

Approved March 14, 2002
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on February 5, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Cook, excused
Representative Howell, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferrees appearing before Committee: Representative Ballou
Representative Tanner
Larry Baer, Kansas League of Municipalities
Marlee Carpenter, Kansas Chamber of Commerce & Industry
Bernie Koch, Wichita Chamber of Commerce
Donald Seifert, City of Olathe
Mike Taylor, City of Wichita
Christy Caldwell, Topeka Chamber of Commerce

Others Attending: See attached list.

Without objection bill will be introduced at the request of the Historical Society to make technical changes to the historical tax credit bill passed last year. [HB 2760 - State register of historic places, approval of local unit of government]

Hearing was opened on HB 2716 - Property taxation, limitations on exemptions.

Chairman Edmonds reported the Fiscal Note is not yet completed.

Representative Ballou testified in support of the bill (Attachment #1). He noted this was the first bill he had drafted eight years ago and had decided to try again because of the growth in his District and other areas of the State. Rep. Ballou believes that it is only fair to all the taxpayers of the State that every one pay their fair share and with the high cost of education going up every year, he believes that the State and Local governments should not be allowed to abate the school's portion of property tax. He described the impact on schools whenever a new business comes to town. He explained that the bill provides that when the city, county or state wants to abate taxes for whatever length of time that collection of taxes for the local school system could not be abated.

In response to questions, Representative Ballou said that while the opinion of the school is sought, they have no control over whether tax is abated or not abated; that line 24 on page 3 has to do with revenue bonds on new construction and that current abatements will continue through the time of that abatement; that this applies only to school district mill review; that school districts could participate in neighborhood revitalization if they want; that he would say community colleges would be included as "educational".

Representative Ballou said Legislative Research is developing information on exactly how many dollars are being abated currently.

Representative Ballou accepted Representative Edmonds' invitation to participate as a member of the Committee for this session.

CONTINUATION SHEET

Representative Tanner testified in support of HB 2716 referring to his written testimony (Attachment #2). He appeared on behalf of funding for schools and while nothing in the bill suggests school finance matters, the net effect in this change in tax policy will be a great stride forward for schools in our state. He considers he has been one of the members of the Legislature who is most aggressive on the matter of economic growth but that each effort to attract industry and commerce to an area must take great care not to eviscerate funding for schools. He described the situation with regard to schools when a new business is attracted to a community and noted there are more issues than job creation.

Representative Tanner does not think there is any community in the state that does not want to see its business grow and he has applauded the Legislature for its foresight in earmarking lottery funds for economic development. He provided examples where business has been attracted as a result. This bill is an attempt to protect the school financial structure at a time when dollars are short and when the local community is asked to take on more responsibility in the passage of Local Option Budgets, creating a tax shift from the state to the locality. He gave the example of Garden City where granting of tax abatements resulted in attracting the meatpacking industries which began to develop a work force that was basically heads of families and mothers in families with large numbers of children who had to be educated. The local school board was given the responsibility of educating them under the burden of a tax abatement.

Representative Tanner considers a 20 mill school tax a rather light burden for any industry to pay when looking at the entire tax structure they would be under without abatement. He noted the Committee is chief among those on the House side responsible for preserving the financial structure of the schools of Kansas until there is an opportunity to rewrite the School Finance law.

In response to a question Representative Tanner said it is difficult for small businesses without a large work force to obtain a tax abatement from the city and county commissioners. He noted that a tax rebate is not a bad thing in principle, but that the school tax portion should not be abated. He called attention to the provision for "payment in lieu of taxes" (PILOT).

Representative Gatewood said he can appreciate why the bill has been brought before the Committee and believe the cost benefit analysis when abatements are granted should be used.

Chris Courtwright verified that when an abatement is granted and the property is off the tax rolls for ten years, local governments and the Property Valuation Division are supposed to make a record of how much evaluation is taken off the tax roles. He believes the PVD makes an annual report. The PILOT is a different situation and is negotiated separately. a different situation. He does not believe property on which an abatement has been granted is part of the formula that determines the local levy.

Representative Tanner said a local school district determines their needs and determines the mill levy according to those needs.

In response to a question about the downside for cities and counties, Representative Tanner said that while people would testify this will have a chilling effect on local economic development, it is a judgment call. Every business moving into a town wants good schools and the business community has supported schools throughout the years. He said one of the first things to say to a business in attempting to attract them would be that we will continue to assess the school portion of the levy which helps attract a quality work force and helps the business to succeed.

Representative Owens said he strongly supported what has been said about the impact of good schools. That has been the hallmark in attracting business to Overland Park and Johnson County. He believes that to make a decision on this bill it is important to know the ups and downs.

Representative Tanner said he understands the theory that you need not tax the business, that if hundreds of people have jobs, they are going to be paying taxes. However, skewing the formula puts an undue burden on income tax and sales tax.

Representative Larkin said school finance was the subject of an interim study in 1991.

CONTINUATION SHEET

Representative Toplikar said when he was serving on the Olathe city council there was extensive consideration of abatements. He believes there is a need to tighten controls on when abatements should be given and when they should not. When a business is "pirated" and relocates in another community they may be paying their school levy in one city and get the abatement in the district to which they move. He suggested that there could at least be a moratorium in the present fiscal crisis and noted this is not a new tax, but a change in policy.

Larry Baer presented testimony in opposition to **HB 2716** on behalf of the Kansas League of Municipalities (Attachment #3). He stated the tax abatements would not have been granted without a favorable cost benefit ratio. In response to questions he said tax abatements were a tool cities have available to assist in the attraction of new business or in the retention of old business which becomes a part of the overall taxation mix.

Marlee Carpenter testified in opposition to **HB 2716** on behalf of the Kansas chamber of Commerce and Industry (Attachment #4). She also said tax abatements are a very important tool in attracting and retaining business in the state and that because school district mill levies make up a large portion of the local mill levy, the enactment of **HB 2716** would reduce the effectiveness of the property tax abatement and the local community's ability to grow its tax base. The testimony stated that in 2000, only 7.7% of property was exempt due to revenue bonds and that the point must be made that owners of much of the exempted property have agreed to make "in lieu of" payments to local governments and school districts.

The Kansas Chamber of Commerce and Industry believes that Kansas does not necessarily need to be the most friendly tax-state in the region, but for Kansas to compete, it needs a competitive tax structure. She testified an official school finance position for this year has not yet been formulated by the Executive Committee of KCCI to develop a policy statement on public education.

Bernie Koch testified in opposition to **HB 2716** on behalf of the Wichita Chamber of Commerce (Attachment #5). He testified that about half of all tax abatements granted in Kansas are granted in Sedgwick County and over 70 percent of those are not for land and buildings. They are for machinery and equipment. Mr. Koch said Wichita has a strong manufacturing base with twenty-five percent of the workforce engaged in manufacturing. He said that Wichita has suffered 8,000 layoffs recently and that one study concludes that the Wichita Metro area economy is the seventh most impacted in the U.S. by the September 11 terrorist attacks. He called the attention of the committee to tables attached to his testimony comparing Kansas property tax rates for machinery and equipment in 2000 with those in surrounding states and provided details of the 2001 tax levies in Sedgwick County.

Mr. Koch testified that economic development people for an abatement but they don not ask for an abatement of the portion for the school district. He knows of only one instance in Wichita and Sedgwick County when the land or the existing structure on that land was abated. They are not shifting taxes but delaying the payment of taxes for up to ten years. He noted there is a permanent abatement of taxes on farm equipment and machinery. Her would say that the incentive offered by the tax abatement produces more revenue for the state than is lost to the state. Some of the cost benefit analyses look specifically at the school district, taking into account how many new students will be brought to the school district as a result of the tax abatement.

Mr. Koch said he believes the schools and of our work force are important to our community but the tax incentive is also important. He said he believes a standard cost benefit analysis process has been developed by Kansas, Inc.

Cost benefit analysis was actually used in Wichita before it was required by the state law.

In response to a question about putting a sales tax on professional fees, Mr. Koch said every place that has been tried it has been rescinded.

He believes the benefits of tax abatements exceed the losses and that this bill would have a negative impact. Considering that wages in manufacturing are higher than for other types of jobs, 1.6 jobs are created for every manufacturing job created in Sedgwick County.

CONTINUATION SHEET

Donald Seifert, Policy Development Leader of the City of Olathe, presented testimony in opposition to **HB 2716** on behalf of the City (Attachment #6). He stated that as a longstanding home rule policy position, Olathe has opposed legislation restricting the use of property tax abatements. They believe under current law there is opportunity for school districts to provide input into the tax abatement process. In Olathe all tax abatement proposals are discussed with the local school district and the school district is represented on the Olathe Economic Development Advisory Board. He provided a copy of the City's Policy Relating to Property Tax Abatements for New Businesses, calling attention to requirement that the City and Olathe Chamber of Commerce shall meet with representatives of the Unified School District to discuss applications requesting tax abatements prior to discussion of the request by the City Council.

In response to questions, Mr. Seifert said that under its policy Olathe grants tax abatements for from three to ten years and does not allow for the continuation of abatements when they expire. The previously abated companies could request a new abatement in the case of a planned expansion. He believes that taking into account increases in sales tax that result, the fiscal impact on a case-by-case basis would indicate that tax abatement is beneficial. When asked how many industries who have had tax abatements and later came onto the tax rolls have moved out, Mr. Seifert said the community has been engaged in this process since the late 1980s and he cannot recall any company that has left. Some companies have asked for a continuation of abatements but on amended terms.

Mike Taylor presented testimony on behalf of the City of Wichita in opposition to **HB 2716** (Attachment #7). Mr. Taylor said the bill would have a devastating effect on economic development at a time when retaining and expanding existing business and attracting new business is more difficult and more crucial than ever and attempts to fix a problem which doesn't exist in Wichita. In Wichita, as a matter of policy, existing property is not exempt and tax abatements are offered only on new construction, additions or equipment. Wichita City Council never abates taxes on land, which means the school district or other taxing jurisdictions are not giving up taxes they are already getting.

The Wichita school district always has the opportunity to review, comment on and oppose any proposed tax abatement or exemption. He referred to provisions under K.S.A. 12-147 providing a legal mechanism for a "payment-in-lieu-of taxes" and stated the key is for the school district and the city to work together to reach an agreement on a case-by-case basis to work out a solution in the best interests of the overall community.

Mr. Taylor testified the school district has never actually opposed any tax abatements given in Wichita and the position of the City is that not only is **HB 2716** unneeded and unjustified, it is detrimental to the economic well-being of Wichita and the entire State of Kansas. He noted that several years ago when the headquarters of Pizza Hut moved to Dallas, they were made to pay over \$1 million in tax abatements.

Representative Ballou noted that while there is the right by statute, to his knowledge land is not abated anywhere in the state.

Christy Caldwell testified in opposition to **HB 2716** on behalf of the Topeka Chamber of Commerce (Attachment #8). She testified the Chamber believes disallowing tax abatement would significantly reduce the effectiveness of this incentive. Before offer of an abatement is made in Topeka, a cost-benefit analysis is completed and an administrative review is done by representatives of all taxing authorities, including the school district affected. She testified that to her knowledge no school district has opposed giving a tax abatement. The abatement is based upon number of jobs created at a specified wage level, and it is looked at each year to ensure they are still providing that number of jobs at that wage level. If they reduce their employment or their wage levels are not what they said they would be, they do not receive their tax abatement for that year.

Hearing on **HB 2716** was closed.

Meeting adjourned at 11:00 a.m. The next meeting is scheduled for February 6.

GUEST LIST

DATE Feb. 5, 2002

NAME	REPRESENTING
Bernie Koch	Wichita Area Chamber of Commerce
MIKE TAYLOR	City of Wichita
Christy A Caldwell	Topeka Chamber of Commerce
LARRY R BAER	LKM
LAURA KELLY	KS PER & PARK ASSN
Don Seifert	City of Olathe
Robert Ann	KDOR
Judy Mohr	KAC
Marlee Casperder	KCCI
Whit - Whit	Hearney Law
John Clark	Stallman
John Julemb	Boeing
Michelle Katercom	K. Governmental Consulting
Robert E Kellum	KLOGA
BILL YANER	Ks Assn. of REALTORS
Ann Duikes	DOB
Zachy Veltus	
Anne Spiess	KCRAR - K.C. Beattors
Bill Brady	Ks. Govt. Consulting
Snowy	Great KCC chris
Pat Lehman	KRPA
Hany George	Olathe School Dist.

GUEST LIST

DATE Feb. 5, 2002

NAME	REPRESENTING
Mary Benton	KDOC & H
Enk Sartorius	City of Overland Park
Julie Hein	.
Mark Tallman	Ks Assn School Boards

JOHN BALLOU
18180 S. WAVERLY
GARDNER, KANSAS 66030
(913) 856-6355



CAPITOL BUILDING
ROOM 180-W
TOPEKA, KANSAS 66612
(785) 296-7696
ballou@house.state.ks.us

HOUSE OF REPRESENTATIVES
43RD DISTRICT
ASSISTANT MAJORITY LEADER

Chairman Edmonds and members of the committee.

Thank you for the opportunity to speak to you to on HB 2716. If this bill sounds familiar it is because it was the first bill I had drafted eight years ago. The reason I have decided to try this bill again is because of the growth in my District and other areas of the State. It is only fair to all the taxpayers of the State that every one pays their fair share. That is why I am calling HB 2716 the fare share bill. With the high cost of education going up every year. I believe that the State and Local governments should not be allowed to abate the school's portion of property tax. Local school Boards have no control over their portion of the mil levy. When the State or a county or a City abate property taxes they are abating the State 20 mil-levy for education plus any LOB mil-levy and bonding mil-levy the Local school district has authority for. We all have received letters from the State chamber of commerce and local chambers stating they are in favor of a tax increase to raise more revenue for education. HB 2716 will allow them to accomplish this by requiring every one to pay their fair share. This will not raise taxes on anyone but rather equalize the tax base in all school districts. I repeat this will not increase anyone's tax. Rather this will lower taxes for the average citizen and small business. Some may say that I am anti growth for offering this legislation. I am pro growth, but growth just for the sake of growth is not wise. Growth needs to help pay its own way. Every time a new business comes to town which is great! It also almost always brings new employees to the area, which generally means more children for the school system. In a growing area this may require new school building and possibly the need to increase the LOB. Why should local homeowners and our main street business have to carry the load for education? The Chamber of Commerce will tell you the most important factor for a business when deciding were to relocate is the local school system. Finally why should new business receive special treatment that local business and homeowners can't or do not receive

John Ballou

43RD DIST
House Tax 2-05-02
Attach. No. 1
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STATE OF KANSAS

House of Representatives



THE CAPITOL

TOPEKA ADDRESS:
STATE CAPITOL—426-S
TOPEKA, KANSAS 66612-1504
(785) 296-7654
TOPEKA HOTLINE
DURING SESSION - 1-800-432-3924
BALDWIN CITY ADDRESS:
1201 NINTH ST., P.O. BOX 647
BALDWIN CITY, KANSAS 66006
(785) 594-3502
E-Mail: rmtanner@ink.org
CELLULAR PHONE (785) 979-7977

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COUNCIL

ADVISORY BOARDS
TEACHER QUALITY ENHANCEMENT
NATURAL AND SCIENTIFIC AREAS

Ralph Tanner
Representative, Tenth District

Testimony on HB 2716

February 5, 2002

Mr. Chairman, members of the Committee:

I am pleased to appear before you today on behalf of funding for schools in the state of Kansas. Nothing in the title of this bill suggests school finance matters, but the net effect of passage of this measure will be a great stride forward for schools in our state.

I am not here to criticise local government in our state, but you and I know that we have long followed the practice of abating taxes for the purpose of attracting business and commerce to our locality on the ground of economic development.

House Tax 2-05-02
Attach. No. 2
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Mr. Chairman, you should understand that I am not here to rail against economic development. In fact, I believe, and, in fact, hope I am one of the members of this body who is most aggressive on the matter of economic growth.

What I oppose is the occasional mindlessness that invades our thinking on taxing structure. Abatements are only good when they accomplish our purposes of economic development and – at the same time – do not offend our schools. Each effort to attract industry and commerce to an area must take great care not to eviscerate funding for schools.

Mr. Chairman, consider this scenario. Under the prospect of creating a substantial number of jobs a city council abates the taxes for a proposed processing facility. The facility is build, and the workforce is hired. Along with the development of the workforce, the families of those workers are quite large by today's standards, and great numbers of new students are added to the school roster. In fact, so many new students are generated by the "new jobs" surrounding this tax abatement,

that the schools are in jeopardy all because of the good intentions of the people of the city council when the issue of tax abatement for economic development was broached.

And so, Mr. Chairman, tax abatements in furtherance of economic development are not without their problems. This matter may very quickly become a two-edged sword. My purpose here is merely to remind the members of the committee that there are more issues here than job creation.

And so I borrow from the wisdom of one of the greater scientists of any age, Sir Isaac Newton, and remind my colleagues, "To every action there is always opposed an equal reaction." (*Principia Mathematica, Laws of Motion, I.*)

Thank you, Mr. Chairman. I will stand for questions.



League of Kansas Municipalities

TO: House Taxation Committee
FROM: Larry R. Baer, Assistant Legal Counsel
DATE: February 5, 2002
RE: Opposition to HB 2716

Thank you for allowing me to appear before you today on behalf of the League of Kansas Municipalities and its member cities in opposition to HB 2716.

HB 2716 would eliminate the ability of cities to grant either constitutional or statutory exemptions from property or ad valorem taxes levied by or on behalf of school districts. These exemptions are granted as economic development incentives. For many years the League has supported the exemption from property or ad valorem taxes for real or personal property as an economic development incentive.

Exemptions for these purposes are found in section 13, article 11 of the Kansas constitution and in K.S.A 12-1740 *et seq.* The constitutional provision is more commonly referred to as the economical development or "eco-devo" exemption. The statutory provision is part of the Economic Development Revenue Act which authorizes the issuance of industrial revenue bonds (IRB).

Taxes levied by or on behalf of school districts very often represent a significant share of the taxes levied in a city. Therefore, eliminating the exemption for real or personal property from the ad valorem tax levied by or on behalf of a school district would significantly devalue these eco-devo incentives.

For many, if not most, of our cities, the use of either or both of these exemption provisions is the principal economic development incentive they have to offer either a relocating business to come to their community or an existing business that is desiring to expand and remain in the community. Often, either of these may be the only incentive that is available.

It must be noted that neither the eco-devo nor the IRB exemption is granted in a vacuum. A cost-benefit analysis is required as part of the application process. The board of Tax Appeals will not grant such an exemption without a favorable cost-benefit ratio.

For these reasons, the League of Municipalities opposes HB 2716 and urges this committee not to report the bill favorably for passage.

Again, thank you for the opportunity to appear before you and state our position on HB 2716.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: kcci@kansaschamber.org • www.kansaschamber.org

HB 2716

February 5, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Marlee Carpenter
KCCI Director of Taxation

Mr. Chairman and members of the Committee:

My name is Marlee Carpenter and I am the Director of Taxation for the Kansas Chamber of Commerce and Industry. We are here today in opposition to HB 2716.

Property tax abatements are a very important tool in attracting and retaining business in the state. Because school district mill levies make up a large portion of the local mill levy, the enactment of HB 2716 would reduce the effectiveness of the property tax abatement and the local community's ability to grow its tax base.

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 2,000 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 48% of KCCI's members having less than 25 employees, and 78% 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.

House Tax 205-02
Attach. No. 4
Page 1 of 2

A very small portion of property is exempt from property tax due to revenue bonds. Kansas, Inc. states that in 2000, only 7.7% of property are exempt due to revenue bonds. However, the point must be made that owners of many of the exempted property have agreed to make "in lieu of" payments to local governments. This means that many exempt businesses are making partial payments to local governments and school districts.

The Kansas Chamber of Commerce and Industry believes that Kansas does not necessarily need to be the most friendly tax-state in the region, but for Kansas to compete, we do need a competitive tax structure. For years, Kansas has been the highest in the region for property taxes on machinery and equipment. Property tax abatements relieve this burden for new and expanding firms. Kansas, Inc., in its 2001 Business Tax Update states that "property tax abatements provide the single most important tax incentive at the state and local level. Without abatements, property taxes often exceed state and local income taxes."

To bring in more tax dollars for school districts the tax base in Kansas must grow. In order to do that, local communities must be given the tools to attract and retain businesses. When a business, whether it is a manufacturing plant or a retail store, locates in a community, it provides much more than the tax collected on property or machinery and equipment. The business provides jobs so that employees can buy houses and pay local property taxes, buy products and pay sales tax, and earn an income and pay income taxes.

We urge you to oppose HB 2716. I will be happy to stand for any questions.



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Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the Committee, thank you for the opportunity to make comments today on House Bill 2716. I'm Bernie Koch, Vice President for Government Relations with the Wichita Area Chamber of Commerce.

This bill is of great interest to us because of our strong manufacturing base. Twenty-five percent of our workforce is engaged in manufacturing. That's the fourth highest percentage of workforce in manufacturing in the United States. Over 70 percent of general aviation aircraft are manufactured in Sedgwick County.

That strong manufacturing base is important to you because this engine of the economy helps produce about 20 percent of all personal income tax collected by the state and about 20 percent of all sales taxes.

Machinery and equipment, also known as business personal property, is very important to this state's economy.

About half of all property tax abatements granted in Kansas are granted in Sedgwick County. Over 70 percent of those are not for land and buildings. They are for machinery and equipment. We have the highest business personal property taxes of any state in the region. We use tax abatements as a tool to compete with states with lower property taxes.

Let me illustrate that by comparing our business personal property taxes with those in Oklahoma. Oklahoma is our major economic development competitor. It is a very aggressive state.

Our total mill levy in Wichita right now is 116.554. That results in an effective tax rate on machinery and equipment of 2.91 percent, the highest in the region. In other words, property taxes on equipment worth \$100,000 would be \$2,913.85.

In Oklahoma City, the effective tax rate is about 1.02 percent, resulting in property taxes on that same equipment of \$1,020. Taxes are twice as much in Wichita.

Tulsa's effective property tax rate for business personal property is about 1.2 percent, still half of Wichita's.

Our mill levy for the Wichita School District this year is 54.926 mills, or 47 percent of the total mill levy in the City of Wichita. If House Bill 2716 were to become law, an IRB property tax abatement would require that school mill levy to be paid. Taxes on \$100,000 of equipment would be \$1,373.15 for a 1.37 percent effective tax rate, still higher than Oklahoma City or Tulsa.

In other words, our taxes with an IRB abatement would still be higher than Tulsa or Oklahoma City without an abatement. The competitive advantage provided by the abatement would be gone.

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Attach. No. 5

I believe the real problem is the business personal property tax. It's an issue that I believe this state must face sometime in the next decade or we will have some serious problems. The benefits of the revenue collected from taxes on machinery and equipment are about to be overtaken by the costs of having the tax.

Iowa has completely eliminated the business personal property tax. Colorado has been to look at this issue.

The most comprehensive study ever done of equipment investment came from Harvard and the Massachusetts Institute of Technology. Using United Nations information, the study looked at equipment investment in over 70 countries over a period of 25 years.

The study concluded that any loss of revenue caused by an incentive for equipment investment was dwarfed by the economic and social benefits.

I will conclude by reminding you that my community has suffered 8,000 layoffs recently. One study concludes that the Wichita Metro area economy is the 7th most impacted in the U.S. by the September 11th terrorist attacks.

It would not be a strong signal of support for Wichita and Sedgwick County to be weakening a tool that has been very important to our economic growth and that could be an important tool to future recovery.

**Table 5-2:
Effective Property Tax Rates for Machinery and Equipment, 2000**

State and Area	Mill Levy	Assessment Ratio (%)	Effective Rate, Year 1 (%)	Effective Rate over Asset Life 5 Year Asset	Effective Rate over Asset Life 10 Year Asset (%)
<i>Colorado</i>					
Statewide	75.60	29.00	2.41	2.35	2.61
Metro	84.87	29.00	2.71	2.64	2.93
Nonmetro	57.76	29.00	1.84	1.80	2.00
<i>Iowa</i>					
Statewide	29.67	0.00	0.00	0.00	0.00
Metro	33.67	0.00	0.00	0.00	0.00
Nonmetro	26.82	0.00	0.00	0.00	0.00
<i>Kansas</i>					
Statewide	112.38	25.00	2.81	2.51	2.21
Metro	112.49	25.00	2.81	2.51	2.21
Nonmetro	112.24	25.00	2.81	2.50	2.20
<i>Missouri</i>					
Statewide	59.89	33.33	2.20	2.01	1.85
Metro	65.04	33.33	2.20	2.01	1.85
Nonmetro	45.92	33.33	2.20	2.01	1.85
<i>Nebraska</i>					
Statewide	18.58	100.00	2.04	1.84	1.79
Metro	19.88	100.00	2.19	1.96	1.92
Nonmetro	17.39	100.00	1.91	1.72	1.68
<i>Oklahoma</i>					
Statewide	93.2	12.23	1.25	1.22	1.36
Metro	103.26	12.45	1.41	1.38	1.53
Nonmetro	78.4	11.96	1.03	1.01	1.12

Sources: Calculations by PRI, based on information provided by state agencies, state statutes, and local assessors.

State Funds:	
Education Building	1.000
State Institutional Building	0.500
Correctional Institution	---
TOTAL STATE	1.500
County Funds:	
General	19.899
Public Service/Hwys., Roads & Bridges	1.662
W.S.U. Program Development	1.500
Noxious Weeds	0.117
Mental Health	1.025
Emergency Medical Services	1.314
Aging Services	0.680
Agricultural Extension	0.367
Bond and Interest	2.090
TOTAL COUNTY OPERATION	28.654
County Fire District:	
General	15.373
Bond and Interest	0.00
TOTAL FIRE DISTRICT	15.373
TOTAL STATE AND COUNTY	45.527

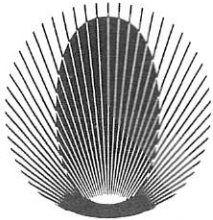
City of Wichita	
Taxing Unit Code	6702
General Operating	21.437
Bond and Interest	10.037
Total City Operation	31.474
UDS #259	54.926
State and County	30.154
TOTAL LEVY	116.554

City of Wichita Gilbert/Mosley	
Taxing Unit Code	6783
State	1.500
County	22.662
City	24.891
USD 259	45.049
Gilbert Mosley	22.452
TOTAL LEVY	116.554

City of Wichita North Industrial Corridor	
Taxing Unit Code	6787
State	1.500
County	24.092
City	26.462
USD 259	47.407
NIC	17.093
TOTAL LEVY	116.554

MISCELLANEOUS DISTRICT LEVIES

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City of Olathe

TO: Members of the House Taxation Committee
FROM: Donald R. Seifert, Policy Development Leader
SUBJECT: House Bill No. 2716; Exclusion of School Levy from Tax Abatement Authority
DATE: February 5, 2002

On behalf of the city of Olathe, thank you for the opportunity to express opposition to HB 2716. This bill would limit a city's authority to grant property tax abatement under both the constitutional and industrial revenue bond methods by excluding school taxes from the abatement. As a longstanding home rule policy position, the Olathe governing body opposes legislation that would further restrict the use of property tax abatements. Since school taxes generally constitute the majority of the local property tax levy, this bill would render tax abatement relatively useless as an economic development tool, placing Kansas communities at a competitive disadvantage for new businesses.

Under current law, we believe there is ample opportunity for school districts to provide input into the decision making process on abatements. The 1990 and 1994 Legislatures enacted laws which require cities and counties to adopt written policies on tax abatement, including procedures for conducting a fiscal impact analysis, providing notice to affected entities including school districts, conducting a public hearing on each request, and monitoring compliance. These were reasonable procedures, which placed into law responsible public policy in the use of tax abatements. In Olathe, all proposed tax abatements are discussed closely with the local school district. In addition, the school district is represented on the Olathe Economic Development Advisory Board, which provides oversight to both the city and Olathe Chamber of Commerce in economic development matters. We consider the Olathe School District a strong partner with the city and chamber in the community's economic development process. We would suggest that rather than the approach taken in HB 2716, specific concerns over abatement of school taxes should be resolved locally under current law.

Attached to my testimony is a copy of Olathe's property tax abatement policy. It generally limits tax abatement to 50% of the amount that would ordinarily be levied, and prohibits abatement of existing valuation. Thus, the city considers tax abatement requests only for 50% of the new incremental valuation added to the community. In this way, even with a tax incentive, all taxing units -- city, county, state, and school district share in new wealth and tax revenue generated from a development project. The community and state gain nothing if the project doesn't happen or goes elsewhere. In general, the school district supports the city's abatement decisions because it will immediately receive new property taxes that otherwise might not occur.

Our community believes that one long-term answer to property tax concerns is increasing the tax base through the expansion and attraction of industry. To do this in today's competitive environment, we need to preserve all the economic development tools available to us. We suggest that current law provides a framework for cities to engage the local school district and all community stakeholders in developing a responsible tax abatement policy tailored to local needs. We urge the Committee not to recommend this bill for passage.

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RESOLUTION NO. 01-_____

A RESOLUTION ESTABLISHING A CITY OF OLATHE, KANSAS POLICY RELATING TO PROPERTY TAX ABATEMENTS FOR NEW BUSINESSES; AND REPEALING RESOLUTION NO. 00-1067.

WHEREAS, the city of Olathe recognizes that it is essential to stimulate economic growth and development of new industry and businesses in order to provide services, employment and tax revenues for the benefit of the community; and

WHEREAS, it is further recognized that the stimulation of balanced economic development is a joint responsibility of the private and public sectors, working closely together creating a positive business environment and to induce industry to locate and expand in the city of Olathe; and

WHEREAS, the economic development program goals of the city of Olathe include economic diversification, broadening of the property tax base, stimulation of private investment, enhancement and support of new development, quality of materials and design, maintenance of environmental quality, creation and quality of employment opportunities, and increased per capita income; and

WHEREAS, to meet these economic development goals, the city recognizes the occasional necessity to grant property tax exemptions and tax incentives for real and personal property pursuant to the provisions of Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq. and 79-201a.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: POLICY STATEMENT: It shall be the policy of the city to normally provide a 50% tax abatement, for the real and personal property portion of a project, if the project meets the criteria listed in Section Two below. Furthermore, it is the city's policy that a tax abatement is not allowed for personal property whenever a company leases an existing facility and the company did not cause substantial new real property to be created within the city of Olathe.

Depending upon how the abatement is structured over the term, an abatement may slightly exceed an overall average of 50%. It shall also be the policy of the city that economic development projects pay their fair share of property tax, special improvement district assessments, and cost of utility services. Economic development projects shall not have a negative financial impact on the city at the conclusion of the abatement term. (The city reserves the right to approve the cost-benefit analysis model used to determine the financial impact). The Governing Body shall consider the following conditions as precedents to granting property tax incentives pursuant to Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq. and 79-201a.

- A. **Existence of Economic Benefit:** The project must add to the Olathe economy. Evaluation criteria to be used in determining benefit to the community shall include but not be limited to: the amount of capital investment; whether the project produces value-added products and services; and whether the project provides a positive fiscal impact and economic impact.
- B. **Type of Business:** The project shall be of a nature that has been identified by the Governing Body as desirable to stimulate the local economy and improve the quality of life for its citizens. The project should be one in which a substantial part

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of its total products and/or services are either exported from the Olathe area or they would add jobs and replace purchases now being made by Olathe citizens in areas outside of the city if the items are for local consumption. Additional considerations may include whether the project has the effect of supporting or spurring retail development, and whether a project would help the City achieve successful completion of an existing commercial or industrial park or the development of a new commercial or industrial enterprise.

- C. **Targeted Industries:** An abatement adjustment of up to 5%, for a total of 55%, may be considered for projects that are targeted industries. To receive this adjustment, the project must be a targeted industry by the State of Kansas, the City of Olathe, or the Olathe Economic Development Council. The current targeted industries include quality high technology businesses and office development. Each year, the Olathe Economic Development Council shall provide the City with a revised target industry list for approval by the Governing Body. Office development located in the downtown area will be eligible for an abatement in excess of the standard 50% rate.
- D. **Maintain Existing Tax Base:** To facilitate new development, the city and the Olathe Chamber of Commerce shall assist new industries that invest in new buildings, building expansion, or acquire new machinery and equipment. However, the amount of property taxes or special assessments on the existing land and facilities shall under no circumstances be reduced for new development projects.
- E. **Definition of New Business:** The business is new to Olathe or has not had facilities and operations in the city of Olathe for a period of at least one year.
- F. **Transfer of Ownership:** The owner of any property that is all or partially exempt from ad valorem taxes as the result of the city having granted the exemption shall obtain the City's written consent before transferring majority ownership of the property. The city shall determine if the owner and the property continue to qualify for the exemption.

SECTION TWO: ABATEMENT CRITERIA AND ADJUSTMENTS. It is the intention of the Governing Body that all projects receiving an abatement meet the criteria that are detailed below. Failure to meet the standards set below may result in a decrease in the total abatement percentage available to a project. Adjustments made to increase the total adjustment amount are intended to be provided as an extra incentive to exceed certain criteria when others may not be met. However, in no instance shall adjustments based on these criteria exceed the standard abatement policy as outlined in Section One.

- A. **Employment - Wages:** The amount and diversity of additional employment opportunities, which would be provided, shall be a primary consideration. The city expects projects that pay above average wages. Depending upon the project's conformance to this criteria, an increase or decrease in the abatement of up to 10% may be considered.
- B. **Location:** The Governing Body will give strong consideration for an applicant's business that will be located in an area targeted by the Governing Body for economic development or redevelopment, has specific site constraints making development more difficult or costly, or is considered in need of revitalization in some way. An abatement adjustment of up to 10% may be considered for projects that do not meet this criteria.

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- C. **Design Criteria:** Projects must be in compliance with the city's Comprehensive Plan and must utilize construction materials that meet or exceed the requirements set forth in the design guidelines as provided by the city's Planning Department. The compatibility of the location of the business with land use and development plans of the city and the availability of existing infrastructure facilities and essential public services will be a consideration. The project must be environmentally acceptable to the location intended as well as the surrounding area. Preference will be given to businesses that do their own pre-treatment or does not require extensive environmental controls. The proposed use must be clean, nonpolluting, and consistent with all policies, ordinances, and codes. Based upon future growth, the applicant must be willing to work with the City to provide a traffic study on any projected traffic impact increase on the City. Depending upon the project's conformance to this criteria, an increase or decrease in the abatement of up to 10% may be considered.

SECTION THREE: TERM OF ABATEMENT. The abatement period for a project approved under this Resolution shall be determined by the amount of new capital investment in the community. Capital investment shall include capital expenditures for land, building, and personal property subject to ad valorem taxation. The normal term of abatement for each project is determined according to the following schedule, unless a different term is established by the Governing Body pursuant to Section Eight herein:

<u>Capital Investment</u>	<u>Normal Term</u>
\$500,000 to \$3 million	3 years
\$3 million to \$4 million	4 years
\$4 million to \$5 million	5 years
\$5 million to \$6 million	6 years
\$6 million to \$7 million	7 years
\$7 million to \$8 million	8 years
greater than \$8 million	10 years

The abatement term for projects considered under authority of Section 13 of Article 11 of the Kansas Constitution shall begin in the calendar year after the calendar year in which the business commences its operations. The abatement term for projects considered under authority of K.S.A. 12-1740 through 12-1749 and 79-201a shall begin in the calendar year after the calendar year in which the bonds are issued.

SECTION FOUR: PROCEDURE. The city shall consider granting a tax exemption pursuant to this Resolution after receipt of a complete application from the applicant in a form prescribed by the city. The application shall be submitted in sufficient time for staff to follow established procedures for publication of notice, to review the project's preliminary site plans and building elevations, to prepare a fiscal impact analysis, and to meet with the unified school district within which the property proposed for exemption is located. The project's site plans and building elevations are subject to final approval to ensure that they are similar to the preliminary plans and elevations submitted. The property tax application calendar, shown as Attachment A, is hereby incorporated as part of the application process.

Based on each application and such additional information as may be requested by the city, the city shall prepare or cause to be prepared a fiscal impact analysis of the proposed exemption on the city and state of Kansas, which analysis shall be used by the Governing Body in considering the request. In making its decision, the Governing Body may also consider any fiscal and/or economic impact analyses performed by the unified school district within which the

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property proposed for exemption is located or the Johnson County Economic Research Institute.

Prior to formal action on each resolution of intent, the Governing Body shall conduct a public hearing thereon, to be scheduled at least seven days after publication of notice. Notice of the hearing shall also be sent to the Governing Body of Johnson County and the unified school district within which the property proposed for exemption is located. The Olathe Chamber of Commerce and the city of Olathe together shall meet with representatives of the unified school district to discuss an application that includes a request for tax abatements. The meeting with the school district representatives shall be held prior to the City Council discussion of the application and abatement request. The City Council shall consider the school district's feedback and input in reviewing such requests.

SECTION FIVE: PERFORMANCE AGREEMENT. Any tax exemption granted pursuant to this Resolution shall be accompanied by a performance agreement between the applicant and/or lessee and the city, which is subject to annual review and determination by the Governing Body that the conditions qualifying the business for the exemption continue to exist. The City shall review information provided by the Company, lessee, county, or state to determine compliance with the Agreement. If the Governing Body finds that the business or project is not in compliance, then the tax exemption may be modified pursuant to the performance agreement or eliminated as the Governing Body deems appropriate. The County Assessor and the Board of Tax Appeals shall be notified of such action.

For property tax abatements considered pursuant to the provisions of Section 13 of Article 11 of the Kansas Constitution, the costs of preparation of the performance agreement, publication of legal notices, and all other related application costs shall be paid by the applicant.

SECTION SIX: APPLICATION, SERVICE, AND RENEWAL FEES. The Governing Body shall establish a non-refundable application fee of \$1,500 and an annual renewal fee of \$250 for uncompleted projects considered under this Resolution. Additionally, the applicant shall pay to the City at the prescribed time a service fee of \$1,500 per million dollars of the issue size or capital investment, whichever is greater, to cover the administration and other city costs. Such service fee shall be in addition to the application fee. The applicant is also responsible for reimbursing the City for all costs associated with the fiscal impact analysis, all legal publication notices, the city's bond counsel in processing the application, and all other miscellaneous costs. Such service fee and reimbursements may be paid from the bond proceeds or from a direct billing to the applicant. In the event the project is deemed to be a target industry as described in Section One, Paragraph C the Governing Body may elect to waive the service fee.

SECTION SEVEN: APPRAISED VALUATION OBJECTIVE. The Governing Body desires to increase the non-residential tax base to preserve and enhance the city's fiscal capacity to provide public infrastructure and services necessary to support economic development. The Governing Body's objective is to increase commercial and industrial development to 30% of the total city appraised valuation. The Governing Body's objective also includes maintaining the commercial and industrial development at 30% of the total city appraised valuation.

SECTION EIGHT: AUTHORITY OF GOVERNING BODY. The Governing Body reserves the right to deviate from any policy, but not any procedure set forth in this Resolution or any other procedural requirements of state law, when it considers such action to be of exceptional benefit to the City or extraordinary circumstances prevail that are in the best interests of the city.

SECTION NINE: SUNSET DATE. Since the justification for tax abatements will be lessened as the local economy moves towards its goals of balance and diversification, this

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policy shall automatically expire on December 31, 2002 unless it is readopted for an additional term. No such tax abatement shall be granted following such expiration, unless this policy is readopted.

SECTION TEN: PREVIOUS RESOLUTION REPEALED. Resolution No. 00-1067 is hereby repealed.

SECTION ELEVEN: EFFECTIVE DATE. This Resolution shall take effect immediately.

ADOPTED by the Governing Body this _____ day of _____, 2001.

SIGNED by the Mayor this _____ day of _____, 2001.

Mayor

ATTEST:

City Clerk

(SEAL)

APPROVED AS TO FORM:

Municipal Counsel

Abatement amended resolution new business December 4, 2001 Final Copy

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TESTIMONY

City of Wichita
Mike Taylor, Government Relations Director
455 N Main, Wichita, KS. 67202
Phone: 316.268.4351 Fax: 316.268.4519
Taylor_m@ci.wichita.ks.us

House Bill 2716 Limitations on Property Tax Abatements

Delivered February 5, 2002
House Taxation Committee

The City of Wichita opposes House Bill 2716. It will have a devastating effect on economic development at a time when retaining and expanding existing business and attracting new business is more difficult and more crucial than ever. The bill also attempts to fix a problem which doesn't exist in Wichita.

In Wichita, as a matter of policy, we do not exempt existing property. We only offer tax abatements on new construction, additions or equipment. The Wichita City Council never abates taxes on land. This policy is strictly followed. That means the school district or other taxing jurisdictions are not giving up taxes they are already getting. By allowing tax abatements on new business construction and expansion, we are growing the overall tax base, we are creating jobs, we are building the economy. That benefits schools. Unlike cities, school districts cannot annex land. Unable to grow the land mass, the growth of their tax base is fundamentally tied to development.

School districts already have options to deal with tax abatements. The Wichita school district always has the opportunity to review, comment on and oppose any proposed tax abatement or exemption. Also, schools already have a legal mechanism to opt out of tax abatements. Under K.S.A. 12-147, any taxing subdivision may contract with the owner of any exempt property for a "payment-in-lieu-of-taxes." That payment can be a fixed amount or it can be formula-based. The key is for the local elected officials from the school district and city to work together to reach an agreement. This leaves open the possibility that on a case-by-case basis, local elected officials can work out a solution in the best interests of the overall community. In Wichita, in nearly every case, that means offering a five or

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ten year abatement on a business expansion because it creates jobs and adds to the economic well-being of the community.

That economic growth and business expansion also benefits the State of Kansas. In fact, past cost benefit studies done by the Center for Economic Development and Research at Wichita State University, show every tax dollar abated on a major business expansion in Wichita creates nine dollars in new revenues for the State.

Not only is the basic premise for the bill unjustified, but its mere introduction has negative ramifications. The bill ignores that transition periods for revenue bond issues should be based on the letter of intent or inducement resolution dates, not the date of the actual bond issuance. Many companies bond on a reimbursement basis and have already incurred their project expenditures under their letter of intent prior to the date of bond issuance. This bill would cut off a portion of the exemption for all bonds issued after the effective date of the act, even though the bonded costs were all incurred under a letter of intent approved prior to the effective date of the act. This could adversely impact project feasibility as well as the original cost/benefit assumptions. It could also impair bondholder security where full tax exemption was a part of the assumption on which projected cash flow for debt service was based. Because of these problems, when the Legislature has grafted on new requirements in the past, it has transitioned based on the letter of intent or inducement date, rather than date of actual bond issuance. (See K.S.A. 79-253).

This proposed legislation could also cause an adverse market impact. Companies will have a material incentive to put a rush on their projects for exemptions or revenue bond issues to get them approved before July 1. This could easily flood the municipal bond market. Interest rates and transaction quality could suffer as companies, local governments and public bondholders try to beat the deadline.

As a practical matter, IRBs and property tax abatement are the only real tools the State gives local governments to use in enticing businesses to Kansas. Putting these unnecessary restrictions on local government especially hampers efforts to attract out-of-state prospects which are likely looking at other states with lower overall tax burdens and additional incentives to offer.

Not only is House Bill 2716 unneeded and unjustified, it is detrimental to the economic well-being of Wichita and the entire State of Kansas.



120 SE 6th Avenue, Suite 110 • Topeka, Kansas 66603-3515
(785) 234-2644 • FAX (785) 234-8656
www.topekachamber.org
email: topekainfo@topekachamber.org



Testimony before the House Taxation Committee
February 5, 2002
By Christy Caldwell, Vice President of Government Relations
Greater Topeka Chamber of Commerce

Mr. Chairman and member of the committee:

The Greater Topeka stands strongly opposed to HB 2716, concerning limitations on the constitutional property tax exemption and IRB's. Disallowing the tax abatement to include an exemption from school property taxes would significantly reduce the effectiveness of this tax incentive.

Tax abatements are a reality; they are given to companies by states and local governments all across our nation. They are an inducement for qualifying companies to locate in a state and a community. These tax abatements are not a reduction in the amount of tax dollars that any taxing authority receives. The tax abatement is based upon new investment that a company makes in the state. For example, we have several manufacturers here in Topeka. They all pay property taxes to the state, city, county, school district, library, and an array of smaller authorities. If they are in a position to expand then our chamber and local governments work with them to be as competitive as possible so that that expansion can become a reality. One of the actions we take is to offer tax abatement, whether through the constitution or an IRB. The amount of that abatement is based upon the number of jobs that are created and the level of wages that will be paid. This is to abate the taxes that the community would be getting if the expansion or relocation were to be located in our community. Before the offer to give that abatement is made, an administrative review is conducted and a cost-benefit analysis is completed. The administrative review is done by representatives from all the taxing authorities, including the affected school district. They take a close look at what benefits the tax abatement will provide the community in increased investment and jobs. The cost-benefit study is done and submitted to the city or county depending upon where the company locates or expands. To the best of our knowledge, in all the years this process has been carried out, there has never been an incident where a school district has opposed giving the abatement. Additionally, each year the company given the abatement must undergo a review to ascertain whether they still have the number of new jobs that they originally agreed to and whether the wages are still at the level that was indicated. If these two tests are not achieved then the abatement for that tax year is reduced or eliminated.

Mr. Chairman and committee, the most important thing to remember is that in most cases, if not all, our community is competing with some other location for the relocation or expansion. We many times don't get any farther than the offer! The company decides to locate their company or expansion someplace else. In many cases the reason is the incentives we offer just don't stand up to the incentives that are offered somewhere else.

Our community has recently joined others in the state and around the country in trying to be more competitive. The citizens of Topeka/Shawnee County have voted a tax increase on themselves in order to provide more opportunities and incentives to capture more private investment here. There has not been a call from the public for less effort or reduced incentives to land those expansions and new companies. The cry has been to do all we can to bring more to Topeka/Shawnee County. Mr. Chairman, if we are not successful in attracting new business development or expansions, then no one receives any benefit. We all loose, including the schools. We loose the new jobs.

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We loose the new investment. We loose additional purchases within our community from the new company or expanded operation; and, we loose the income from their new pool of employees, which circulates throughout our economy. The school district loses too: we eliminate our chances to realize the additional tax dollars from the expansion or location, from the new jobs, or from additional residential property taxes that may result from increased population created by the location or expansion.

Here in Topeka/Shawnee County we have been losing jobs Mr. Chairman. The first major layoff resulted with the closing of the Essex plant; 245 jobs lost. Then in November 2001, Payless ShoeSource announce it was eliminating 81 jobs, many of which were senior level management in Topeka. Cargill Mill then closed its north Topeka facility, eliminating 20 jobs. The end of 2001 brought the announcement that Farmland Foods, a meat processing plant, was closing and approximately 200 workers would lose their jobs. Thirty managers with the Burlington Northern Santa Fe Railroad were laid off in November. And, two weeks ago, Burlington Northern announced that they were moving their freight-car repair operation to Nebraska, which will result in the elimination of 100 jobs. Over the last several months, Western Resources has let go a significant number of employees, many of which were upper management. Payless ShoeSource has had another round of layoffs reducing their workforce by another 70 employees. The Colmery O'Neil VA Hospital has lost a number of positions here in Topeka; and, we face the uncertain future of the VA Shared Services which employees 260 people.

At the same time we have been working with Goodyear, which has approximately 1750 jobs and a payroll of more than \$100 million. They have asked us to assist in securing \$130 million in new investment. This investment will assure their continuation here in Topeka, without it we fear the worst. Tax abatements are a part of the incentives our community is offering. Goodyear testified before this committee last year about the level of property taxes in Kansas. The plant here pays \$1.6 million in personal property taxes and additional real property taxes. If this plant were picked up and placed in Danville, Virginia, their personal property taxes would be \$330,000, if it were dropped in Nebraska, personal property taxes would be \$495,000, if they were in Iowa, they would have 0 personal property taxes. Our community and state must find every way possible to be competitive in order for companies such as Goodyear to be viable in Kansas.

Mr. Chairman and committee: now is not the time to be reducing incentives used to attract additional investment in Kansas. We respectfully ask that you vote no on HB 2716.