

Approved: 4-26-96
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 10:35 a.m. on March 26, 1996 in Room 519-S of the Capitol.

All members were present except: Rep. Pottorff
Rep. Pugh
Rep. Shore
Rep. Goodwin
Rep. Mays
Rep. Ott

Committee staff present: Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann McMorris, Committee Secretary

Conferees appearing before the committee:
Porter Brown, City Attorney, Hutchinson
Jamie Clover Adams, Kansas Grain & Feed Assn.
Chris McKenzie, League of Kansas Municipalities

Others attending: See attached list

Chair opened hearing on:

SB 405 - Expanding the tax increment financing law Re: Proposal No. 13

Proponents:

Porter Brown, City Attorney, Hutchinson (Attachment 1)
Jamie Clover Adams, Kansas Grain & Feed Assn. (Attachment 2)
Chris McKenzie, League of Kansas Municipalities (Attachment 3)

Closed hearing on **SB 405**.

Moved by Rep. Larkin, seconded by Rep. Hayzlett, minutes of Taxation Committee for meetings held on Feb. 20, 21, 22, 23, March 5, 6, 7, 8, 11, 12, 13, 14, 15, 19, 21 be approved. Motion carried.

Adjournment at 11:30 a.m.

Attachments - 3

TAXATION COMMITTEE GUEST LIST

DATE: MARCH 26, 1996

NAME	REPRESENTING
ROSEL BOORE	CITY OF HUTCHINSON
Jamie Clover Adams	KS Grain & Feed Assn.
Ann Franck	mid America Lumbermen
Hal Hudson	NFIB/KS
Danielle Noe	KCUWA
LOREN E MINNIS	RSVP (Pratt)
Al Horin	RSVP Pratt
Steve Finney	170-W
Martha Jean Smith	KOMAA
Christy A. Caldwell	Topeka Chamber of Comm.
Meggin Cross	Kerny Law Office
Tom Whitaker	Ks Motor Carriers Assn
Craig Grant	HNEA
Jeelin Clark	Hallmark Cards
DAVE HOLTHUIS	Western Resources
Anne Spiess	Ks. Assoc. of Counties
Nancy Hempen	Ks Assn. of Counties
R. S. JUAN	CRK.
MARK BURGHART	WESTERN ASSN.

to

SENATE BILL #405

In September of 1994, in response to a large area of groundwater contamination, the City of Hutchinson established a tax increment finance district pursuant to K.S.A. 12-1771a - a so-called negative tax increment district. Prior to the establishment of the district, the City gave notice to Reno County, two unified school districts and Hutchinson Community College that each of them had the right to veto the establishment of the district if they wished to. No one did.

K.S.A. 12-1771a states that each year's increment shall not exceed 20% of the amount of taxes that are produced from the redevelopment district area in the year the redevelopment district is first established. Based upon the information provided to the City, this should have amounted to approximately \$200,000 the first year. The Reno County Treasurer notified us, however, that the Reno County Counselor had issued an opinion that we would not receive any funds from Hutchinson Community College, a loss of approximately \$35,000 per year for twenty years, or \$700,000. The County Counselor based his opinion on the fact that K.S.A. 12-1772 does not require that notice be given to the Community College and that K.S.A. 12-1775 includes only counties, cities and unified school districts in its definition of "taxing subdivisions".

The proposal that is now Senate Bill #405 would amend K.S.A. 12-1771a to specifically state that the yearly increment could not exceed 20% of the amount of taxes produced by all taxing subdivisions within any currently existing or subsequently created TIF districts, and K.S.A. 12-1775 would be amended to define taxing subdivision as all taxing subdivisions within the TIF district. These changes have been discussed with the County Counselor and he indicates that if these changes are made, the TIF district will be able to receive the Community College taxes in the future.

House Taxation
3-26-96
Attachment 1

Porter K. Brown
City Attorney - Hutchinson

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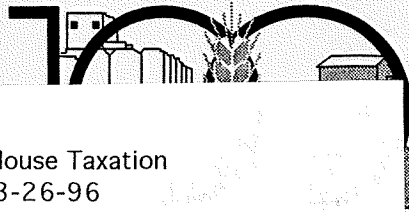
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**STATEMENT OF THE
KANSAS GRAIN & FEED ASSOCIATION
TO THE
HOUSE TAXATION COMMITTEE
REP. PHILLIP KLINE, CHAIR
REGARDING S.B. 405
MARCH 26, 1996**

**KGFA, promoting a viable business climate
sound public policy for a century.**



House Taxation
3-26-96
Attachment 2-1

The Kansas Grain and Feed Association

..... a voluntary state organization founded in 1896 providing governmental representation, educational opportunities and a wide variety of other services to the vast and indispensable grain and feed marketing system. The 1200 members of the KGFA include country elevators, subterminal and terminal elevators, feed manufacturers, grain merchandisers and allied industries such as railroads, grain exchanges, equipment manufacturers and insurance firms.

Mr. Chairman and members of the Committee, I am Jamie Clover Adams, Vice President of Government Affairs for the Kansas Grain and Feed Association (KGFA). KGFA is a voluntary state organization founded in 1896 to provide government representation, educational opportunities and a wide variety of other services to the vast and indispensable grain and feed marketing system. The 1200 members of the KGFA include both independent and cooperative country elevators, subterminal and terminal elevators, feed manufacturers, grain merchandisers and allied industries. We appreciate this opportunity to appear in support of S.B. 405.

I would preface my remarks by stating that KGFA's comments are limited to Section 3 and 6 of the bill as amended by the Senate. We leave the discussion of the remainder of the proposal to those more able to address its merit.

As Mr. Brown testified, the requested change -- found on pages six and 11 -- is the result of their experience establishing a Tax Increment Financing (TIF) district in Hutchinson to address environmental contamination. Six grain elevators are potentially responsible parties (PRPs) in this clean-up, explaining the involvement of KGFA.

K.S.A. 12-1771a permits a city which has entered into a consent agreement with the Kansas Department of Health and Environment (KDHE) or EPA to pledge tax increments receivable in future years to pay the costs related to the investigation and remediation of an environmentally contaminated area. The purpose of this type of TIF is two-fold:

1. Stabilization of the tax base; and,
2. Creation of a stable fund to finance clean-up which allows property owners not responsible for the contamination to be released from responsibility. Essentially this gives them clear title to their property and allows for orderly buying and selling without fear of future clean-up liability.

Mr. Brown has aptly called this a "negative tax increment district." It is an effort to minimize the impact of environmental contamination on an area's tax base. Experience shows that property values drop -- the national average is 40% -- when contamination of this nature is discovered. The TIF holds property values relatively steady, assists in cleaning-up the environmental contamination, allows the orderly buying and selling of property in the district and protects the future tax base (see attached graph).

The amendments found on pages six and 11 permit all taxing jurisdictions to participate in the TIF. Current law defines a taxing jurisdiction as "only the county, city and unified school district." As Mr. Brown outlined, this precludes the participation of Hutchinson Community College. Without this change, approximately \$35,000 per year or \$700,000 over the 20-year life of the TIF does not go to environmental clean-up. Looked at in another way, the jurisdiction -- in this case the community college -- will receive more revenue than it would have had the TIF not been established. Without the TIF, property values would drop and consequently generate fewer tax dollars for the jurisdiction. Further, and perhaps more importantly is the "me too" syndrome that nonparticipation by the community college could have. If one jurisdiction is automatically

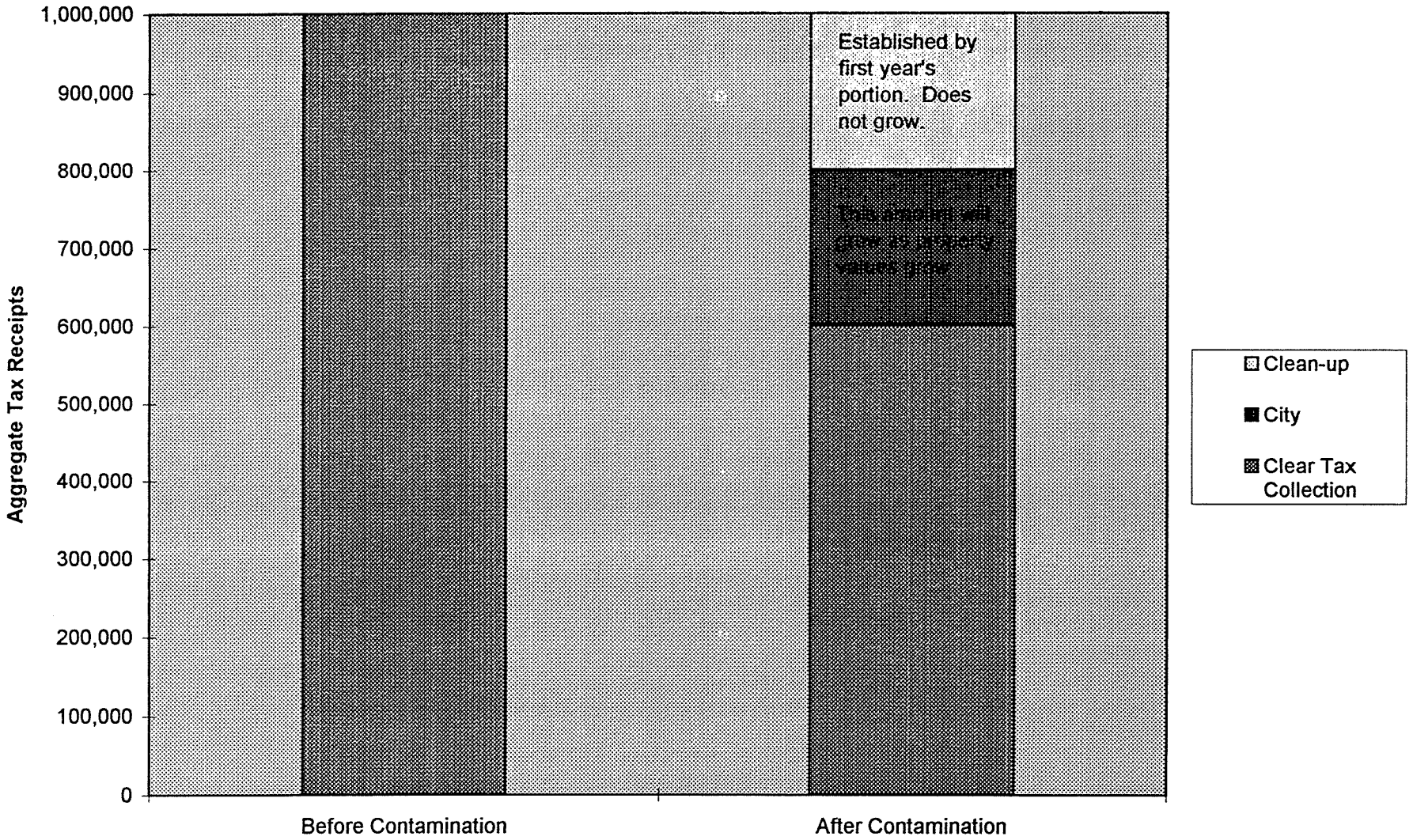
allowed out or in this cause cannot participate even if they want to, others may hesitate to cooperate. If the TIF frays or cannot be organized, homeowners will not be able to secure a liability release that can only be provided by a formal TIF.

In discussion with several committee members, concerns were expressed about obligating future revenue. KGFA would point out that a TIF established to address environmental contamination works with revenues that might not otherwise have been available to the taxing jurisdiction.

Thank you for your consideration. KGFA asks the Committee to pass S.B. 405 because it allows cities to maintain their tax base, creates a mechanism to release property owners who are not responsible for the contamination from future liability and allows companies to be good corporate citizens while cleaning-up environmental contamination. Inclusion of all taxing jurisdictions ensures that a TIF of this nature can be used successfully without the possible problems created when every jurisdiction does not pull its weight. I would stand for any questions you may have.

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TIF DISTRIBUTION ENVIRONMENTAL CONTAMINATION EXAMPLE





**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 300 S.W. 8TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: House Taxation Committee
FROM: Chris McKenzie, Executive Director
DATE: March 26, 1996
RE: Tax Increment Financing Proposal--SB 405

Thank you for the opportunity to appear today to discuss the League's views with regard to modifications to the Kansas tax increment financing (TIF) laws. The League participated this interim in the discussions concerning the use of TIF in conservation districts and possibly for housing and industrial projects. By action of the League's Legislative and Finance and Taxation Committees, I am appearing today in support of SB 405, as amended, with one caveat.

Our reasons for supporting SB 405 are grounded in a belief that it is better to address the need to redevelop property **before** blight sets in rather than later. Furthermore, SB 405 addresses the need to allow cities to use franchise fees and sales tax revenues to finance principal and interest payments on TIF bonds as opposed to the property tax increment alone. Finally, SB 405 allows a city to adopt a redevelopment plan providing for less than 100% of the increment of additional property tax revenue to be pledged to the project. If sales tax, franchise fee and other revenues can be used in some cases, the balance of the increment can continue to go to the county, state and other taxing districts. Finally, SB 405 also contains certain provisions which clarify the ability of cities to address environmental contamination problems through the use of tax increment financing.

Quite frankly, our only concern about SB 405 is paragraph (d)(3) on page 13 of the bill. This new language prospectively removes the 35 mill school levy from the future increment of tax revenue to finance the project. In a community with an aggregate mill levy of 100 mills, this reduces the revenue stream by 35%--a substantial reduction. Please see the attached survey of TIF projects across the state and you can get a clear appreciation of the importance of this revenue source. On the other hand, with the other changes in the bill TIF will be able to be used in conservation districts (to prevent blighting conditions from developing) and a wider range of revenues could be dedicated to the project. We do understand the rationale of including this new provision, but I want the Committee to understand the fact that this will make TIF financing less feasible in some communities. An alternative approach would be to condition such language upon the passage of legislation reducing the 35 mill property tax levy for schools.

RECOMMENDATION: The League respectfully recommends approval of SB 405 with the above described amendment.

President: John Divine, Mayor, Salina * Vice President: Ralph T. Goodnight, Mayor, Lakin * House Taxation
Directors: Donald L. Anderson, Mayor, Lindsborg * Chris Cherches, City Manager, Wichita * 3-26-96
Eilert, Mayor, Overland Park * Rod Franz, Finance Director, Salina * John Golden, Commis Attachment 3-1
Ottawa * Carol Marinovich, Mayor, Kansas City * Tom Martin, Mayor, Dodge City * Margu
Williams, Councilmember, Mission * John Zutavern, Commissioner, Abilene * Executive Director: Christopher K. McKenzie

TRADITIONAL TIF PROJECTS

TIF Project Name	Total Project Cost	Total Years Financing	Current Year of Financing	Current Total Est. Annual Cost to City	Est. Annual Increment from 35 Mills	Stage of Project Completion ¹
Kansas City						
Pala Vista	\$400,000	15 years	2	\$ 26,060	\$ 5,200	4
Mt. Zion	\$950,000	15 years	—	\$ 63,333	\$ 12,666	2
Gateway Gardens/ EPA	\$700,000	15 years	—	\$ 46,666	\$ 9,332	2
I-635 Industrial Pk.	\$529,274	15 years	1	\$ 35,284	\$ 7,056	4
East Armourdale	\$385,000	15 years	—	\$ 25,666	\$ 5,120	3
Leavenworth						
Walmart TIF	\$1,205,000	11 years	1st	\$ 162,000	\$ 49,038	completed ²
Manhattan						
Downtown Redevelopment	\$9,270,000	17 years	10	\$1,100,000	\$227,000 ³	completed
Merriam						
Merriam Town Center ⁴	\$50,000,000	20 years	1	\$1,574,500	\$437,500	2
Homestead Village	4,250,000	20 years	1	\$ 100,000	\$ 39,000	2 ⁵
Baron Redevelopment	\$4,500,000	20 years	1	\$ 110,000	\$ 43,000	1

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¹Stage of Project Completion Code: (1) Preliminary--no land acquired or construction commenced; (2) Intermediate--land acquired, but no construction commenced; (3) Advanced--construction underway; or (4) Completed--project and financing completed. If necessary, list more than one number.

²This 35 mil reduction would be devastating, EXCEPT that we have a written agreement with the business whereby they will make up any shortfall between TIF and our annual cost.

³Increases each year as valuations in the district increase.

⁴Properties under contract.

⁵Property under contract

TRADITIONAL TIF PROJECTS

TIF Project Name	Total Project Cost	Total Years Financing	Current Year of Financing	Current Total Est. Annual Cost to City	Est. Annual Increment from 35 Mills	Stage of Project Completion
Olathe						
119th & Straight	\$3,500,000	10 years	-0-	\$ 800,000	\$225,000	1 ⁶
Roeland Park						
Red. Area Proj. I-Old Downtown	\$1,000,000	15 years	2	\$ 150,000	\$ 50,000	4
Red. Area Proj. II - Mac's pkland	\$ 200,000	To be bonded this year	—	\$ 18,200	\$ 6,300	2
Wichita						
Old Town	\$ 9,400,000	15 years	2	\$ 500,000	\$ 32,000	3-4
East Bank	\$30,000,000	15 years	0	\$3,000,000	\$155,000	2
21st & Grove	\$17,000,000	15 years	0	\$ 200,000	\$ 35,000	1-2
North Industrial Corridor	\$20,000,000	20 years		\$5,000,000	\$300,000	
West Bank	\$ 5,000,000	15 years		\$ 100,000	\$ 12,000	
Total	\$158,289,274			\$13,011,709	\$1,650,212	

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ENVIRONMENTAL CONTAMINATION TIF PROJECTS

Hutchinson						
4th & Carey Remedial Investigation/Feasibility Study	\$ 4,000,000	20 years	1	\$200,000	\$46,446	Begun in May 1994 Estimated completion March 96 ⁷
Wichita						
Gilbert-Mosley	\$20,000,000	20 years	3	\$5,700,000	\$145,000	1-2

⁶The Redevelopment Dist. has been established, the redevelopment plan has not been approved.

⁷4TH & Carey Remedial Design/Remedial Action (to be determined - B+C-E/F/G)