

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 20, 1998 in Room 519-S of the Capitol.

All members were present except: Rep. Franklin
Rep. Garner
Rep. Howell
Rep. Johnston
Rep. Shultz

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

Conferees appearing before the Committee:
Bob Corkins, Kansas Chamber of Commerce & Industry
Jim Allen, Commercial Property Assn of Kansas
Bill Fuller, Kansas Farm Bureau
George Petersen, Kansas Taxpayers Network
Hal Hudson, National Federation of Independent Business
Karen France, Ks. Assn. of Realtors

Others attending: See attached list

Chair opened the meeting for public hearing on:

HB 2642 - Property tax relief act of 1998

Proponents:

Bob Corkins, Kansas Chamber of Commerce & Industry (Attachment 1)
Jim Allen, Commercial Property Assn of Kansas (Attachment 2)
Bill Fuller, Kansas Farm Bureau (Attachment 3)
George Petersen, Kansas Taxpayers Network (Attachment 4)
Hal Hudson, National Federation of Independent Business (Attachment 5)
Karen France, Ks. Assn. of Realtors (Attachment 6)

Written testimony from Dan Hermes, Director of Governmental Affairs (Attachment 7)

Closed public hearing on **HB 2642**.

Moved by Representative Kline, seconded by Representative Powell, introduction by the committee of a resolution which states the State shall not levy a property tax past the calendar year 2002. Motion carried.

Adjournment.

Attachments - 7

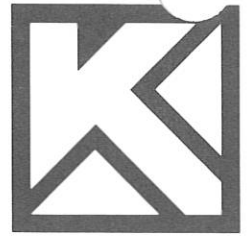
TAXATION COMMITTEE GUEST LIST

DATE: Jan. 20 1998

NAME	REPRESENTING
John Dorsch	KC Star
Hal Hudson	NFIB/KS
Bob Corkins	KCCI
Dennis Gros, Intern	Sen. Heulskamp
Greg Tugman	DOB
Jim Langford	DOB
CR Duffy	KPC
Dave Hollman	Western Resources
KAREN FRANCE	KAR
Mark Tallman	KASB
Christy Caldwell	Topeka Chamber of Comm
Alan Steppat	Pete McBoine & Associates
Steve Montgomery	CAS Construction
Craig Grant	KNEA
Keith Bradshaw, intern	Rep. Melvin Newfeld

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



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HB 2642

January 20, 1998

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Bob Corkins
Director of Taxation

Honorable Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I truly appreciate the chance to express our members' call for meaningful property tax relief.

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 47% of KCCI's members having less than 25 employees, and 77% 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.

KCCI applauds the Governor and the Legislature for reducing business property taxes, but there is still a long way to go. Our members have consistently, and as recently as last autumn, ranked property tax relief as their highest tax priority in statewide polling. The eight-mill drop in the

House Taxation Committee
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.num USD levy (from 35 down to 27 mills) has represented roughly a six percent rate cut. Simultaneously, however, this benefit is diluted as appraised values and other mill levies keep rising. We believe that the appropriate target should be a one-third reduction in business property taxes and, more specifically, a one-half reduction in property taxes on business machinery and equipment in order to bring Kansas in line with competing states.

Clearly, HB 2642 would be a very constructive step toward reaching both of these goals. Other proposals that we'll be discussing later this session would provide particular assistance to business personal property taxes -- and KCCI eagerly awaits that debate as well. We understand that full attainment of a competitive property tax burden is not realistic for one legislative session's work, but the faster we reach that objective, the better.

Multi-state tax comparisons clearly identify Kansas commercial property owners as the sector most in need of property tax relief. A 1996 nationwide study by the Minnesota Taxpayers Association ranked Kansas as the 12th most expensive state for urban commercial property taxes, 7th most expensive for suburban commercial, and the nation's highest in rural commercial property taxes (effective tax rates for all states were compared). The same study ranked Kansas residential property taxes as 34th highest in the country.

KCCI does not seek to grasp every dime of property tax relief available solely for the business community. The most equitable and the easiest way to distribute relief is to lower the minimum USD mill levy across-the-board for all taxpayers. To that end, KCCI supports this proposal's reduction of the levy down to 23 mills. With this approach, homeowners would still get more tax relief than any other class, but all classes would get relief in proportion to their share of the tax base.

Thank you for your time and consideration.

CPAK

Commercial Property
Association of Kansas

1-20-98

Chairman Kline and members of the House Tax Committee:

Thank you for allowing me to appear before you today. I am Jim Allen, representing the Commercial Property Association of Kansas (CPAK). CPAK was established in 1991 to represent the concerns of commercial property professionals in Kansas.

CPAK is in support of H.B. 2642, which reduces the mill levy to 23 mills from 27 mills. Property taxes are one of the largest deterrents to doing business in the state of Kansas. The state has the revenue this year to lower many taxes for all Kansans. The revenue is available to pass a meaningful property tax reduction proposal this session.

There will be bills that take the mill levy lower than 23 mills. I believe the Governor's bill will be the ceiling and the other bills will be the floor, and somewhere in the middle is where the mill levy will end up.

Whatever mill levy reduction passes, CPAK believes that education should be properly funded.

Thank you for your time this morning. I will be happy to stand for any questions.



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: HB 2642 – Enacting the Property Tax Relief Act of 1998

**January 20, 1998
Topeka, Kansas**

**Prepared By:
Bill R. Fuller, Associate Director
Public Affairs Division
Kansas Farm Bureau**

Chairman Kline and members of the Committee:

Farm Bureau members, like most taxpayers consider the property tax to be the most difficult and the most unfair tax they are required to pay. The property tax, unlike sales and income taxes, does not relate to the taxpayer income or reflect the taxpayers ability to pay the tax.

My name is Bill Fuller. I am the Associate Director of the Public Affairs Division for Kansas Farm Bureau. KFB Policy supports and encourages the approval of the mill levy reduction proposed in HB 2642. Our members have not adopted policy on the section of the bill relating to extending through 1999 the \$20,000 residential valuation exemption that took effect in 1997.

Kansas Farm Bureau applauds Governor Graves for his broad-based \$178.5 million plan that proposes cuts in income, sales, property and inheritance taxes. We recognize that the Governor and Legislature have many constituencies and must develop a tax cut package that can receive the necessary votes for passage. We are pleased that two components of the plan are high priorities for the farm and ranch members of Farm Bureau:

- Continue to phase-out the state property tax for school finance
- Reform the Kansas Inheritance Tax

The more than 435 Voting Delegates representing the 105 county Farm Bureaus at the 79th Annual Meeting of Kansas Farm Bureau developed and adopted policy that includes these statements:

- The state property tax for school finance should continue to be phased-out. We support replacement of those property tax revenues by increasing reliance on sales and income tax revenues (KFB is not suggesting an increase in state sales or income tax rates).
- Short of eliminating the Kansas inheritance tax, the Kansas Legislature should provide significant reforms to lessen the impact, then index this tax for inflation.
- We strongly support adequate funding for a quality K-12 education program for all students in Kansas.

We appreciate this opportunity to express our strong support for the continued phase-down of the statewide mill levy used to fund schools. The plan to lower the levy to 23 mills is certainly significant property tax reduction when we recognize that it takes approximately \$17 million to buy down each mill.

Thank You! We will attempt to respond to any questions you may have.

Kansas Farm Bureau Resolutions 1998

Property Tax

AT-3

The State of Kansas imposes a statewide 1.5 mill property tax for the support of the Educational Building Fund and the State Institutions Building Fund. There should be no additional use of statewide property taxes.

The state property tax for school finance should continue to be phased-out. We support replacement of those property tax revenues by increasing reliance on sales and income tax revenues. Existing sales tax exemptions for business, industry and agriculture should remain intact.

Inheritance Tax

AT-1

In Kansas there is a tax identified as an "inheritance tax," imposed on the privilege of succeeding to the ownership of property. The inheritance tax often makes it difficult for future generations to continue farming when the death of a family member occurs.

The federal government and several states impose a levy under the name "estate tax." Short of eliminating the Kansas inheritance tax, the Kansas Legislature should provide significant reforms to lessen the impact, then index this tax for inflation.

Public School Finance

ED-7

We strongly support adequate funding for a quality K-12 education program for all students in Kansas.

Low enrollment and correlation weighting provisions of the school finance formula should continue at current funding and enrollment levels. This funding should be maintained under any revenue mix.

The Kansas Legislature should develop school finance legislation, which provides for minimal reliance on the property tax for support of public elementary and secondary schools. The major sources of revenue for school funding should be the income tax and sales tax.

We oppose use of a local income or earnings tax by any local unit of government, other than a Unified School District.

We continue to encourage reduced reliance on the statewide property tax levy for the funding of elementary and secondary schools. We favor continued reduction of the state property tax levy which is now part of the school finance law. We oppose any effort to abolish the taxing autonomy of school districts and any effort to place all spending control with the state.

Until the statewide property tax for K-12 funding is phased-out, property tax revenues should remain in control of the USD where collected in order to provide interest income and to give local banks an opportunity to bid on and use deposits to assist with local community development.

School district finances, curriculum choices and building construction or remodeling decisions should remain under local authority.

Federally and state-mandated programs should be fully funded by the federal or state government, whichever mandates a given program.

KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208
20 January 1998

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Testimony to House Taxation Committee

The Kansas Taxpayers Network strongly supports legislation which would phase down the statewide property tax in this state. So KTN supports the four mill reduction proposed by Governor Graves today. This is an important step in the right direction. However, more steps should be taken to reduce this levy. In addition, there are two caveats which KTN will repeat from our testimony on this on this issue in 1997.

First, there needs to be a cap on appraised value growth. Soaring appraisals significantly reduced the 1997 property tax cut. A large part of the appraisal growth occurred on existing properties which were not improved last year. KTN realizes that new construction is added and should be added onto the tax rolls.

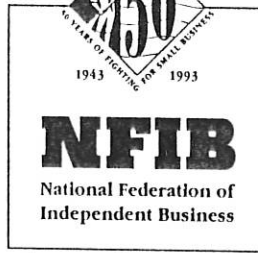
Second, local units grabbed large chunks of the state's property tax cut last year. Let mention what happened in Wichita as an example. First, Sedgwick County sought a seven mill increase which was rejected overwhelmingly by 88 percent of voters. Then the school district sought a 7.3 mill increase which was also rejected in a smaller landslide. To force these tax referendums on these two issues over 11,000 valid signatures had to be collected in less than 60 days.

Less than 60 percent of the state's eight mill reduction actually was returned to Wichita area taxpayers last year. Despite the two votes, the county and school district both raised property taxes by a combined total of 2.8 mills. In addition, the county's appraised value rose 6 percent and a large chunk of this came from existing improved property. In an informal survey of communities around this state KTN was told that Sedgwick County retained a higher percentage of the eight mills than most other areas in Kansas.

So, in many parts of this state property taxes grew and continue to grow at a faster rate than in our neighboring states which have effective constitutional lids on taxes and government spending growth.

KTN strongly urges the legislature to pass meaningful property tax relief and to guaranteeing that this tax cut gets back into the hands of the people who earned it, Kansas taxpayers.

LEGISLATIVE



The Voice of Small Business

TESTIMONY

Testimony of Hal Hudson, State Director
 Kansas Chapter,
 National Federation Of Independent Business
 Before the
 Kansas House Taxation Committee
 on House Bill 2642
 January 1997

Mr. Chairman and members of the Committee: Thank you for this opportunity to appear here today. My name is Hal Hudson, and I am here today representing the more than 7,000 small business owners of Kansas who are members of the National Federation of Independent Business.

Those of you who have heard me testify before will recognize this familiar message: Small Business owners dislike all taxes, but the tax they dislike the most is property tax. That is because property tax has no relevance to the taxpayer's ability to pay.

Last month, in December 1997, we conducted a ballot survey of our Kansas members regarding taxes. It will come as no surprise to you that 84.4 percent of our members said "Return the Windfall," as opposed to only 15.2 percent who favored any increase in state government spending. When we asked them to rank which taxes they most would like to have reduced, a plurality of 42 percent said property taxes -- on ALL property. Other options they could have chosen included a reduction of the tax on machinery and equipment, remodeling sales tax exemption, inheritance tax, etc.

NFIB/Kansas members have supported gradual reduction of the state property tax mill levy. But they really want to see this tax on property -- ALL property -- totally removed.

Today, I am here to offer qualified support for HB 2642 with a four mill reduction in the state levy. I'd rather be supporting a larger reduction - say seven to nine mills this year, followed by similar annual reductions until the tax has been eliminated.

However, when you take up measures proposed by the Governor dealing with business machinery and equipment tax exemptions and income tax credits, I'll be back here supporting them, too. But I want you to understand that a greater mill reduction -- across the board on all property taxes was first choice of NFIB members.

The rationale for this choice is not difficult to understand. Small business owners recognize that, in addition to themselves, most of their employees and their customers are paying rising property taxes on their homes, and cars. They also have figured out that when they say "lower the mill levy on ALL property," that includes their business machinery and equipment. Reducing property tax on all property allows these folks more discretionary income, which bolsters the state's economy and helps small businesses prosper.

We support the concept of HB 2642 at a four mill levy reduction. We would support more enthusiastically this or any other bill with a greater reduction in the state's mill levy.

Thank you for your attention.

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National Federation of Independent Business

Kansas

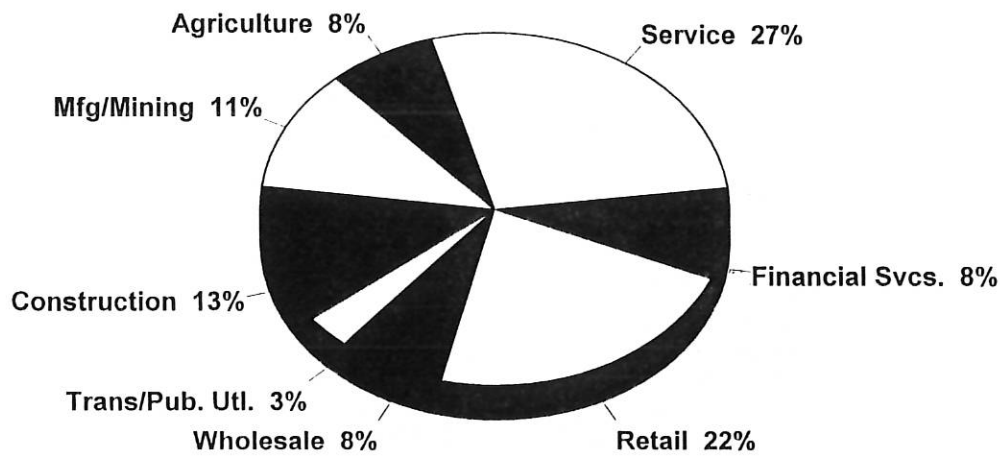
About NFIB-Kansas

Since 1943, business owners from all walks of commercial life have joined the National Federation of Independent Business to have a powerful, united voice in government decision making. Today, NFIB's Kansas chapter has more than 7,000 members, making it the largest small-business advocacy group in the state.

Each year, NFIB-Kansas polls its entire membership on a variety of state legislative and regulatory issues. The federation uses the poll results to set its legislative agenda and aggressively promotes those positions approved by a majority vote.

This democratic method of setting policy assures that the positions advanced by NFIB reflect the consensus view of the entire small-business community rather than the narrow interests of any particular trade group. Lawmakers wanting to know how proposed legislation and regulation will affect Main Street businesses can get the authoritative answer from NFIB's legislative office in Topeka.

NFIB-Kansas by Industry Classification



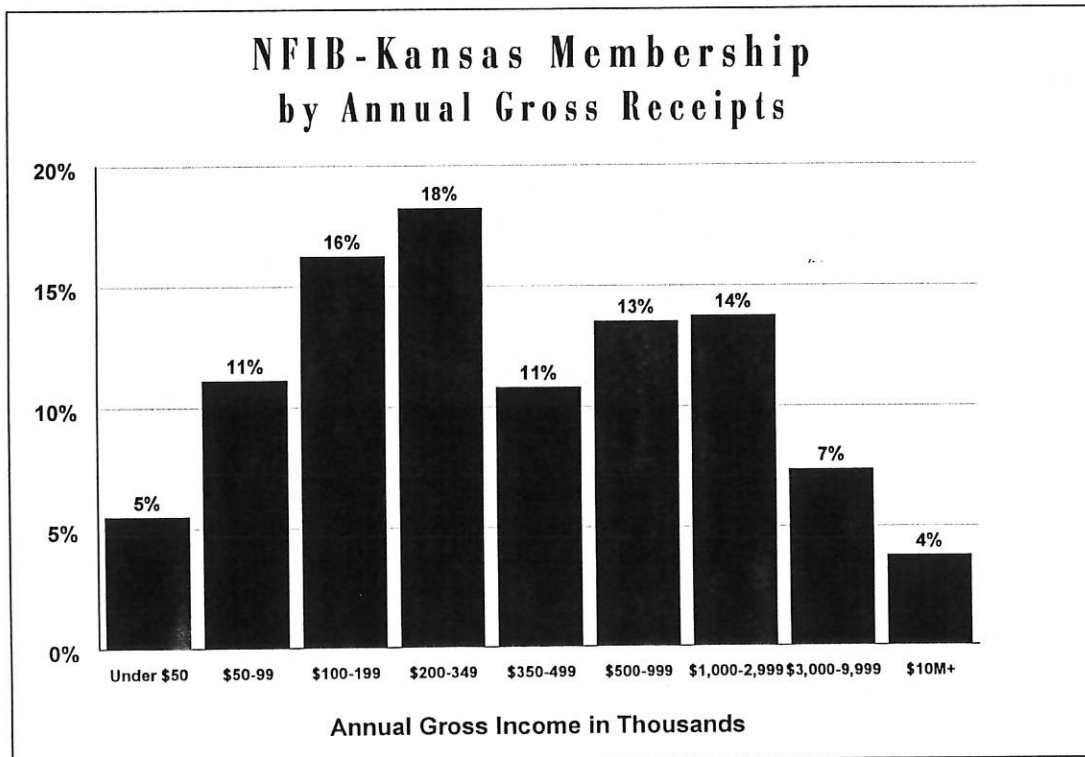
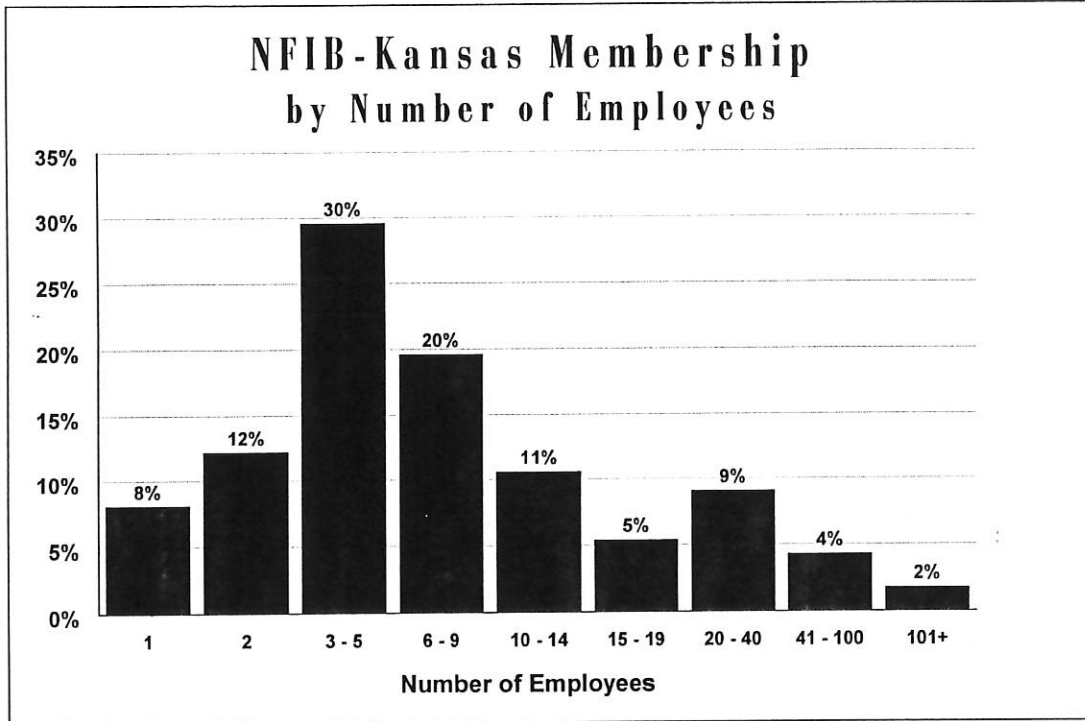
...and NFIB works for small business.

Hal Hudson
State Director

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NFIB-Kansas Membership Profile

NFIB-Kansas represents the entire spectrum of independent business, from one-person home-based operations to enterprises employing more than 100 people. The typical NFIB-Kansas member is quite small, employing six workers and ringing up gross sales of about \$340,000 per year. Yet, in aggregate, the membership is a potent economic force, employing more than 110,000 and earning about \$8 billion (gross) annually.





TO: HOUSE TAXATION COMMITTEE

FROM: KAREN FRANCE

DATE: JANUARY 20, 1998

SUBJECT: GOVERNOR'S PROPERTY TAX PROPOSAL

Thank you for the opportunity to testify. The Kansas Association of REALTORS® supports the concepts of the Governor's property tax proposal.

It has been our long-standing position that real estate is burdened with an excessive share of the constantly increasing cost of state and local government. We believe real estate taxes should be used only to pay for state and local governmental services which are rendered to real estate. People related services and programs such as education should be paid for by other types of taxation. We have advocated the restructuring of state and local taxation sources for the funding of non-property related services. We urge the state to work for the restructuring of taxes to relieve the inequitable real property tax burden but also not to unfairly shift the tax burden to any tax paying entity. We support the continual, gradual reduction of the statewide mill levy to the extent possible.

Property ownership is no longer an indication of the ability to pay. When it was first instituted, years ago, the ownership of property was an indicator of wealth. That is no longer the case. For example, we have people on fixed incomes whose property has appreciated in value through no fault of their own and their property tax bills have essentially become a rental payment to the government for their homes.

When the statewide mill levy was adopted in 1992, it began another whole spectrum of property taxation, by putting the state in the business of levying property tax far beyond the 1 1/2 mills it used to levy. The state now has to worry about increases and decreases in the statewide assessed valuation and is now a reluctant player in the game of maintaining current levels.

We urge the committee to strongly consider reducing and removing the statewide mill levy and replacing it with other forms of revenue. We think it will be in the long term best interest of the state to get out of the business of assessing property taxes and into the business of removing, at least partially, the use of an antiquated tax.

We do offer a caveat, however, and that is, if you remove or reduce the statewide mill levy for schools, you have to make sure the gain for taxpayers is not eaten up by the other taxing authorities without taxpayer input. The legislature should keep this factor in mind when addressing this issue.

Thank you for the opportunity to testify.

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STATE OF KANSAS

BILL GRAVES, Governor
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OFFICE OF THE GOVERNOR

LEGISLATIVE TESTIMONY

TO: Chairman Phill Kline and Members of the House Committee on Taxation

FROM: Dan Hermes, ^{DWH} Director of Governmental Affairs

DATE: January 20, 1998

BILL: Property Tax Relief Act of 1998

Mr. Chairman and members of the committee, thank you for the opportunity to appear today in support of this portion of the Governor's tax cut package.

This bill would reduce the uniform mill levy for financing public schools from 27 mills in 1997 to 23 mills for 1998 and 1999. The bill would also extend the current exemption of \$20,000 in value of residential property from this levy for the same time period.

Combined with the reduction from 35 to 27 mills for 1997, this bill would result in a reduction of over one-third in the mill levy controlled by the state.

This bill will save Kansas property taxpayers an estimated \$40.3 million in FY 1999 and \$68.9 million in FY 2000. Combined with prior mill levy reductions and the cut in vehicle taxes approved in 1995, total property tax savings are estimated to total nearly \$370 million in FY 1999.

I look forward to the committee's support for this measure.

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