

Approved: 3-31-95
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on March 7, 1995 in Room 519-S of the Capitol.

All members were present except: Rep. Doug 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: Listed after each bill heard.

Others attending: See attached list

Chair Kline called the meeting to order.

Report of Chairman Graeber of Subcommittee on:

HB 2108 - Property tax exemption for business machinery and equipment.

HB 2167 - Property tax exemption for certain commercial and industrial machinery and equipment.

Chair Graeber reported that **HB 2167** was amended as the staff felt it was unconstitutional the way it was drafted. Inserted in the statute the provision wherein all tangible property not specifically classified should be valued at fair market value and not at cost.

Chair opened hearing on:

HB 2176 - Property valuation, appraisal directives; procedure to adopt

Proponent: Rep. Melvin Neufeld

Rep. Neufeld reported purpose of this legislation is to raise the standing of appraisal directives to the same level as administrative rules and regulations which would be published and all interested parties would have a copy of the actual appraisal directives. This would assure that all county appraisers were working with the same rules. Neufeld enumerated the various areas this change would affect.

Proponent: Jamie Clover Adams, Kansas Fertilizer & Chemical Assn (Attachment 1)

Opponent: Susan Duffy, acting director, Property Valuation Division

It is my understanding that my predecessor did send directives for comments and suggestions, did publish them and have a hearing. These procedures and practices have been followed and there would be no problem following the new rules. You may want to give the new director a year's time to become familiar with the process and have him/her report back and make his recommendation. My concern is for the new director that will be named, but I can see no problem with this bill. Making this a part of rules and regs gives it the force of law and can be an asset to these directives as well.

Chair closed hearing.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on March 7, 1995.

Chair announced appointment of a subcommittee to study:

HB 2176 - Property valuation, appraisal directives; procedure to adopt
HB 2328 - property tax appraisal process to be investigated by special assistant attorney general

HB 2417 - Acquisition of automated tax systems by department of revenue.
Requested report on March 16. Subcommittee members - Rep. Hayzlett, Chair; Reps. Graeber, Shore, Welshimer and McKinney.

Chair opened hearing on:

HB 2254 - Community college sales tax authorized

Proponents:

Rep. Joan Freeborn (Attachment 2)

Dr. James Ihrig, president, Cloud County Community College, Concordia (Attachment 3)

Lee Doyen, Trustee, Cloud County Community College (Attachment 4)

Dr. William Wojrechowski, president, Pratt County Community College (Attachment 5)

Chair closed hearing.

Chair announced appointment of subcommittee to the following:

HB 2261 - Property tax exemption for certain government owned property
HB 2461 - Tax lid, exemptions; tax rebates for neighborhood revitalization
HB 2511 - Redemption period for vacant real estate bid off by county
HB 2513 - Wyandotte county land bank

Appointed to this subcommittee were: Rep. Donovan, chair; Reps. Pugh, Mays, Wempe and Pettey. This committee to report back to Taxation Committee on March 16.

Adjournment.

The next meeting is scheduled for March 8, 1995.

COMMITTEE ATTENDANCE
 MARCH 7, 1995
 GUEST LIST

Name	COMPANY
Jim Long	Cloud County Comm. Coll.
Lee Maloyen	" "
William L. Wojniakowski	PRATT COMMUNITY COLLEGE
Merle Hee	KS Lesson Community Colleges
Don Schwacka	Ks. Ind. Oil & Gas Assn
Vickie Woodbury	Propane Marketers Assn
Patrick Hurley	KCPK
DONALD SNODGRASS	KS FOOD DEALERS ASSN
Frances Kastner	Ks Food Dealers Assn
Brie Laurel	BOEING
Jamie Croyer Adams	KS Fertilizer & Chemical Assn
Mary Jane Stattelmann	KS Farm Bureau
Rich White	KS Livestock Assoc.
Jot Brown	Mid-Mn Loaners Assn
Harriet Lange	Ks Assn Broadcasters
Y. Martin	Sedgewick County
Chris McKenzi	League of Ks. Muni. Corp.
Marty Vanier	KS Ag Alliance

Mr. Chairman and Members of the Committee, I am Jamie Clover Adams here today representing the Kansas Fertilizer and Chemical Association (KFCA). KFCA's nearly 500 agribusiness members are primarily plant nutrient and crop protection retail dealers, but also include manufacturer's representatives, distribution firms, and equipment manufacturers. We appreciate this opportunity to appear in support of H.B. 2176.

H.B. 2176 requires the Director of the Property Valuation Division (PVD) to give thirty-days notice in the Kansas Register and hold a public hearing prior to issuing an appraisal directive. It also requires PVD to go through a formal process to rescind directives. KFCA strongly supports such public participation in the policymaking of the state.

The only difference between appraisal directives and formal rules and regulations is in the name and the issuance process. The statute treats them the same giving the Director of PVD the option of which to issue. K.S.A. 79-505 states "...[the PVD Director] shall adopt rules and regulations or appraiser directives prescribing appropriate standards for the performance of appraisals in connection with ad valorem taxation in this state." It goes on to outline the minimum requirements of either interpretative vehicle. There is no statutory distinction made between the two.

Since in practice and by statute directives interpret the law much like other regulations, they should be subject to public scrutiny and participation. Directives interpret tax law in the same manner as the Department of Agriculture regulations interpret the Pesticide Control Act, the Pesticide Management Area Act and the Fertilizer Containment Law. Each one impacts business operations and should be exposed to "full public scrutiny." Interested parties must have an opportunity to study, analyze, and respond to agency proposals – even those concerning tax law.

Further, since there are no formal rules governing the issuance of appraisal directives, they can be issued and rescinded at will, with no public input or knowledge. How can a taxpayer insure his or her taxes are appropriate when the rules of the game are not

known and can change at any time? KFCA members have experienced this firsthand. In 1989, the legislature passed the Fertilizer Containment Law to protect the groundwater of the state. It required fertilizer dealers to install loadpads and secondary containment. The cost of such environmental controls can run upwards of \$100,000 depending on the facility. After our members had the "opportunity" to pour the concrete to comply with the statute and maintain the value of their businesses, they began seeing substantial increases in their appraisal values. PVD issued a directive in 1991 informing county appraisers it was arbitrary to assume something had value just because it exists, especially if it exists solely because of government regulations. Then, in 1992, this directive was rescinded. In some instances KFCA members saw dollar for dollar increases in valuation based on the cost of the concrete used for the containment. The statute had not changed nor had the merits of the issue. The only change was the rescission of the directive. Consequently, KFCA came to the legislature last session asking for relief. It was only because of this public scrutiny that PVD reissued the directive. It is Directive #94-029 and is attached for your review. This statutory interpretation has impacted our businesses in the same way as the Department of Agriculture's interpretation of the Fertilizer Containment Law. It should be open to public review and should not be allowed to be rescinded willy nilly.

H.B. 2176 does not tell PVD how to interpret the law. Instead it allows for public participation and a formal set of rules that everyone can understand and rely upon. If a taxpayer has a question, they can go to the local library and consult the Kansas Administrative Regulations. It eliminates the problem of not knowing what rules the appraiser should be following. KFCA urges your favorable consideration of H.B. 2176.

RECEIVED
AUG 30 1994
David C. Cunningham, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

STATE OF KANSAS



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FAX (913) 296-2320

Department of Revenue
Division of Property Valuation

DIRECTIVE #94-029

TO: County Appraisers

SUBJECT: Appraisal of Pollution Control Structures

This directive is adopted pursuant to the provisions of K.S.A. 1993 Supp. 79-505, and shall be in force and effect from and after the Director's approval date.

K.S.A. 2-1227 was enacted in 1989 authorizing the State Board of Agriculture to adopt rules and regulations for the safe handling and storage of commercial fertilizers, fertilizer materials, and chemicals to protect ground and surface waters. These regulations (K.A.R. 4-4-1 to K.A.R. 4-4-954, inclusive) became effective January 14, 1991, and required each facility to submit a compliance plan to the State Board of Agriculture within one year of the regulation's effective date, i.e., by January 14, 1992. Once the prescribed plan is approved, the facility has two years to complete the requirement for a concrete loading pad and three years to construct a dike around their storage area. Many facilities have completed the construction of these fertilizer/chemical containment dikes and loading pads.

Under Kansas property tax laws, the loading pads and dikes must be listed for taxation. However, in valuing such loading pads and dikes, the appraiser must be careful to ascertain whether they contribute to the facility's value. It is arbitrary to claim property has value because it exists, particularly where the property exists solely because of government regulations. The market establishes value, not government regulations. In summary, the appraiser should ascertain whether these loading pads and dikes are an expense, or, in fact, an investment which produces value.

Appraisers should list these loading pads and dikes with the storage facilities; however, they should be valued only if the market establishes that they contribute value to the facility.

APPROVED: June 22, 1994

A handwritten signature in cursive script, appearing to read "D.C. Cunningham", is written over a horizontal dashed line.

David C. Cunningham
Director of Property Valuation

JOANN LEE FREEBORN
REPRESENTATIVE, 107TH DISTRICT
CLOUD, OTTAWA COUNTIES
AND PART OF CLAY AND DICKINSON COUNTIES
RR 3, BOX 307
CONCORDIA, KANSAS 66901-9105



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
MEMBER: AGRICULTURE
PUBLIC HEALTH AND WELFARE
ENERGY AND NATURAL RESOURCES
JOINT COMMITTEE ON CHILDREN AND FAMILIES

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Testimony for House Taxation Committee, House Bill 2254

March 7, 1995

Chairperson Kline, Vice-chairperson Hazlett and ranking minority member Larkin, I thank you and your committee for your consideration of House Bill 2254. Community college trustees are presently limited by statute to the use of a property tax for their local budget funding stream. House Bill 2254 enables the trustees to place on the taxing district ballot, an option for the patrons to select a sales tax to reduce the mill levy. The key words here are enables and option. It is a permissive piece of legislation that gives the local community college district the power to choose the best taxing mechanism for their district.

Some community college taxing districts are taxed at or over 33 mills to fund their educational institution. These districts especially need a potential for a combined taxing mechanism to provide a broader base for funding. The opportunity for the local community college district to make this decision for a tax structure that is tied to the growth in their local economy is a formula for funding that would offer some relief for the high mill levy taxing districts. The voters are given local authority, which I feel is a part of good public policy.

It has long been my belief that it is important to move away from a reliance upon property tax as a primary funding source. I appreciate the efforts of a previous legislative body to fund the elementary educational programs with a mixed funding strategy. It would be beneficial to give a community college board of trustees the ability to proceed with the development of a mixed funding strategy for the local budget if it is viewed as a more equitable arrangement for their taxing district.

The ultimate solution for the funding of community colleges lies in the State of Kansas taking the financial responsibility with minimal local funding obligations.

House Taxation
3-7-95
Attachment 2-1

In the Kansas Economic Development Policy Issues developed by Kansas Inc. and published in A KANSAS VISION in December of 1993, we read on page 5 the recommended Initiative Number three (3): "Insure a coordinated, seamless system of secondary and post-secondary education that guides the development of strong work place skills and competencies." and to "Support the restructuring of community colleges and area vocational technical institutions by encouraging merger of the two types of institutions and consolidation of the 32 schools into a statewide system of colleges of technology and insist that increased state funding be contingent on the establishment of a reorganized system." Until the state is willing to take this politically unpopular step, the local taxing unit must bear the increasing burden. It is for this reason that I believe House Bill 2254 is good public policy.

There are many students needing academic remediation in order to enter the Regents Schools. These students can be encouraged to attend the (2) year community college to begin their post secondary work. This is another reason that funding needs to be addressed in order for community colleges to meet these growing demands. Though HB2254 does not bring the much needed state reform, it is an excellent adjustment for the interim.

This permissive piece of legislation would be a buy down of the mill levy the first year that it is implemented and future growth of the community college budget would be dependent on economic growth (increased retail sales tax revenue). When you work the bill I will be glad to work with the committee on amendments that are viewed as important to make this legislation satisfactory for passage.

Thank you for your attention. I will be glad to stand for questions at the decision of the chair.

Sincerely,

A handwritten signature in cursive script that reads "Joann Freeborn". The signature is written in black ink and is positioned above the printed name.

Joann Freeborn
107th District Representative

PRESENTATION
TAX COMMITTEE
KANSAS HOUSE OF REPRESENTATIVES
by
DR. JAMES IHRIG, PRESIDENT
CLOUD COUNTY COMMUNITY COLLEGE
MARCH 7, 1995

My name is James Ihrig. I am the President of Cloud County Community College. Thank you very much for this opportunity to give testimony relative to House Bill 2254.

On behalf of the Board of Trustees, we ask for your support of this legislation.

House Bill 2254 would allow the Board of Trustees of Cloud County Community College and Pratt Community College to place before the voters the option of using sales tax revenues for the support of the community college.

This bill is permissive, the sales tax could not be implemented without a vote of the people.

This bill has the potential of having a significant impact upon the tax structure of Cloud County which is the taxing district for Cloud County Community College, and upon the college itself.

One impact is a change in the source of tax revenues used by the college. The use of sales tax revenues would reduce the amount of ad valorem tax revenues used by the college. The proposals contained in House Bill 2254 include the provision that if and when a sales tax were to be implemented, a reduction in ad valorem property tax revenues would be required. This would cause a reduction in the mill levy.

This fact is particularly significant in Cloud County. The attached chart shows the assessed value of Cloud County and the amount of ad valorem tax revenues used by Cloud County Community College during the four years 1990-1991 through 1993-1994. Also shown is the sales tax revenues in Cloud County that would be generated by a 1 cent sales tax.

A rough estimate using the figures on the attachment shows that the revenues from a 1 cent sales tax would offset a significant amount of property tax, perhaps as much as \$700,000, or approximately 15 mills, about 45% of the property tax revenues.

A second factor. The attachment also shows that the assessed value of the college district has remained relatively stable while potential sales tax revenues have increased significantly over the same time period. This indicates that there has been economic growth in the community, but because the college revenues are tied to the property tax, the college has not been able to participate in the economic growth of the community. It is believed that the College would benefit and should benefit if it were able to take advantage of the economic growth of the community and area. This bill provides a means for doing this through the increase in sales tax revenues if the retail sales increase over the years as they have in the past.

A third factor. Cloud County Community College serves a regional function as does the local community. The college serves a regional population with a significant percentage (84%) of the credit hours generated by the college being taken by students from outside of Cloud County. Inasmuch as the community of Concordia also serves a regional function, House Bill 2254 would make it possible for the college to test a new approach which would recognize the regional character of the college and the community.

This is also important because it is becoming increasingly difficult for single counties with small assessed values such as Cloud and Pratt to continue providing from property taxes the funds necessary to support the community colleges. As the colleges become more and more regional in character, some form of support that reflects that regional character will be necessary. House Bill 2254 provides an opportunity to explore a different method of funding.

I thank you for the opportunity to be here today and for this hearing. I also want to thank Representative Freeborn for her work regarding House Bill 2254.

This bill is a step in the right direction. I would urge your support.

I would be happy to respond to any questions you may have.

CLOUD COUNTY COMMUNITY COLLEGE

The following chart shows the state sales tax collected in Cloud County, the tax rate, and the amount generated by one cent in sales tax.

The source of the information is Annual Report, State of Kansas, Department of Revenue, for fiscal years ending June 30, 1991, 1992, 1993, 1994.

Year	Sales Tax Collected	Rate	Generated at 1 cent*
1990-1991	\$2,589,625	4.25	\$609,323
1991-1992	\$2,760,650	4.25	\$649,564
1992-1993	\$3,572,491	4.90	\$729,079
1993-1994	\$3,414,140	4.90	\$696,763

* Generated at one cent = sales tax collected divided by rate.

CLOUD COUNTY COMMUNITY COLLEGE

ASSESSED VALUATIONS, MILLS, DOLLARS GENERATED

YEAR	ASSESSED VALUATION	MILL LEVY	TAX DOLLARS GENERATED
1990-1991	45,021,756	26.471	1,191,771
1991-1992	44,130,884	27.006	1,191,799
1992-1993	43,777,597	32.208	1,409,989
1993-1994	44,433,553	31.733	1,140,010
1994-1995	45,795,057	32.645	1,494,980 (est.)



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I am Lee W. Doyen, Chairman of the Cloud County Community College Board of Trustees. I taught 35 years and 20 of them were at Cloud County Community College. I grew up in Cloud County and my wife and I own farm land in Pratt and Cloud County.

I served seven years on the Concordia City Commission and while on their commission the citizens of Concordia passed a one cent sales tax. The sales tax has helped to keep the mill levy down for the city of Concordia.

Pratt and Cloud County have over 32 mill levy for their colleges. These are two of the highest in the State. This is due to the legislative's removing livestock, machinery and inventory from being taxed. Now your legislators are wanting to reduce car taxes. This will make matters worse. Cloud County had a valuation of \$56 million plus in 1979 and now has \$46 million plus in 1994. The State of Kansas has not been willing to finance Community Colleges and they should be. Fifty-two percent of freshmen and sophomores are enrolled in community colleges. Pratt and Cloud can not continue to finance a community college with limited resources and increased enrollment. They can not provided quality education for young people in their area with finances now available.

Both Pratt and Concordia have a large trade territory and sales tax receipts keep increasing each year and surrounding towns get smaller. The sales tax would be used to reduce mill levy down to where it would be palatable to the people living in the county.

I have visited with people and groups in Cloud County and find them very receptive to a sales tax as it could reduce the levy by fifteen mills.

All the trustees are asking is an opportunity to let the people decide for themselves if they wish to reduce their property tax with a sales tax. The Board of Trustees of two counties need your help in advancing the 2254 bill. Our hands are tied to where new revenue may come from. The legislature of the State of Kansas will make or break community colleges in the next five years as they control most of the finances.

Lee W. Doyen
Lee W. Doyen, Chairman
Board of Trustees

House Taxation
3-7-95
Attachment 4-1

Testimony Before the House Tax Committee
H.B. 2254, March 7, 1995

Representative Kline and members of the House Tax Committee.

Good morning. I am William A. Wojciechowski, President of Pratt Community College and president of the Kansas Association of Community Colleges. I'm here this morning to speak on behalf of House Bill 2254 and, if passed, the benefits it will have for Pratt Community College and the Pratt County property owners. First, let me provide you with some background information about property valuations and the mill levy resulting from those valuation that support Pratt Community College. Approximately ten years ago, property valuation in Pratt County was over \$90 million and the mill levy to support the college was about 15 mills. In 1992, that valuation sunk to \$68,500,000 and the resulting mill levy to support the college rose to 36.36 mills. During that same period the college's enrollment increased by approximately twenty percent while state aid reimbursement decreased slightly and inflation rose each year at an average of slightly over four percent - compounded for that period at approximately 45 percent. In its 1987 accreditation visit by the North Central accrediting association team and a team from the Kansas State Board of Education, Pratt Community College was cited and I quote -

1. While this concern maybe outside the influence of the Pratt Community College, the taxpayers of the home counties of Kansas Community Colleges [such as Pratt] seem to be relied upon more and more unfairly as the colleges become more and more involved in the economic development efforts of communities not located in a home county. The development of a method for funding these efforts, at least in part, with state aid seems an appropriate goal for the state.
2. There is evidence that the rural community is becoming concerned about frequent tax-levy increases.

Unquote.

The college is again undergoing reaccreditation by both its national accrediting association and by the state with the teams scheduled to arrive in Pratt on March 20th. I feel certain these issues will be resurrected, and our condition on assessed valuation and property taxes is not any better than it was in 1987 and, in some ways, worse. The mere fact that this committee is hearing a bill that has the potential for reducing the tax burden of Pratt County property owners will go a long way in showing these accrediting bodies that attempts are being made to rectify the situation. Because, if this bill passes this committee and the

Legislature; and if the Pratt County voters approve a one percent sales tax, given the provisions of this bill, property taxes in Pratt County will be reduced slightly over 14 mills.

I'm sure that one of the questions that sticks in your mind is what do the Pratt County taxpayers think about this legislation. Let me answer that question for you from three perspectives. First, I am a Pratt County homeowner and the taxes on my home are approximately \$3,500 per year. I would welcome that relief even though a portion of the savings would be offset by additional sales tax. Second, I have personally discussed this bill and all of its ramifications with the Pratt County Commission. Each of the commissioners believe the bill, if passed, will bring welcome relief to the county's property owners and each has pledged his support if and when the issue would come to a vote in Pratt County. Third, I am a regular visitor to one of the Co-ops in Pratt County for occasional morning coffee. I use it to gauge the mood of the rural population concerning the college and their support for the college. I can say with candor that the farmers who frequent the Cairo Co-op are not the least bit shy or reluctant to share their views on most any subject, especially taxes. I personally discussed this bill with over a dozen farmers during my most recent visit. When the bill's provisions were explained to them, especially the property tax offset, to a man, they were in favor of the sales tax provision. Some of the business community with whom I discussed this bill were not in favor of it, but most saw the need for property tax relief, and I believe they would not oppose it if and when it appears on the ballot.

I have testified before other committees in both the House and the Senate concerning community college funding. Each time, I'm asked what I see as a remedy to stabilize funding. My answer is always the same - a diversified funding base made up from sales taxes, income taxes, property taxes and economic development initiative funding. I firmly believe that this proposed legislation is the first step in that direction.

Thank you for the opportunity to voice my views and those of my Board of Trustees. This concludes my remarks. Are there any questions?