the committee:

Thank you for this opportunity. I am Alan Cobb representing the small and medium manufacturers that make up the membership of the Kansas Association for Small Business.

Briefly and simply, we support the repeal of the sales tax on utilities used in manufacturing.

Such a tax:

- ♦ Makes it more difficult for Kansas companies to compete in the national and international markets
- ♦ Can be the difference between a successful bid and an unsuccessful bid in a world where a tenth of a percent is the margin. Our companies are high tech firms using the latest in computer-numerically-controlled machines which are utility intensive.
- ♦ Is a direct cost for manufacturers; a cost that can not be passed along. Our consumers are Boeing, Raytheon, and McDonnell Douglas. Our competitors in Oklahoma and Texas do not have such a tax.
- ♦ Penalizes the creation of wealth

We appreciate your time and urge your support of the elimination of this tax.

ATTACHMENT 10



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262
(316) 263-7297 • FAX (316) 263-3021

800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216
(913) 232-7772 • FAX (913) 232-0917

**Statement of Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association
before the
House Taxation Committee
January 11, 1995**

RE: HB 2055 Utilities Consumed in Production & Manufacturing - 2.5% Sales Tax

We support the repeal of the 2.5% sales tax on energy related to manufacturing and production.

You will recall that SB 447 (1994) repealed the 2.5% sales tax on energy related to pumping oil wells, so there is a precedent for going further this year.

There have been reports that the rules issued by the Department of Revenue to implement SB 447 (1994) are very restrictive and not in the complete spirit of the legislative intent. It was a very positive step taken last session and we urge you to proceed with a complete repeal of the tax which was enacted at the urging of Governor Finney.

DPS:pp

ATTACHMENT 11

SHAWNEE COUNTY BRIDGE PLAN USING 1/4¢ SALES TAX DOLLARS

BRIDGE PROJECTS

Priority Number	Bridge Number	School District	Fire District	Const. Est.	Design, R/W Utilities Insp.	Total Const. Costs	Federal Aid	Local Share	Bridge Posting (Tons)	Deck Width (FT)	ADT	Year Built
1	370 (FAS)	437	(Mission)	170,000	51,000	221,000		221,000	10	25.5	1358	1962
2	230	450	(Top-Tec)	230,000	69,000	299,000	192,000	107,000	4	17.9	80	1920
2	194	345	Soldier	190,000	57,000	247,000		247,000	5	20	500	1950
1	160 (FAS)	372	(Silver Lake)	130,000	39,000	169,000		169,000	7	25.7	770	1925
TOTAL YEAR 1							192,000	744,000				
2	180	437	(Top-Tec)	140,000	42,000	182,000		182,000	3	20	150	1928
1	218	450	(Top-Tec)	224,000	67,000	291,000		291,000	5	15	100	1910
1	210	345	(Soldier)	170,000	51,000	221,000		221,000	3	23	1000	1959
2	111	372	(Silver Lake)	450,000	150,000	600,000	396,000	204,000	4	16.5	200	1919
TOTAL YEAR 2							396,000	898,000				
3	199	437	(Top-Tec)	500,000	150,000	650,000	440,000	210,000	5	15	800	1905
3	242	450	(Top-Tec)	180,000	54,000	234,000		234,000	5	18	200	1930
3	278	345	(Soldier)	200,000	60,000	260,000		260,000	3	24	200	1970
3	91	372	Silver Lake	309,000	92,000	401,000		401,000	0	18	0	1940
									closed		closed	
TOTAL YEAR 3							440,000	1,105,000				
4	203	437	Top-Tec	250,000	75,000	325,000		325,000	3	16	60	1930
4	252	450	(Top-Tec)	180,000	54,000	234,000		234,000	4	14	150	1910
4	278	345	(Soldier)	110,000	33,000	143,000		143,000	3	24	200	1970
4	510 (FAS)	372	Silver Lake	300,000	90,000	390,000	264,000	126,000	7	18	60	1922
TOTAL YEAR 4							264,000	828,000				

TOTAL FEDERAL AID (BRIDGES)1,292,000

TOTAL LOCAL SHARE.....3,575,000

ROAD PROJECTS

LOCATION	CONST. EST.	DESIGN, R/W, UTILITIES, INSPECTION	TOTAL COST	FEDERAL AID	LOCAL SHARE
SE 45TH ST STUBBS TO MCMAHON	1,350,000	405,000	1,755,000	1,188,000	567,000
SW 77TH ST NEW US 75 HWY TO OLD US 75 HWY	850,000	255,000	1,105,000	724,000	381,000
WANAMAKER RD PHASE 1 SW 37TH TO SW 46TH ST	2,000,000	600,000	2,600,000	1,760,000	840,000

TOTAL ROAD PROJECTS.....3,672,000

GRAND TOTAL (ROAD AND BRIDGE) PROJECTS.....4,964,000 **1,788,000**

TOTAL FEDERAL AID AVAILABLE 1995-1999.....3,545,000 **5,363,000**

TOTAL LOCAL SHARE NECESSARY (4,964,000-3,545,000)+ 5,363,000 = 6,782,000

SALES TAX =(650) (4)=2,600,000

ADDITIONAL FUNDING REQUIRED 6,782,000 - 2,600,000= 4,182,000



KANSAS
RURAL
WATER
association

Quality water, quality life

P.O. Box 226 • Seneca, KS 66538 • 913/336-3760 • FAX 913/336-2751

January 11, 1995

TO: House Committee on Taxation

Mr. Chairman and Members of the Committee, the Kansas Rural Water Association supports the removal of state sales tax from utilities used in production.

The Kansas Rural Water Association has active membership of 220 cities and 290 rural water districts in Kansas. Our membership is in unanimous support of the removal of this tax. Public water supply systems generally see this tax as a tax on a service which the State of Kansas has exempted from sales tax.

Respectfully,

Dennis Schwartz
Director, Kansas Rural Water Association

ATTACHMENT 13



January 10, 1995

Representative Phil Kline, Chairman
The House Assessment and Taxation Committee
Kansas House of Representatives
Topeka, Kansas

Dear Representative Kline:

This letter is being written in support of repealing the state utility tax imposed in 1993. This tax has cost the Owens Corning Fiberglas plant in Kansas City, Kansas over \$600M dollars during the last two years.

One of the major components of a corporate decision on where expansions or new facilities will be built is utility rates. This tax increase has changed our competitive standing with other Owens-Corning locations, and therefore, could lower the chances of the Kansas City, Kansas location having any possibility of expansion.

The long-term viability of a plant is based on plant profitability. These additional dollars have had a negative impact on our profitability.

Again, may I state the Owens-Corning Fiberglas, Kansas City, Kansas plant strongly asks for your vote to repeal the State Utilities Tax.

Sincerely,

A handwritten signature in cursive script that reads "Jim Hansen".

Jim Hansen
Plant Manager

cc: Kirk Peterson - OCF Toledo 13
Jim Smallwood - OCF Toledo 13

ATTACHMENT 14

Zephyr Products, Inc.

Contract Manufacturing of Sheet Metal Products

January 6, 1995

The Honorable Phill Kline
Chairman, House Assessment and Taxation Committee
State Capitol
Topeka, KS 66612

Dear Representative Kline:

This letter is written in support of the repeal of the 2.5% sales tax levied on utilities consumed in the production or manufacture of tangible personal property.

Zephyr Products, Inc. is a manufacturer and utility consumer based in Leavenworth, Kansas, with 40 employees. Because we must pass the added cost of this tax to our customers, it adversely affects our ability to remain competitive in our industry. This tax also has a negative impact on the decision making process of new manufacturers who are considering relocating to Kansas.

It is our understanding that a public hearing on this issue will be held before the House Committee on Assessment and Taxation on Wednesday, January 11 at 9:00 a.m. We would urge the committee members to favorably report the bill repealing this tax to the full House.

Thank you for considering our thoughts on this issue. Please call me at 913-651-3890 if you have questions or comments.

Sincerely,



Randall R. Reinhardt
President

RRR/nh

ATTACHMENT 15

An Independent Company Affiliated With Creative Enterprises, Inc.

913-651-3890 P.O. Box 5 3100 Wilson Avenue Leavenworth, Kansas 66048

Ann -
Please



CUSTOM DESIGNERS & MANUFACTURERS OF HEATING ELEMENTS
Box 45, 3000 Wilson, Leavenworth, Kansas 66048 (913) 651-4420 FAX (913) 651-5352

January 7, 1995

The Honorable Phill Kline, Chairman
House Assessment and Taxation Committee
State Capital
Topeka, Kansas 66612

Dear Representative Kline:

This letter is in support of the repeal of the 2.5% sales tax levied on utilities consumed in the production or manufacturing of tangible personal property.

Heatron, Inc. is a major manufacturer and utility consumer based in Leavenworth, Kansas. We currently employ 185 people and have an annual payroll of well over \$3,000,000 per year. Because we must pass this cost to our customers, it adversely affects our ability to remain competitive in our industry. This tax also has a negative impact on the decision making process of new manufacturers who are considering relocating in Kansas. During our last expansion it was a point of consideration for us too.

It is our understanding that a public hearing on this issue will be held before the House Committee on Assessment and Taxation on Wednesday January 11 at 9:00 a.m. I am sorry I was unable to attend this hearing but I would urge the committee members to favorably report the bill repealing this tax to the full House.

Thank you for considering our thoughts on this issue. Please call me at 913-651-4420 if you have any questions or comments.

Sincerely,

Michael W. Keenan
President

cc: H.B. Turner, V. President

MWK:lw

ATTACHMENT 16

10800 Lackman Road
P.O. Box 2909
Shawnee Mission
Kansas 66201-1309
Phone (913) 888-4422
FAX 913-541-2202
Toll Free FAX 1-800-392-4455



January 9, 1995

The Honorable Phill Kline
Chairman, House Assessment and Taxation Committee
State Capitol
Topeka, KS 66612

chairman of the board:
FOREST P. GILL

president:
MARK S. GILMAN

Dear Representative Kline:

This letter is written in support of the repeal of the 2.5% sales tax levied on utilities consumed in the production or manufacture of tangible personal property.

Gill Studios, Inc. is a \$40,000,000 manufacturer of decals and labels and a utility consumer based in Lenexa, Kansas. We currently employ 450 people and have an annual payroll of over \$15,000,000. This tax increases our cost of production by approximately \$20,000 per year.

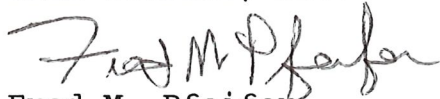
Gill Studios, Inc. competes with other decal manufacturers throughout the country. Because we must pass the cost of this utility tax on to our customers, it adversely affects our ability to be price competitive. Therefore, this tax has a direct impact on our ability to maintain and increase jobs in Kansas.

It is our understanding that a public hearing on this issue will be held before the House Committee on Assessment and Taxation on Wednesday, January 11. We urge the committee members to favorably report the bill repealing this tax to the full House.

Representative Kline, thank you for considering our thoughts on this issue. Please call me at 913-541-2211 if you have any questions or comments.

Sincerely,

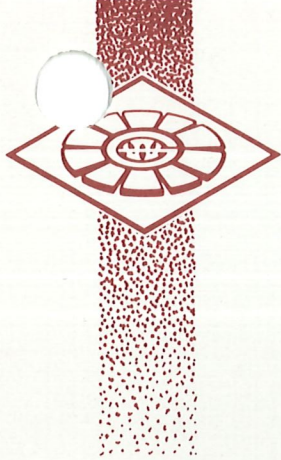
GILL STUDIOS, INC.



Fred M. Pfeifer
Vice President, CFO

FMP/grs

ATTACHMENT 17



GREAT WESTERN MANUFACTURING CO., INC.

January 9, 1995

The Honorable Phill Kline
Chairman, House Assessment and Taxation Committee
State Capitol
Topeka, KS 66612

Dear Representative Kline:

This letter is written in support of the repeal of the 2.5% sales tax levied on utilities consumed in the production or manufacture of tangible personal property.

Great Western is a large manufacturer and utility consumer based in Leavenworth, Kansas. We currently employ 97 people and have an annual payroll of \$2,250,000.00. This tax increases our cost of production by \$1,500.00 per year. Because we must pass this cost to our customers, it adversely affects our ability to remain competitive in our industry. This tax also has a negative impact on the decision making process of new manufacturers who are considering relocating to Kansas.

It is our understanding that a public hearing on this issue will be held before the House Committee on Assessment and Taxation on Wednesday, January 11 at 9:00 a.m. We would urge the committee members to favorably report the bill repealing this tax to the full House.

Thank you for considering our thoughts on this issue. Please call me at (913) 682-2291 if you have any questions or comments.

Sincerely,

Ronald L. Jordan
C.F.O.

cy

ATTACHMENT 18

