

Approved April 11, 2002
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Vice Chairman Huff at 9:00 a.m. on February 25, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Edmonds, excused
Representative Mays, excused
Representative T. Powell, excused

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

Conferrees appearing before the Committee: Marlee Carpenter, Kansas Chamber of Commerce & Industry
Hal Hudson, National Federation of Independent Business
Christy Caldwell, Topeka Chamber of Commerce
Bernie Koch, Wichita Chamber of Commerce
Charles Gregor, Leavenworth-Lansing Chamber of Commerce
Jeff Berke, CJS Industries, Topeka
Rick Wienckowski, Hills Pet Nutrition, Topeka
Dennis D'Orvilliers, Goodyear, Topeka
Curtis Sneden, Payless Shoe Source, Topeka
Ken Daniel, Midway Sales and Distributing, Topeka

Others Attending: See attached list.

Hearing was opened on

HB 2714 - Income tax credit for property tax paid upon commercial and industrial machinery and equipment.

Marlee Carpenter presented testimony in support of **HB 2714** on behalf of the Kansas Chamber of Commerce and Industry (Attachment #1) and expressed the thanks of KCCI for improving the business climate with passage in 1998 of the 15% income tax credit for property taxes paid on business machinery and equipment. She testified such property tax continues to be singled out as the most burdensome tax on Kansas businesses and reported results of a member survey about this tax. In response to questions she said this would apply to both new and existing machinery and equipment used in manufacturing on a seven-year depreciation schedule.

Hal Hudson presented testimony in support of **HB 2714** on behalf of the National Federation of Independent Business (Attachment #2). He mentioned small business and said he understands **HB 2091** to be dormant in the Senate committee although House of Representatives passed those provisions three times.

Christy Caldwell presented testimony in support of **HB 2714** on behalf of the Greater Topeka Chamber of Commerce (Attachment #3). She described layoffs at several Topeka companies, noting that as decisions are made to reinvest in plants, add new product lines and create new jobs, Kansas tax structure must be competitive. She also presented the written testimony of Curtis Sneden on behalf of Payless Shoesource, Inc. (Attachment #4).

Bernie Koch presented testimony in support of **HB 2714** on behalf of the Wichita Area Chamber of Commerce (Attachment #5). He said that because of the strong manufacturing base in Sedgwick County taxes on business personal property are a concern. He said there was a rapid growth in manufacturing and aviation in the Wichita area in the 1990s and referred to the history of property tax legislation.

Chris Courtwright explained in response to a question that this is current law and **HB 2714** would change the percentages.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

Charlie Gregor presented testimony in support of **HB 2714** on behalf of the Leavenworth-Lansing Area Chamber of Commerce (Attachment #6). He urged approval of this bill that will begin the process of alleviating the tax burden on machinery and equipment that is one of the primary obstacles to be overcome when competing with surrounding states for a manufacturing business looking to expand or relocate to the Midwest.

Jeff Burke, General Manager of CJS Industries, Inc. in Topeka presented testimony in support of **HB 2714** (Attachment #7). He said manufacturing is by nature a capital-intensive business with production equipment becoming more computer reliant, making it increasingly expensive to acquire and maintain. He noted the investment by manufacturing businesses in plant and equipment is usually the most significant in a community, that decisions to locate or expand are long-term and bring the high-paying jobs usually sought by communities.

Rick Wienckowski presented testimony in support of **HB 2714** on behalf of Hill's Pet Nutrition in Topeka (Attachment #8). He testified Hill's has four manufacturing facilities in the United States: Topeka; Los Angeles, California; Richmond, Indiana; and Bowling Green, Kentucky. He compared taxes for each facility and outlined issues businesses quantify when making decisions regarding where to make new investments. When asked if work force and schools are considered, Mr. Wienckowski said where you can avail yourself of employees was a factor and that it was not difficult to attract qualified labor with their wage rates at better than average across the U.S. at \$19-20 per hour. In response to a question, he said Kentucky had provided an investment tax credit of about 30% which was roughly equivalent to Kansas. He said that without that special incentive Kansas would have been very competitive although there still would have been a property tax difference.

The testimony of Larry Robbins in support of **HB 2714** on behalf of Goodyear was presented by Dennis D'Orvilliers (Attachment #9), and included information that the Topeka plant is Goodyear's largest manufacturing and distribution facility in North America with 1,700 employees generating an annual payroll of over \$100 million with hourly wages and benefits averaging \$40 per hour. The testimony of Mr. Robbins indicates the positive financial impact exercised by Goodyear on the local community and the state would be placed at-risk without the passage of **HB 2714** which comes at a time when Topeka is under consideration with other locations, both domestic and foreign, for significant capital investment in machinery and equipment that would provide the newest technology available in radial truck tire manufacturing. The testimony of Mr. Robbins noted high cost and non-competitive plants are being eliminated as the tire industry in general and Goodyear in particular is faced with global manufacturing. In response to questions Mr. D'Orvilliers said some factors considered in locating plants are geographic location, highway system, rail lines, midwest work ethic. The testimony indicated the Topeka Goodyear plant pays \$1.5 million in property taxes.

Ken Daniel, Jr. presented testimony in support of **HB 2714** on behalf of Midway Sales and Distributing, Inc. (Attachment #10). He testified the high taxes on machinery and equipment are an impediment to attracting, expanding and keeping key industries. He stated that the 15% income tax credit presently in effect was one important factor last year in helping him decide to venture into manufacturing for the first time and to locate those jobs in Topeka rather than in Kansas City, Missouri.

Mr. Daniels also made reference to **HB 2091** and the importance of raising the present \$250 to \$1,000 which is more an issue of excessive paperwork than a tax issue.

Hearing on HB 2714 was closed.

Meeting adjourned at 9:55 a.m. Next meeting is February 26.

GUEST LIST

DATE Feb. 25, 2002

NAME	REPRESENTING
Bennie Koch	Wichita Area Chamber
Charles Kregor	LV-LANSING AREA CHAMBER OF COMMERCE
Hal Hudson	NFIB/KANSAS
Dennis D'Orvilliers	Goodyear
Jenny Elent	USWA LOCAL 307
Judy Shaw	Goodyear Tire & Rubber
George Peterson	Ks Taxpayers Network
JEFF BERKE	CSS INDUSTRIES
Mark Carpenter	KCCF
Davis L Ross	K. KOCH
RICK WIENCKOWSKI	HILLS
Charity Caldwell	Topeka Chamber of Com
Doann Williams	Ks Motor Carriers Assoc.
Matt Bergmann	Pat Hubbell Assoc
Michelle Peterson	Ks. Governmental Consulting
Ken Durkin	DEB
John Frederic	Boing
Leslie Kaufman	RFFB
Susan Payson	Westar Energy
John Frederico	General Motors
Anne Spiess	KCRAR - K.C. Realtors

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 2714

February 25, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Marlee Carpenter
Director of Taxation and Small Business

Chairman Edmonds and members of the Committee:

My name is Marlee Carpenter and I am the Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry. On behalf of our members, we would like to thank the Kansas Legislature for improving the business climate with the passage of a 15% income tax credit for property taxes paid on business machinery and equipment in 1998. However, more needs to be done.

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 2-25-02
Attach. No. 1
Page 1 of 2

property tax on business machinery and equipment continues to be singled out as the most burdensome tax on Kansas businesses. A survey of KCCI members found that property taxes continue to be the most sought after area for tax relief. Therefore, I am here today to urge your continued commitment to helping Kansas businesses and support HB 2714.

KCCI has adopted a policy to seek legislation that will increase the tax credit to a level of 50% of personal property taxes paid on machinery and equipment. KCCI has set this aggressive goal because significant tax relief is needed. In a year where revenues are tight, the passage of this bill may not seem fiscally responsible. However, cutting property taxes on machinery and equipment have been a strong incentive for manufacturers to invest in business growth. A 1997 report by Kansas, Inc. indicates that a 50% reduction in machinery and equipment property tax would create over 2,500 new jobs in Kansas and boost state personal income by \$59 million in just its first year of implementation.

For Kansas to remain competitive, the property tax burden on machinery and equipment needs to be addressed. In the region, Iowa has completely eliminated the property tax on machinery and equipment; Colorado has considered eliminating it for the past few years; and Missouri, Oklahoma and Nebraska all possess substantially lower property tax rates for machinery and equipment than their neighboring Kansas.

This fall we sent a survey to our members about how the property tax on machinery and equipment effects their business decisions. A Pratt-based farm equipment firm states that this tax has delayed a planned expansion. A Wichita corporation states that this tax plays a substantial role in major capital investments in the state. An Emporia machine shop states that it keeps them from buying more machinery.

Reducing the tax burden for business machinery and equipment is important to KCCI members. Tax rates on machinery and equipment remain the highest in the region and in fact have risen slightly since 1991 due to changes in the assessment ratio. We urge you to support HB 2714 and I will be happy to answer any questions.

House Tax 2-25-02
Attach. No. 1
Page 2 of 2

Statement by
KANSAS Hal Hudson, Kansas State Director, National Federation of Independent Business
Before the House Taxation Committee
On House Bill 2714
February 25, 2002

Mister Chairman and Members of the Committee: Thank you for this opportunity to appear on behalf of the 7,000 members of the Kansas Chapter of the National Federation of Independent Business. My name is Hal Hudson, and I am the Kansas State Director for NFIB.

Today, I am here to offer support, and to encourage you to enact, H.B. 2714. Year-after-year you have heard me report that property tax, especially the tax on machinery and equipment, is a major concern of NFIB members – according to their response to our ballot surveys. That is because the property tax bears no relationship to the ability of a business to pay.

H.B. 2714 provides you an opportunity to reduce the overall tax burden on Kansas' businesses without impacting local tax revenue receipts. An increase in the income tax credit based on the property tax paid on machinery and equipment may encourage many large businesses to make new investments in machinery and equipment, and even create new jobs.

Note that I said that H.B. 2714 would help large businesses that have large property tax payment liabilities every year. For the small business owner with a \$1,000 property tax liability, this bill would provide an additional tax credit of \$30 in the first year; \$70 in the next year and \$100 in the out years.

That's not to be sneezed at. Any tax savings is welcomed.

If, however, you want to do something more beneficial to small business owners, enactment of the proposal from this committee last year to increase the single item exemption of business machinery and equipment is the answer. The House passed, after your recommendation, by a vote of 97 to 25, the proposal to increase this exemption from its present \$250 to \$500 in the first year and to \$1000 in the years thereafter.

We applaud you for that effort. However, if you have followed this action, you know that H.B.2091 has been lying dormant in the Senate Assessment and Taxation Committee since it was referred there on March 26, 2001.

The increase in the exemption for machinery and equipment is more important to small business owners as a time-saver than as a tax saver. Business owners spend many hours each year inventorying these very small cost items so they can properly list them on the renditions they must file with their county appraisers.

Consider this. An item that originally cost \$300, but is seven years old may have an appraised value of only \$60, because the Kansas Constitution prohibits depreciation of machinery below 20 percent of its original purchase price when new.

Keeping track of these low-cost items also is time consuming for the county appraisers, and they produce very little tax revenue.

According to testimony before this committee last year, many large businesses do not even bother to report items that cost under \$1,000. They capitalize the higher cost items, and then report only those items that are on their depreciation schedule for federal income tax purposes. You could help small business owners by eliminating the requirement for them to list and report items that cost less than \$1,000 when purchased new.

We support enactment of H.B. 2714, and encourage its approval by this committee. We would like to see the single item property tax exemption increase enacted as a companion to H.B. 2714.

Thank you very much.



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 25, 2002
HB 2714
By Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

Thank you for the opportunity to address the issue of increasing tax credits for property taxes paid on business machinery and equipment. The Greater Topeka Chamber of Commerce supports HB 2714 which phases up the current 15% income tax credit to 25%.

The state has made significant strides over the last few years to reduce or stabilize the growth of property taxes. However even with your good works and efforts the Kansas business community continues to be burdened with higher property taxes on machinery and equipment than in our neighboring states. This is a significant issue with companies who have expensive machinery and equipment. Many manufacturing companies compete for work not only with their competitors but also within their company. The tax burden is a factor that is included when determining the costs associated with new capital expenditures.

A few Topeka companies have come here today to explain the impact this legislation would have on their operations. I have also heard from some smaller companies; their comments are listed below.

Mr. Chairman, I have been before this committee several times to talk about this issue. The Topeka Chamber has been and continues to be sensitive to the fiscal nature of this change in the law, but we are at a critical juncture here in Topeka. As I testified a couple of weeks ago, several local companies have been laying off employees. We do not want to lose anymore jobs and certainly we would like to begin growing our job base again. As companies make decisions to reinvest in their plants, add new product lines and create new jobs, Kansas must be competitive in its tax structure so that we will not miss these opportunities. The economy is depressed now, but it will come back, the state should be prepared to participate in stimulating that turnaround. We need your help; we need to reduce the tax burden on machinery and equipment. This bill does that; therefore we strongly urge your support for HB 2714.

- * " Kansas is one of the highest personal property venues in which we operate-this discourages further investment by our company." This company has 15 employees and operates in 15 other states.
- * "The high costs of property tax on machinery and equipment make it hard for us to offer benefits to our employees. We still offer full health benefits but we may have to quit if our taxes on property continue to increase." This is a small independently owned paint store with 9 employees.
- * "This is an issue that has really irritated me since I started my business. As a small business I am already taxed to death. I think the business personal property tax is a burden that adds insult to injury. We already pay sales tax when we buy the stuff then we get taxed on it over and over again. I know our taxes pay for important services and improve our quality to life, but this is above and beyond." This is a one person advertising agency.

F:\USER\DELORES\Testimony\HB 2714.doc

House Tax 2-25-02
Attach. No. 3
Page 1 of 1

**TESTIMONY OF CURTIS S. SNEDEN
DIRECTOR OF GOVERNMENT AFFAIRS
PAYLESS SHOESOURCE, INC.**

**BEFORE THE
HOUSE TAXATION COMMITTEE**

ON

H.B. 2714

FEBRUARY 25, 2002

Mr. Chairman and members of the Committee, I want to thank you for this opportunity to address the Committee regarding the equipment tax credit issue. My name is Curtis S. Sneden, and I am Director of Government Affairs for Payless ShoeSource, Inc. Our corporate headquarters is in Topeka and I was born and raised here. Payless is a family footwear retailer that operates approximately 4,800 stores throughout the United States, Canada, the Caribbean and Central America. In Kansas, we have over 40 stores and more than 1,500 associates, including our corporate and distribution facilities in Topeka.

Our business is driven from Topeka with advanced information technology, including a sophisticated main frame system and hundreds of personal computers, as well as, a fully-equipped in-house copy center, video conferencing capabilities and fax and copy machines throughout our offices. Although our headquarters are certainly well-adapted to the administration of the enormous Payless operation, we retain a competitive advantage over other retailers because we are able to sort and distribute product so quickly and efficiently. For the most part, that sorting happens at our world-class distribution center located here in Topeka just west of town on Highway 24. The

machinery which enables us to distribute millions of pairs of shoes every year to stores across the Hemisphere is a complex series of conveyer systems and computer-guided sorting devices within our distribution center.

The total tax burden placed upon Payless by the property tax on commercial and industrial machinery and equipment is over \$400,000 annually. The current 15% credit against income tax allowed by K.S.A. 79-32,206 is just over \$63,000. If H.B. 2714 becomes law, during 2002, that credit will increase to over \$76,000. The credit goes to \$93,000 in 2003 and over \$105,000 in 2004. So the total impact on Payless over the 3-year phase-in would be about \$85,000 and the annual impact after that would be over \$42,000.

Granted, from the standpoint of a \$3 billion dollar enterprise, the dollar figures we are discussing in this context may not seem impressive. Please note, though, that each and every new project which is undertaken at Payless undergoes a rigorous cost-benefit analysis and only those projects which clearly demonstrate the value they will return to the Company are acted upon. That is just good business and is certainly not unique to Payless.

Every cost component of a project is examined. In the case of projects or expansions involving new equipment, such as the expansion or remodeling of our corporate offices or the installation of new air conditioners at our distribution center, the tax burden imposed by the acquisition of the equipment is a factor. Tax burden is not usually, in itself, a deciding factor in whether a large corporation takes a particular action but it certainly plays a role in the overall determination of whether a project can be cost-justified. As the tax burden which accompanies new projects and expansions is lessened,

Kansas corporations like Payless will more readily acquire the new machinery and equipment they need to advance into the future; and expansion usually means additional jobs for Kansans.

On behalf of Payless ShoeSource, Inc., I respectfully urge you to support HB. 2714 which reduces the tax burden on machinery and equipment by increasing the current income tax credit based on machinery and equipment taxes from 15% to 25%. I thank you for the opportunity to share with the Committee Payless' perspective and would be happy to answer any questions you might have.



Testimony of Bernie Koch
Wichita Area Chamber of Commerce
to
House Taxation Committee
HB 2714

February 25, 2002

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you today in support of House Bill 2714. I'm Bernie Koch with the Wichita Area Chamber of Commerce.

If my testimony today sounds familiar to you, it's because when I appeared before you a few weeks ago, I also spoke about the importance of machinery and equipment to the economy. It was in conjunction with the issue of tax abatements and how we use them for machinery and equipment.

I told you at that time that because of our strong manufacturing base in Sedgwick County, taxes on business personal property are a concern. Rather than go over old territory and perhaps repeat what other conferees may have to say, I thought I would take a different approach.

Economists J. Bradford De Long and Lawrence H. Summers have done the most thorough and current studies on the relationship between economic growth and equipment investment. They have studied the impact of equipment investment worldwide over 25 years on the economies of several countries.

I'm just going to quote from their studies. I think they make the case for this bill better than any other kind of information I can provide to you. These quotes come from a paper first published in the *Quarterly Journal of Economics* in May of 1991.

"Rapid growth is found where equipment investment is high, and slow growth where equipment investment is low."

"Equipment investment has far more explanatory power for national rates of productivity growth than other components of investment, and outperforms many other variables included in cross-country equations accounting for growth. High rates of equipment investment can, for example, account for nearly all of Japan's extraordinary growth performance.

"Moreover, the data strongly suggest that high equipment investment is a cause, not a consequence of rapid productivity growth."

"Economic historians have seen the richest countries as those that were first in inventing and applying capital intensive technologies, in which machines embody the most advanced technological knowledge."

"...nations which invested heavily in equipment relative to other nations at the same stage of economic development enjoyed rapid growth over 1960-85."

"The gains from raising equipment investment through tax or other incentives dwarf losses from any non-neutralities that would result."

House Tax 2-25-02
Amend. No. 5
Page 1 of 2

Since this study came out, there has been a follow up study entitled "How Strongly do Developing Economies Benefit from Equipment Investment?"

Here are just a few of its findings:

"Policies that make it difficult for developing economies to import and install machinery and equipment are likely to be disastrous."

"In the Korean case, for example, government policies are the source of Korea's effective educational system, of its relatively unbloated government, of its relatively low equipment prices, and of its relatively high rates of equipment investment. The relative stagnation of the Korean economy in the 1950s under the Rhee regime, and subsequent rapid growth beginning soon after the initial reforms of the Park regime, point strongly to a key role played by government policies in creating the fundamental foundations for growth."

"...Argentine's extraordinarily poor economic performance in the post-World War II period was due to a very low rate of investment in machinery and equipment generated by counterproductive policies."

I believe these summary quotes and these studies are important because it was these studies that helped convince the Iowa Legislature to eliminate business personal property taxes entirely.

I urge you to give favorable consideration to House Bill 2714. It moves us further toward a state policy that makes it easier to invest in equipment. The more we can do that, the better our economic growth.

House Tax 2-25-02
Attach. No. 5
Page 2 of 2

**TESTIMONY OF CHARLES H. GREGOR, JR.
EXECUTIVE VICE PRESIDENT
LEAVENWORTH-LANSING AREA CHAMBER OF COMMERCE
HOUSE TAXATION COMMITTEE
February 25, 2002**

Mister Chairman, Members of the Committee, I am Charlie Gregor, Executive Vice President of the Leavenworth-Lansing Area Chamber of Commerce. I thank you for this opportunity to appear on behalf of our approximately 500 members.

I urge your approval of H.B.2714, a bill that will begin the process of alleviating the tax burden on business machinery and equipment. It is the tax burden on machinery and equipment that is one of the primary obstacles to be overcome when competing with surrounding states for a manufacturing business, be it a business looking to expand or relocate to the Midwest. We are competing in an environment where many other states in the region have either eliminated taxation of business machinery and equipment, have begun a phased lowering of those taxes with the goal of elimination within a set time frame, or do not include such provisions as the 20% residual value rule. Businesses consider the business personal property tax particularly onerous because it is a tax that is not related to income and therefore not realistically related to the ability of a business to pay the taxes imposed.

Your approval of H.B. 2714 and its subsequent enactment will speak volumes to businesses with respect to business perceptions of the attitude of the State of Kansas toward business, generating a positive view of the understanding of state government and the legislature of what businesses must overcome to generate profits, a positive perspective that is critical to encouraging current Kansas businesses to expand, to purchase new machinery and equipment and perhaps generate new employment opportunities. This is critical at a time when corporate tax revenue shortfalls are a key ingredient in the reduced revenue picture for the State of Kansas as a whole. Successful passage of H.B. 2714 will also increase the attractiveness of Kansas as a potential site for expanding or relocating businesses.

While I do believe that an increase in the tax credit from the current 15% to 18% is important, perhaps even critical to our large businesses, and I do represent two very large Hallmark plants that would benefit from passage of H.B. 2714, as would several other member manufacturers, I would point out that the impact on small businesses will be minimal and do little to encourage or provide a boost for Kansas small businesses. The impact of H.B.2714 on my existing small business members will probably be in the area of less than \$100 per year. It would be greatly appreciated, but small. I would urge you to consider assisting our small businesses through an increase in the business personal property tax exemption from \$250 to \$500 for the coming year and to \$1000 in the following year.

Last year this committee passed out such an exemption increase bill, H.B. 2091. I came before you last year to speak for that bill. It was passed overwhelmingly by the House. It still languishes in the Senate Assessment and Taxation Committee. The provisions of that bill provide an opportunity to do a great deal to encourage many of the small businesses that are the backbone of so many of Kansas' small communities, and which provide the vast majority of jobs within the State of Kansas, at a cost to the State of Kansas reported in the fiscal note for H.B. 2091 last year as fiscally negligible, essentially a wash.

Again, I urge your approval of H.B. 2714 and other tax reduction provisions that will stimulate, strengthen and encourage Kansas businesses of all types and sizes, so growth of our economy can occur, the current revenue shortfall situation be reversed and the Kansas economy allowed to grow.

Testimony before the House Committee on Taxation
February 25, 2002

By Jeff Berke CPA
General Manager
CJS Industries, Inc.

Chairperson Edmonds and members of the committee, I am a principal in a small manufacturing concern here in Topeka. I am here in support of House Bill No. 2714.

Manufacturing is by nature a capital-intensive business. Production equipment is becoming more and more computer reliant, making it increasingly expensive to both acquire and maintain. Property taxes are a significant component in the state of Kansas in the cost to own or lease this equipment.

CJS Industries, Inc. has received property tax abatements in the past. Our first year's savings was approximately \$33,000. That, in a large way, helped us finance an investment of over one million dollars in additional equipment the following year. That investment in equipment created four to six new jobs. These jobs will have a wage and benefit package for each individual in the range of \$30,000 to \$40,000 per year.

The addition of this equipment however, created an increase in our annual property tax on equipment alone of over \$35,000. After economic development credits our property tax liability jumped from \$25,346 for the tax year 2000 to \$60,315 for the tax year 2001.

Manufacturing businesses usually will make the most significant investment in plant and equipment in a community. Decisions to locate or expand a manufacturing plant are long term in nature, and bring the kind of high paying jobs usually sought after by a community.

An overly burdensome property tax structure can make it almost prohibitively expensive to locate here. Anything that the legislature can do to reduce that cost increases the ability of a company to be able to compete in the global market we work in today. This in turn increases the likelihood that existing businesses can expand and new businesses may locate here. And in our case, the reduction in property taxes granted on our equipment has been more than offset by the increase in income and sales taxes generated by the jobs created by that investment.

We ask that you approve House Bill No. 2714. Thank you for your time and attention.

House Tax 2-25-02
Attach. No. 7
Page 1 of 1

House Bill N#2714

Hill's Pet Nutrition, Inc has four manufacturing facilities in the United States:

- The Topeka, Kansas Plant originally constructed in 1966;
- The Los Angeles, California Plant was acquired in 1979;
- The Bowling Green, Kentucky Plant built in 1987;
- The Richmond, Indiana Plant built in 1991;

Looking at the Mill Levy per \$1,000 of assessed value in 2001, this is how they compared for Hill's for Personal Property Taxes between the different manufacturing locations:

- Topeka Plant – \$143.2622 per \$1,000 of assessed value;
- Los Angeles Plant - \$10.6959 per \$1,000 of assessed value;
- Bowling Green Plant - \$2.7678 per \$1,000 of assessed value;
- Richmond Plant - \$32.9312 per \$1,000 of assessed value;

Based on actual cash invested in each facility and using our Kansas based Topeka Plant as the base, it is only in the Los Angeles, California plant that we pay more property tax per dollar invested than Kansas.

	<u>% Base</u>
Los Angeles, California	155%
Topeka, Kansas	100%
Richmond Indiana	60%
Bowling Green, Kentucky	25%

The 20% floor and the level of mill levies in Kansas create a competitive disadvantage for Kansas when comparing it with our other locations. Economic Development exemptions and definitely the Business Machinery and Equipment credit help equalize the field for Kansas and should be looked upon aggressively when trying to understand the issues businesses are quantifying when making decisions regarding where to make new investments.

Rick Wierckowski



P.O. Box 1069
Topeka, Kansas 66601

Phone (785) 295-7111
Fax (785) 295-7347

February 25, 2002

House Taxation Committee Testimony
(Larry Robbins, Goodyear – Topeka Plant Manager)

Mr. Chairman and members of the House Taxation Committee:

Thank you for the opportunity to speak today in support of HB 2714. I apologize for not being able to appear in person today, as I have been summoned out of town on business for several days. This legislation is important enough to Goodyear – Topeka’s future that providing written testimony in support of this Bill was a must.

Goodyear – Topeka has been manufacturing tires and tire products since 1945. Our current product line includes medium radial truck tires, radial and bias earthmover tires, and military tires. We once produced twelve different lines of tires and tire products, but over the years that number has decreased to the current three. The physical size of our facility is sixty-nine acres or three million square feet under roof. This makes the Goodyear – Topeka Plant the largest Goodyear manufacturing and distribution facility in North America. Unfortunately, we are not the largest from an employment number standpoint, with slightly more than 1700 associates. The total employment number does make Goodyear – Topeka the largest manufacturer in the area, and fifth largest employer overall in Topeka. At one point in our history, we were the second largest employer in Topeka with 4,400 associates (surpassed only by the State of Kansas workforce). The 2,700 decrease in employment is a noteworthy figure because that number is sufficient enough to rank second today behind the State workforce in Topeka.

Our employment of 1,700 generates an annual payroll of more than \$100 million, and generated an average of more than \$4.2 million in individual state income taxes in the past two years. Goodyear also supports Kansas businesses by purchasing goods and services totaling more than \$34 million annually. Hourly wages and benefits average approximately \$40.00/hour.

The positive financial impact exercised by Goodyear – Topeka on the local community and the State of Kansas would be placed at-risk without passage of HB 2714. This legislation increases the tax credit against business machinery and equipment from 15% to 18% in 2002, 22% in 2003, and 25% in 2004 and subsequent years. This comes at a time when Goodyear – Topeka is under consideration, along with other locations both domestic and foreign, for significant capital investment. Machinery and equipment that would provide the newest technology available in radial truck tire manufacturing. Machinery and equipment to support the newest manufacturing concept available in the Earthmover tire market. This investment is critical to the future well being of the Topeka Plant. Without modernization, our plant cannot be successful in the highly competitive tire industry. High cost and non-competitive plants are being eliminated as the tire industry in general and Goodyear in particular is faced with global manufacturing

House Tax 2-25-02
Attach. No. 9
Page 1 of 2

over-capacity. Not receiving the investment being considered and losing it to an internal rival could definitely jeopardize these 1,700 highly compensated jobs that remain in Topeka, Kansas.

HB 2714 would greatly assist in removing a gigantic obstacle the Topeka Plant faces in being attractive for potential investment. During the eight-year period from 1993 through 2000, the Topeka Plant paid \$24 million in income, sales, real estate, and personal property taxes. Our sister plant (similar product line) in Danville, Virginia paid \$6 million during the same time frame. During the same eight year period, total taxes levied against the Topeka Plant represented 23% of the total taxes paid by all eight of Goodyear's plants located in the United States. We have paid \$1 million per year more in personal property tax than the average amount paid by the other plants. If the Topeka Plant were located in Danville, Virginia, the year 2000 personal property tax bill of \$1.5 million would have been only \$330,000. A little to the North in the State of Nebraska, the \$1.5 million tax bill would have been \$495,000. The Topeka, Kansas Plant finds itself at a constant disadvantage when competing against other Goodyear tire facilities for investment dollars due to the current Kansas manufacturing business tax structure. HB 2714 would enable the Topeka Plant to become more competitive when fighting to receive some of the limited capital investment dollars available.

Because of the budget challenges facing this Legislature, it is difficult I'm sure to consider legislation with the potential to reduce revenue. I suggest that legislation, which encourages and supports manufacturing business investment, growth, and stability, will in turn lead to increased revenue. Legislation that assists your existing manufacturing business will also attract the relocation of new manufacturers to the State. We should capitalize on our prime central geographical location, highway system, rail lines, and Midwest work ethic to create a "preferred" place for industry to locate and thereby grow the tax base by job retention and growth. That will only happen by easing the existing tax burden on manufacturing and industry.

There may be a "fiscal note" attached to HB 2714. Hopefully, all of us recognize that there is also a "fiscal note" attached to companies ceasing their operations or relocating operations to another State. There is a "fiscal note" attached with the loss of jobs (especially those paying \$40 per hour), or the inability to attract new business that furnishes employment opportunities. *Short-term PAIN in exchange for long-term GAIN is a worthwhile sacrifice.* Prior to returning to my home State of Kansas, and hometown of Topeka, I lived and worked in a State regarded as manufacturing business friendly due to it's tax laws. In 2000, a total of \$6.13 billion was invested in the State, the second consecutive year topping \$6 billion. Record annual highs were established in new jobs created (35,132) and companies announcing investments (1,628). Over the past ten years, this State posted nearly \$46 billion in total capital investment creating more than 230,000 new jobs.

On behalf of Goodyear Tire and Rubber Company, I would encourage you to pass HB 2714 favorably out of this Committee, and start down the path to long term gain. Thank you for the opportunity to be heard today.

House Tax 2-25-02
Attach No. 9
Page 2 of 2

Presentation to the House Taxation Committee
February 25, 2002

By Kenneth L. Daniel, Jr.
Chairman and C.E.O., Midway Sales & Distributing, Inc. d/b/a Midway Wholesale
and
2002 Leadership Council Chairman, NFIB/Kansas

Mr. Chairman and Members of the Committee:

My name is Ken Daniel. I am the Founder, Chairman and C.E.O. of Midway Wholesale, a building materials distributor headquartered in Topeka with branches in Salina, Manhattan, Lawrence, Elwood/St. Joseph, and Kansas City, Missouri. I am also the Chairman of NFIB/Kansas, a volunteer position.

I would like to speak in support of HB2714. Our high taxes on machinery and equipment are an impediment to attracting, expanding, and keeping key industries. Last year, the 15% income tax credit presently in effect was one important factor in helping me to decide to venture into manufacturing for the first time, and to locate those jobs in Topeka instead of Kansas City, Missouri. The credit continues to help us expand our warehousing and distribution business and compete against distributors from Missouri, Oklahoma, Colorado, and Nebraska. The bigger we get, the more important the tax credit is to us.

On behalf of small business, I'd also like to comment about the importance of raising the machinery and equipment property tax exemption from the present \$250 to \$1000. This is even more an issue of excessive paperwork than a tax issue.

At Midway, we keep three different sets of records of our furniture, fixtures, and equipment:

- 1) We have to keep tax depreciation schedules in order to file our state and federal income tax returns. We pay a C.P.A. firm a considerable sum each year to maintain our depreciation schedules from information our staff gathers and furnished to them.
- 2) As a sound business practice, we maintain a separate data base of the furniture, fixtures, and equipment we have at each location. Each fixed asset item is marked with a sticker. An internal company auditor goes to each location once a year and does an inventory of the fixed assets.
- 3) Finally, we keep a third set of records so we can file reports to county appraisers for property tax purposes.

Two years ago, we thoroughly investigated the possibility of somehow combining these lists. We bought a special package of Peachtree Software and tried to combine the lists. We even looked into spending several thousand dollars to buy the same depreciation software our C.P.A. uses. It proved impractical for us to combine even two of the lists.

It is very time-consuming and expensive for us to maintain all of these records, and there is risk to every business of being fined or penalized even if you've done the very best job you can. For many small businesses, the cost of keeping these records is greater than the tax collected.

Here are some real numbers for your consideration: At the end of 1999, we had 1,606 items on our internal fixed asset inventory list. 339 of those items cost more than \$250 when new, but only 141 cost more than \$1000. If you will enact this law, it will cut our lists for the appraisers from 339 items to 141 items, a reduction of about 60%.

Furthermore, it will strike a blow for fairness. If it is easier to comply with the law, more businesses will comply, and the tax burden will be spread more evenly and fairly.

A good case can be made that the 1995 law putting a threshold of \$250 on items increased tax revenues instead of decreasing them. I can't guarantee that an increase from \$250 to \$1000 will pay for itself, but I sincerely believe that it will. It will also save a lot of low-return busy work for county appraisers.

Based on national Small Business Administration statistics, there are about 250,000 businesses in Kansas. If on the average they save \$100 each year, raising the threshold exemption will put \$25,000,000 into the Kansas economy each year.

Please support HB2714 with its provisions for both large and small businesses in Kansas. Thank you.

Fixed Asset Analysis

	Over 1000	Over 500	Over 250	Don't Know	All
Heartland	12	22	44	119	259
Lawrence	6	16	32	14	148
Manhattan	9	19	29	4	104
Salina	5	10	19	39	101
Elwood/St. Joseph	6	11	17	1	51
Topeka	68	99	146	284	814
Fork Lifts, Etc.	31	32	32	19	78
Kansas City	4	11	20	0	51
	141	220	339	480	1606



House Tax 2-25-02
 Attach. No. 10
 Page 4 of 4