

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on February 18, 2003, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Randall Allen, Kansas Association of Counties
Larry Baer, League of Kansas Municipalities
Jim Edwards, Kansas Association of School Boards
Bernie Koch, Wichita Area Chamber of Commerce
Mike Taylor, City of Wichita
Christy Caldwell, Greater Topeka Chamber
Marlee Carpenter, Kansas Chamber of Commerce & Industry

Others attending: See attached list.

Senator Corbin called the Committee's attention to the minutes of the February 17 meeting. Senator Donovan moved to approve the minutes of the February 17, 2003, meeting, seconded by Senator Taddiken. The motion carried.

Continued hearing on: **SB 192—Enacting the streamlined sales and use tax agreement**

Randall Allen, Kansas Association of Counties, testified in support of **SB 192**. He discussed his concerns about the continued viability of the state and local option sales taxes as the world of commerce continues to change and an increasingly larger percentage of sales are conducted over the Internet or by mail order. He noted that the state sales tax has been the source of two of three demand transfers for counties and other local governments. However, he is more concerned about the viability of county option sales taxes levied in 76 of 105 counties. In this regard, he called attention to an attachment to his testimony documenting the collection and distribution of \$289 million in countywide sales taxes in 2002. He pointed out that Section 2 of the bill protects the local sales tax. (Attachment 1)

Larry Baer, League of Kansas Municipalities, testified in support of **SB 192**, noting that the League has been a member of the working group which was formed when the issue first began to be studied. He pointed out that the Streamlined Sales and Use Tax Agreement does not result in a new tax but simply in an equitable application of an existing tax. He went on to say that the League believes that a system must be in place which is equitable for those businesses which operate from brick and motor locations as well as those operating via the Internet. The bill also meets the League's objectives because it establishes a compensating use tax for cities and counties and continues the local tax on sales specified in K.S.A. 12-189a. (Attachment 2)

There being no others wishing to testify on **SB 192**, the hearing was closed.

SB 163—Property taxation; exemptions, limitation, school district levy

Jim Edwards, Kansas Association of School Boards (KASB), expressed KASB's qualified support of **SB 163**. KASB does not oppose the abatement of such properties; it opposes the abatement of such properties where the school district or the state has no direct input before such abatement is provided. (Attachment 3)

Senator Corbin called the Committee's attention to written testimony in support of **SB 163** submitted by Mark Desetti, Kansas National Education Association. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 18, 2003, in Room 519-S of the Capitol.

Bernie Koch, Wichita Area Chamber of Commerce, testified in opposition to **SB 163**. He pointed out that Sedgwick County has the highest business personal property taxes of any state in the region, and the county uses tax abatements as a tool to compete with states with lower property taxes. To illustrate, he compared Sedgwick County's business personal property taxes with those in Oklahoma, a major economic development competitor. He went on to inform the Committee that a study of equipment investment from Harvard and the Massachusetts Institute of Technology concluded that any loss of revenue caused by a tax incentive for equipment investment was dwarfed by the economic and social benefits. Mr. Koch noted that his community has recently suffered substantial layoffs, and weakening a tool that has been very important to its economic growth would not be a strong signal of support for Wichita and Sedgwick County. In conclusion, he called attention to one of the charts attached to his testimony which lists the unified school districts in Sedgwick County, noting that the bill would create an uneven playing field because those school districts that invested in their schools through property taxes would tend to be at a competitive disadvantage in the area of economic development. The last chart includes the result of an annual survey from *Site Selector Magazine*. He pointed out that tax exemptions rated third in importance when selecting a site, and state and local incentives have grown in importance in the last year. (Attachment 5)

With regard to Mr. Koch's written testimony, Senator Corbin pointed out that he indicated that, if the bill becomes law, a property tax abatement would require that the entire school mill levy for the Wichita School District (51.839 mills) to be paid. Senator Corbin clarified that the bill requires that only 20 mills be collected.

Mike Taylor, City of Wichita, testified in opposition to **SB 163**, contending that it will have a devastating effect on economic development in Wichita at a time when retaining and expanding existing business and attracting new business is more difficult and more crucial than ever. In his opinion, the bill attempts to fix a problem which does not exist in Wichita. He explained that the City of Wichita never abates taxes on land and that school districts already have options to deal with tax abatements. He emphasized that putting unnecessary restrictions on local government hampers efforts to attract out-of-state prospects which are likely looking at other states with lower overall tax burdens and additional incentives. (Attachment 6)

Larry Baer, League of Kansas Municipalities, testified in opposition to **SB 163** because it would eliminate the ability of cities and counties to grant either constitutional or statutory exemptions from property or ad valorem taxes levied by or on behalf of school districts. He noted that, in many situations, these economic incentives are the only incentives that the local government has to offer. In addition, taxes levied by or on behalf of the school district 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 a school district would significantly devalue these eco-devo incentives. He pointed out that neither the eco-devo nor the IRB exemption are granted by the Board of Tax Appeals without a favorable cost-benefit ratio, and most exemptions are granted for a reduced time or on some type of tiered basis. (Attachment 7)

Following questions regarding the mill levy, Senator Corbin clarified that the bill deals only with the state 20 mill levy, not local.

Christy Caldwell, Greater Topeka Chamber, testified in opposition to **SB 163**. She stated that the bill reduces the effectiveness of the constitutional tax abatement law and abatements allowed as part of an IRB. She noted that, in Topeka, an administrative review committee considers all requests and determines the amount of the exemption based upon the number of jobs created and the amount of wages. Representatives of the affected school district are invited to attend and participate in the discussions. To her knowledge, there has never been an incident where a school district objected to a tax exemption proposed in Shawnee County. She contended that, if the state begins limiting the amount of the tax exemptions by excluding the tax dollars that go to school districts, it removes local flexibility. In conclusion, she noted that the property tax exemptions laws work well and policies should be tailored by the community providing the abatement. (Attachment 8)

Marlee Carpenter, Kansas Chamber of Commerce and Industry, testified in opposition to **SB 163**, noting that 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 the bill would reduce

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 18, 2003, in Room 519-S of the Capitol.

the effectiveness of the property tax abatement and the local community's ability to increase its tax base. She acknowledged that she misread the bill just as other conferees; however, not allowing the 20 mill state property tax to be abated also causes her to be concerned. She went on to note that Kansas business property tax is high for the region and called attention to a chart from Kansas, Inc.'s latest study comparing Kansas business property taxes to other states. She pointed out that property tax abatements provide the single most important tax incentive at the state and local level and contended that the bill would increase the cost of doing business for the types of business Kansas needs the most. (Attachment 9)

Senator Corbin called the Committee's attention to written testimony in opposition to **SB 163** submitted by Don Seifert for the City of Olathe. (Attachment 10)

Senator Oleen explained that the reason for the introduction of **SB 163** was to look at the broader tax policy and the broader issue of support for public education with 20 mills. She commented that it was unfortunate that the opponents did not have a clear understanding that it pertains only to the 20 mills, and it is prospective. She informed the Committee that a number of states are looking at the commitment of the state funding formula. She stated that her overall goal is not to have the bill passed out of committee, but rather to stir debate and an interest in referring the issue to an interim committee to study the impact of having a policy of not having a formalized way for exemptions to be reviewed. With this, the hearing on **SB 163** was closed.

Senator Corbin turned the Committee's attention to possible action two bills previously heard, **SB 1** concerning the Kansas and Missouri metropolitan culture district compact and **SB 162** concerning reauthorization of the school district ad valorem tax levy and exemption therefrom.

Senator Clark moved to amend **SB 1** by changing the percentage of moneys expended within each state from 45 percent to 40 percent, seconded by Senator Pugh. The motion carried.

Senator Clark moved to report **SB 1** as favorable for passage as amended, seconded by Senator Pugh. The motion failed.

Senator Clark moved to report **SB 162** as favorable for passage, seconded by Senator Lee. The motion carried.

The meeting was adjourned at 11:35 a.m.

The next meeting is scheduled for February 19, 2003.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: February 18, 2003

NAME	REPRESENTING
Richard Cron	KDOR
Jim Sullinger	KC STAR
Randall Allen	Ks. Assoc. of Counties
John Peterson	Ki Governmental Consulting
Mike Taylor	City of Wichita
Andy Shaw	Kearney & Associates Inc
Hiane Costello	Osage Chamber of Commerce
Jim Knedler	KIDOC
Erik Sartorius	City of Overland Park
Ashley Sheward	Osage Lenexa Chamber
George Peterson	KTN
Bill Brady	Ks Gov't Consulting
Janie Rutherford	Sen. President's Office
Jim Edwards	KASB
Deann Williams	KMCA
Julie Clark	Hallmark Card
Maree Carpenter	KCCT
Danilee Noel	Jackson County
Tom Bruno	GBBA



KANSAS
ASSOCIATION OF
COUNTIES

Testimony concerning SB 192
Senate Assessment and Taxation Committee
February 17, 2003
Presented by Randall Allen, Executive Director
Kansas Association of Counties

Mr. Chairman and members of the committee, my name is Randall Allen, Executive Director of the Kansas Association of Counties. Thank you for the opportunity to testify in support of SB 192, the Streamlined Sales and Use Tax Conformity Act. The Association appreciates the opportunity we have enjoyed over the past several years to engage in discussions with the Department of Revenue and legislators about this very important issue. In a long-term perspective, there may be no more important tax issue facing the Legislature this session.

As the world of commerce continues to change and an increasingly larger percentage of sales are conducted over the internet or by mail order catalogue, we are concerned about the continued viability of the state and local option sales taxes to finance basic services. Historically, we have been concerned about the viability of the State's sales and use tax because it has been the source of two of three demand transfers for counties and other local governments (i.e. the Local Ad Valorem Tax Reduction Fund and the City-County Revenue Sharing Fund). While neither transfer is funded in the Governor's recommended FY 2004 budget, we hold some hope that when better financial days return, the transfers may be resumed. More importantly, we are concerned about the viability of county option sales taxes levied in 76 of 105 counties. An attachment to my testimony documents the collection and distribution of \$289 million in countywide sales taxes in 2002, including \$131 million for county purposes and \$158 million distributed to cities within the counties. This does not even include the various city sales tax revenue which is collected and remitted directly to cities. Without dependable local-option sales taxes, we are inevitably more dependent upon the property tax to finance basic services. As such, we strongly support Section 2 (a) of the bill which concerns the local compensating use tax.

We strongly support the basic premise of the bill, i.e. that all sales, wherever they take place, should be treated the same with respect to taxation, without preference or disadvantage to vendors. We also believe in the fundamental right for states to establish their own sales tax rates and for local governments, within statutory guidelines, to adopt local-option sales taxes. These premises of state and local self-determination are not sacrificed (and are in fact enhanced) in SB 192.

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*Senate Assessment & Taxation
2-18-03
Attachment 1*

As the insatiable appetite for resources by the federal government plays out over time, we are concerned that if states and local governments do not make changes to the sales tax to make it easier for merchants to collect and remit taxes state by state, the federal government will impose a national sales tax and effectively pre-empt states' rights to this important revenue source.

If you have questions, I would be happy to respond. Thank you.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randy Allen or Judy Moler by calling (785) 272-2585.

2002 COUNTYWIDE SALES TAX DISTRIBUTIONS

<u>County</u>	<u>Total</u>	<u>Dedicated County</u>	<u>Balance of County</u>	<u>Shared with City(s)</u>
Allen	\$ 1,208,234.11	\$ 604,117.01	\$ 299,020.87	\$ 305,096.23
Anderson	\$ 621,204.67	\$ -	\$ 403,668.31	\$ 217,536.36
Atchison	\$ 1,897,810.94	\$ 632,603.01	\$ 557,287.35	\$ 707,920.58
Barber	\$ 497,378.05	\$ -	\$ 267,632.78	\$ 229,745.27
Barton	\$ 3,818,276.91	\$ -	\$ 1,587,298.84	\$ 2,230,978.07
Bourbon	\$ 1,294,213.75	\$ -	\$ 690,031.14	\$ 604,182.61
Brown	\$ 775,411.99	\$ -	\$ 425,085.92	\$ 350,326.07
Butler	\$ -	\$ -	\$ -	\$ -
Chase	\$ 172,022.51	\$ -	\$ 112,904.61	\$ 59,117.90
Chautauqua	\$ 181,212.05	\$ -	\$ 117,180.39	\$ 64,031.66
Cherokee	\$ 1,157,506.74	\$ -	\$ 673,461.61	\$ 484,045.13
Cheyenne	\$ 443,224.29	\$ 221,612.08	\$ 142,568.50	\$ 79,043.71
Clark	\$ -	\$ -	\$ -	\$ -
Clay	\$ 699,890.02	\$ 349,944.96	\$ 185,090.07	\$ 164,854.99
Cloud	\$ 1,060,967.14	\$ -	\$ 479,000.03	\$ 581,967.11
Coffey	\$ -	\$ -	\$ -	\$ -
Comanche	\$ -	\$ -	\$ -	\$ -
Cowley	\$ -	\$ -	\$ -	\$ -
Crawford	\$ 3,880,934.94	\$ -	\$ 1,562,730.99	\$ 2,318,203.95
Decatur	\$ 209,005.57	\$ -	\$ 116,697.57	\$ 92,308.00
Dickinson	\$ 1,710,077.57	\$ -	\$ 869,595.64	\$ 840,481.93
Doniphan	\$ 351,762.89	\$ -	\$ 205,690.18	\$ 146,072.71
Douglas	\$ 11,772,142.66	\$ -	\$ 4,096,313.05	\$ 7,675,829.61
Edwards	\$ 174,926.49	\$ -	\$ 96,413.87	\$ 78,512.62
Elk	\$ 180,854.95	\$ -	\$ 112,014.15	\$ 68,840.80
Ellis	\$ -	\$ -	\$ -	\$ -
Ellsworth	\$ 213,361.15	\$ 213,361.15	\$ -	\$ -
Finney	\$ 3,820,855.54	\$ -	\$ 1,921,304.33	\$ 1,899,551.21
Ford	\$ 4,070,655.05	\$ -	\$ 1,607,694.96	\$ 2,462,960.09
Franklin	\$ 3,550,516.57	\$ 1,183,504.36	\$ 1,280,520.33	\$ 1,086,491.88
Geary	\$ 3,029,947.16	\$ 605,989.42	\$ 996,229.24	\$ 1,427,728.50
Gove	\$ 279,197.12	\$ -	\$ 184,054.03	\$ 95,143.09
Graham	\$ -	\$ -	\$ -	\$ -
Grant	\$ -	\$ -	\$ -	\$ -
Gray	\$ 437,358.17	\$ -	\$ 275,659.08	\$ 161,699.09

<u>County</u>	<u>Total</u>	<u>Dedicated County</u>	<u>Balance of County</u>	<u>Shared with City(s)</u>
Greeley	\$ 104,839.10	\$ -	\$ 66,806.13	\$ 38,032.97
Greenwood	\$ 449,325.22	\$ 449,325.22	\$ -	\$ -
Hamilton	\$ 94,222.25	\$ 94,222.25	\$ -	\$ -
Harper	\$ -	\$ -	\$ -	\$ -
Harvey	\$ 3,390,286.10	\$ -	\$ 1,133,678.71	\$ 2,256,607.39
Haskell	\$ 140,745.90	\$ -	\$ 86,484.66	\$ 54,261.24
Hodgeman	\$ -	\$ -	\$ -	\$ -
Jackson	\$ 1,029,738.48	\$ -	\$ 720,166.85	\$ 309,571.63
Jefferson	\$ 798,524.06	\$ -	\$ 610,761.09	\$ 187,762.97
Jewell	\$ 162,886.75	\$ -	\$ 112,151.03	\$ 50,735.72
Johnson	\$ 78,871,585.49	\$ 13,306,889.48	\$ 26,050,421.92	\$ 39,514,274.09
Kearny	\$ -	\$ -	\$ -	\$ -
Kingman	\$ -	\$ -	\$ -	\$ -
Kiowa	\$ 244,959.45	\$ -	\$ 137,732.70	\$ 107,226.75
Labette	\$ 2,330,643.62	\$ -	\$ 760,920.91	\$ 1,569,722.71
Lane	\$ -	\$ -	\$ -	\$ -
Leavenworth	\$ 4,767,034.70	\$ -	\$ 2,043,100.78	\$ 2,723,933.92
Lincoln	\$ 189,984.38	\$ -	\$ 129,907.70	\$ 60,076.68
Linn	\$ -	\$ -	\$ -	\$ -
Logan	\$ 286,004.88	\$ -	\$ 138,208.31	\$ 147,796.57
Lyon	\$ 1,974,560.47	\$ 1,974,560.47	\$ -	\$ -
Marion	\$ 823,483.23	\$ -	\$ 450,794.11	\$ 372,689.12
Marshall	\$ -	\$ -	\$ -	\$ -
McPherson	\$ 3,079,894.32	\$ -	\$ 1,354,810.08	\$ 1,725,084.24
Meade	\$ 283,662.45	\$ -	\$ 157,931.07	\$ 125,731.38
Miami	\$ 2,940,541.19	\$ 588,108.23	\$ 1,586,500.80	\$ 765,932.16
Mitchell	\$ 742,527.22	\$ -	\$ 355,307.02	\$ 387,220.20
Montgomery	\$ 3,466,239.23	\$ 3,466,239.23	\$ -	\$ -
Morris	\$ 456,960.23	\$ -	\$ 279,925.26	\$ 177,034.97
Morton	\$ -	\$ -	\$ -	\$ -
Nemaha	\$ 813,973.77	\$ -	\$ 482,691.96	\$ 331,281.81
Neosho	\$ 1,902,716.17	\$ 951,358.04	\$ 498,728.43	\$ 452,629.70
Ness	\$ -	\$ -	\$ -	\$ -
Norton	\$ -	\$ -	\$ -	\$ -
Osage	\$ 881,578.63	\$ -	\$ 518,738.29	\$ 362,840.34
Osborne	\$ 171,900.74	\$ -	\$ 94,786.35	\$ 77,114.39
Ottawa	\$ 292,509.00	\$ -	\$ 185,706.26	\$ 106,802.74
Pawnee	\$ 549,530.44	\$ -	\$ 290,771.69	\$ 258,758.75
Phillips	\$ -	\$ -	\$ -	\$ -
Pottawatomie	\$ -	\$ -	\$ -	\$ -
Pratt	\$ 1,318,745.73	\$ -	\$ 665,240.29	\$ 1,318,745.73
Rawlins	\$ 166,834.02	\$ -	\$ 113,433.00	\$ 53,401.02
Reno	\$ 8,389,945.11	\$ -	\$ 3,389,602.95	\$ 5,000,342.16
Republic	\$ 416,124.44	\$ -	\$ 247,143.48	\$ 168,980.96
Rice	\$ 699,746.17	\$ -	\$ 365,055.98	\$ 334,690.19
Riley	\$ 5,308,289.56	\$ 2,654,144.75	\$ 997,996.04	\$ 1,656,148.77
Rooks	\$ 3,961.07	\$ -	\$ -	\$ 3,961.07
Rush	\$ -	\$ -	\$ -	\$ -

<u>County</u>	<u>Total</u>	<u>Dedicated County</u>	<u>Balance of County</u>	<u>Shared with City(s)</u>
Russell	\$ 962,365.96	\$ 320,788.32	\$ 304,933.05	\$ 336,644.59
Saline	\$ 8,993,964.87	\$ -	\$ 3,079,389.97	\$ 5,914,574.90
Scott	\$ 552,643.45	\$ -	\$ 270,331.05	\$ 282,312.40
Sedgwick	\$ 68,446,518.70	\$ -	\$ 21,099,593.61	\$ 47,346,925.09
Seward	\$ 3,288,689.39	\$ -	\$ 1,223,378.54	\$ 2,065,310.85
Shawnee	\$ 12,549,634.14	\$ 5,888,380.36	\$ 2,987,794.14	\$ 3,673,459.64
Sheridan	\$ 189,708.14	\$ -	\$ 134,323.06	\$ 55,385.08
Sherman	\$ 1,261,861.86	\$ 326,397.34	\$ 434,195.06	\$ 501,269.46
Smith	\$ -	\$ -	\$ -	\$ -
Stafford	\$ 252,945.25	\$ -	\$ 151,425.39	\$ 101,519.86
Stanton	\$ 118,516.95	\$ -	\$ 74,250.33	\$ 44,266.62
Stevens	\$ -	\$ -	\$ -	\$ -
Sumner	\$ -	\$ -	\$ -	\$ -
Thomas	\$ 1,166,116.98	\$ -	\$ 518,264.52	\$ 647,852.46
Trego	\$ -	\$ -	\$ -	\$ -
Wabaunsee	\$ 326,400.47	\$ 65,280.10	\$ 187,628.50	\$ 73,491.87
Wallace	\$ -	\$ -	\$ -	\$ -
Washington	\$ 364,596.69	\$ -	\$ 236,589.10	\$ 128,007.59
Wichita	\$ 312,052.53	\$ 156,026.20	\$ 96,408.74	\$ 59,617.59
Wilson	\$ 595,352.77	\$ 595,352.77	\$ -	\$ -
Woodson	\$ -	\$ -	\$ -	\$ -
Wyandotte	\$ 14,970,718.64	\$ -	\$ 3,157,931.23	\$ 11,812,787.41
Total	\$ 289,405,539.36	\$ 34,648,204.75	\$ 97,247,087.98	\$ 158,175,486.92



League of Kansas Municipalities

Date: February 17, 2003
To: Senate Assessment and Taxation Committee
From: Larry R. Baer
Assistant Legal Counsel
Re: SB 192 - Testimony in Support

Thank you for allowing me to appear before you this morning on behalf of the League of Municipalities and its member cities to offer support for SB 192. The League has been involved with the issue since the beginning of the Streamlined Sales Tax Initiative. We have been a member of the working group which was formed when the issue first began to be studied, and we remain a member of the group. The League has spent much time reviewing the various aspects of tax collection on remote sales. We remain convinced that the Streamlined Sales and Use Tax Initiative and the resulting agreement is an important step in the taxation of Internet sales. It does not result in a new tax. It simply results in an equitable application of an existing tax.

Just a few years ago there was essentially no commercial sales on the Internet. Today we see mammoth sales with growth at exponential rates. I believe that most commentators do not predict anything but continuing growth in the foreseeable future. The League remains solid in its belief that we must have a system which is equitable for those businesses who operate from brick and mortar locations as well as those operating via the Internet. The League position on Internet sales, adopted by our Convention of Voting Delegates at the October, 2002 annual meeting, reads as follows: "**Internet Sales.** Sales over the Internet should be taxed in the same manner as sales by bricks and mortar stores. Any federal Internet legislation should not preempt state and local sales tax authority. Local sales tax effort should be included in whatever formula is developed to tax remote sales."

Simply stated, this means that the current system where in-state sales are taxed and remote sales via the Internet go untaxed result in non-equitable tax consequences. It also means, that however implemented, the streamlined sales tax should neither eliminate the local option sales tax now in place nor preclude the future use of local option sales tax nor should it eliminate the ability of cities and counties to tax certain sales that are currently exempt from state sales tax, as permitted in K.S.A. 12-189a. We understand that SB 192 establishes a compensating use tax for cities and counties and continues the local tax on sales specified in K.S.A. 12-189a, and therefore meets the League's objectives. Based upon the inclusion of a compensating use tax provision for cities and counties and the continuation of the K.S.A. 12-189a taxes, we support SB 192.

Thank you for allowing the League to testify on this very important matter.



Testimony on **SB 163**
Before the
Senate Assessment and Taxation Committee

By

Jim Edwards, Governmental Relations Specialist
Kansas Association of School Boards

February 18, 2003

Mr. Chair and Members of the Committee:

Thank you for the opportunity to appear before you today to express KASB's qualified support for SB 163, a measure that would not allow the exemption of new real or personal property from school district levies.

KASB's policy with regard to property tax abatement states that:

KASB supports legislation to limit the authority of the state, cities and counties to grant property tax abatements to existing property valuation. KASB also believes school district input should be required before tax abatements are granted to newly created valuation and that state approval should be required before the state-imposed minimum levy is abated.

In reading this policy, it should be understood that KASB does not oppose the abatement of such properties; it opposes the abatement of such properties where the school district or the state has no direct input before such abatement is provided. The fact that cost benefit models are used by other governmental entities before such abatements are granted should be reason enough for schools to have the same input.

I appreciate the opportunity to present this testimony and would stand for questions.

*Senate Assessment & Taxation
2-18-03
Attachment 3*



Mister Chairman, members of the Committee, thank you for the opportunity to speak to you today on **Senate Bill 163**.

We come before you today in support of this bill. To us this is a simple matter. Tax exemptions allow some to reduce their contributions to the maintenance of our education system. Cities and Counties grant such tax exemptions as economic development. We would hold that a quality school system is also a part of economic development. Businesses demand a skilled, educated work force and they don't move to communities that can't deliver on that promise. Business knows that two keys to attracting and retaining employees are the quality of life in the community in which they expect those employees to live and the quality of the schools in which those employees will enroll their children.

The maintenance of our excellent school system and its ability to provide the kind of education necessary to fill the demands of the 21st century workplace is jeopardized when funding sources for that system are reduced. Adequate resources build great schools and great schools attract economic development.

We owe it to the children of Kansas and the economy of Kansas to provide the educational opportunities that allow Kansans to compete in the 21st century economy. **SB 163** protects the revenue sources that fund those opportunities.

We would urge you to support **SB 163** and pass it out of this committee favorably.

*Senate Assessment + Taxation
2-18-03
Attachment 4*

**Testimony on Senate Bill 163
Senate Taxation Committee
February 18, 2003**

Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the Committee, thank you for the opportunity to make comments today on Senate Bill 163. I'm Bernie Koch with the Wichita Area Chamber of Commerce, appearing in opposition

This bill is of great interest to us because of our strong manufacturing base.

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 113.960. That results in an effective tax rate on machinery and equipment of 2.849 percent, the highest in the region. In other words, property taxes on equipment worth \$100,000 would be \$2,849.

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 51.839 mills, or 45 percent of the total mill levy in the City of Wichita. If Senate Bill 163 were to become law, a property tax abatement would require that school mill levy to be paid. Taxes on \$100,000 of equipment would be \$1,295.97 for a 1.29 percent effective tax rate, still higher than Oklahoma City or Tulsa.

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

*Senate Assessment & Taxation
2-18-03
Attachment 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.

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 substantial layoffs recently. 11 percent of all manufacturing jobs and about 20 percent of all aviation industry jobs have been lost between September of 2001 and December of 2002. Bombardier Aerospace in Wichita, which makes the Learjet, has the highest costs of any of the company's six plants and is a possible target for closing. That's about 2,300 jobs.

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.

	Assessed Value	2002 Levy	2001 Levy
State Funds:	3,048,850,929		
Education Building		1.000	1.000
State Institutional Building		0.500	0.500
Correctional Institution			
TOTAL STATE	3,048,850,929	1.500	1.500
County Funds:	3,040,086,443		
General		18.984	19.899
Public Service/Hwys., Roads & Bridges		1.882	1.662
W.S.U. Program Development		1.500	1.500
Noxious Weeds		0.118	0.117
Mental Health		1.017	1.025
Emergency Medical Services		1.487	1.314
Aging Services		0.655	0.680
Agricultural Extension		0.377	0.367
Bond and Interest		2.046	2.090
Community Health		0.710	0.000
TOTAL COUNTY OPERATION	3,040,086,443	28.776	28.654
County Fire District:	532,490,811		
General		15.407	15.373
TOTAL FIRE DISTRICT	532,490,811	15.407	15.373
Total State & County		45.683	45.527

City of Wichita		Assessed Value	
Tax Increment Financing		8,764,486	
City of Wichita	Assessed Value	2002 Levy	2001 Levy
Tax Unit Code - 6702	2,281,662,715		
General Operating		21.727	21.437
Bond and Interest		10.118	10.037
Total City Operation		31.845	31.474
UDS #259		51.839	54.926
State and County		30.276	30.154
TOTAL LEVY		113.960	116.554
City of Wichita Gilbert/Mosley	Assessed Value	2002 Levy	2001 Levy
Tax Unit Code - 6783	93,773,806		
State		1.500	1.500
County		21.328	22.662
City		23.602	24.891
USD # 259		40.502	45.049
Gilbert Mosley		27.028	22.452
TOTAL LEVY		113.960	116.554
City of Wichita North Industrial Corridor	Assessed Value	2002 Levy	2001 Levy
Tax Unit Code - 6787	67,107,148		
State		1.500	1.500
County		23.991	24.092
City		26.549	26.462
USD # 259		44.555	47.407
NIC		17.365	17.093
TOTAL LEVY		113.960	116.554

UNIFIED SCHOOL DISTRICTS

	Assessed Value	General Fund Assessed Value	General	Suppl. General	Special Cap. Outlay	Rec. Comm.	Recreation Employees Benefits	Special Assessments	Adult Educa.	No Fund Warrant	Historical Society	Bond & Interest	2002 TOTAL LEVY	2001 TOTAL LEVY
Remington Jt. #206	3,048,894	2,688,226	20.000	18.304	4.000								42.304	39.852
Wichita #259	2,032,720,346	1,796,172,745	20.000	18.885	4.000			0.423	0.493			8.038	51.839	54.926
Derby #260	231,605,244	209,109,124	20.000	21.537	1.002	4.839	1.000	0.536				9.083	57.997	57.751
Haysville #261	99,298,312	82,366,902	20.000	13.910	3.994							8.317	46.221	52.364
Valley Center Jt. #262	70,894,417	60,939,776	20.000	14.550	3.996	3.996	0.710	0.150				15.927	59.329	62.316
Mulvane Jt. #263	29,787,406	24,430,063	20.000	11.893		1.911					0.747	9.635	44.186	45.984
Clearwater Jt. #264	50,131,813	45,972,186	20.000	18.271	3.992	2.994							45.257	42.601
Goddard #265	127,125,139	111,738,557	20.000	21.549	3.998							14.701	60.248	56.203
Maize #266	187,653,034	168,540,170	20.000	18.348	4.000	0.997		0.829				12.261	56.435	62.189
Renwick Jt. #267	64,473,445	59,211,488	20.000	23.854	3.988							18.301	66.143	64.369
Cheney Jt. #268	15,160,234	12,888,079	20.000	20.382	3.904	2.902	0.475					15.963	63.626	61.645
Haven Jt. #312	4,662,218	3,845,181	20.000	23.542								9.873	53.415	39.519
Kingman Jt. #331	338,450	317,573	20.000	13.505	0.976	2.928	0.715					12.628	50.752	52.248
Conway Spgs. Jt. #356	1,914,282	1,591,111	20.000	16.363		3.948						27.942	68.253	56.538
Burton Jt. #369	687,049	635,283	20.000	23.888	3.999							6.776	54.663	53.887
Circle Jt. #375	45,204,048	44,076,122	20.000	13.890	3.937							12.500	50.327	50.500
Andover Jt. #385	59,948,661	55,517,344	20.000	18.328	4.000							23.729	66.057	67.310
Rose Hill Jt. #394	8,682,538	7,304,096	20.000	16.727	4.000	2.835	0.554			3.006		10.028	57.150	49.435
Sedgwick Jt. #439	2,177,314	1,916,498	20.000	5.383	4.000	1.660						12.323	43.366	44.345
Halstead Jt. #440	4,573,589	3,524,080	20.000	11.497	3.930								35.427	39.086

5-4

Site Selection Factors 2002

	<u>2001</u>	<u>2002</u>
1. Availability of skilled labor	91.6	90.9
2. Labor costs	91.5	89.9
3. Tax exemptions	82.7	88.2
4. State and local incentives	81.4	88.0
5. Highway accessibility	87.9	86.6
6. Corporate tax rate	79.0	84.6
7. Proximity to major markets	80.2	83.7
8. Occupancy or construction costs	82.3	82.4
9. Energy availability and costs	86.4	80.9
10. Environmental regulations	78.8	76.7



TESTIMONY

City of Wichita
Mike Taylor, Government Relations Director
455 N Main, Wichita, KS. 67202
Wichita Phone: 316.268.4351
Topeka Phone: 316.648.6236
mtaylor@wichita.gov

Senate Bill 163 Property Tax Exemptions

Delivered February 18, 2003
Senate Assessment and Taxation Committee

The City of Wichita opposes Senate Bill 163. 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, and 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.

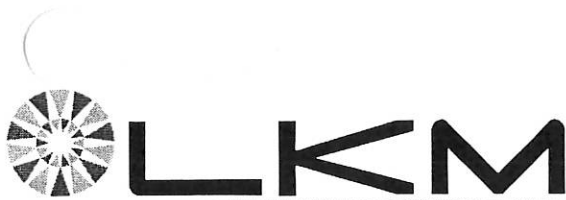
School districts already have options to deal with tax abatements. The Wichita school district always has the opportunity to review, comment on and oppose any proposed tax abatement or exemption. Also, schools already have a legal mechanism to opt out of tax abatements. Under K.S.A. 12-147, any taxing 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 ten year abatement on a business expansion because it creates jobs and adds to the overall 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.

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 Senate Bill 163 unneeded and unjustified, it is detrimental to the economic well-being of Wichita and the entire State of Kansas.

*Senate Assessment & Taxation
2-18-03
Attachment 6*



League of Kansas Municipalities

300 SW 8th Avenue
Topeka, Kansas 66603-3912
Phone: (785) 354-9565
Fax: (785) 354-4186

TO: Senate Assessment and Taxation Committee
FROM: Larry R. Baer, Assistant Legal Counsel
DATE: February 18, 2003
RE: Opposition to SB 163

Thank you for allowing me to appear before you today on behalf of the League of Kansas Municipalities and its member cities and present testimony in opposition to SB 163.

SB 163 would eliminate the ability of cities and counties 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. Although by statute the exemption may be 100%, on new structures or equipment, for a 10 year period, few if any cities grant the full exemption. Most exemptions are granted for either a reduced time or reduced amounts or granted on some type of tiered basis, i.e., 100% in the first year, 90% in the second year, and so forth.

For these reasons, the League of Municipalities opposes SB 163 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 SB 163.

Senate Assessment & Taxation
2-18-03
Attachment 7

Written testimony on SB 163
Senate Assessment & Taxation Committee
February 18, 2003
By Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

The Greater Topeka Chamber of Commerce would like to express its opposition to SB163 which reduces the effectiveness of the constitutional tax abatement law and abatements allowed as part of an IRB. Communities such as Topeka use tax abatements as an incentive to attract new capital investment in our community. These abatements assist companies in making their decisions to invest new dollars in a project and consequently the community. This is capital investment that would otherwise not be available to our communities or the State of Kansas.

In Topeka, there is an administrative review committee that reviews all requests and determines the amount of the exemption based upon the number of jobs created and the amount of wages. Representatives from the affected school district are invited to attend and participate in the discussions. To the best of our knowledge there has never been an incident where a school district objected to the tax exemption that has been proposed in Shawnee County. It is our belief that the local school districts understand and support the growth of the local economy. Although all taxing entities will have delayed tax dollars from the capital investment, they do receive the benefit from the new jobs created. As a part of the administrative review, the review team determine the amount of the abatement according to local guidelines that have been developed to reward companies creating more jobs with higher wages. This determination is best made locally where the community can set its priorities based upon the makeup of the community and their local wage rates. In Topeka, each tax exemption is reviewed yearly to determine if the amount of that abatement should be adjusted based upon the actual jobs that were created and wages paid. If the situation changes and the business is not able to abide by its job and wage commitment the exemption is adjusted to a lower amount. If the state begins limiting the amount of the tax exemptions by excluding the tax dollars that go to school districts, it removes local flexibility and it may well eliminate the added tax dollars received from new jobs and higher local wages.

The Greater Topeka Chamber of Commerce would respectfully request that SB 163 not be approved. The property tax exemption laws work well and policies should be tailored by the community that is providing the abatement. Reducing the arsenal of incentives available to our cities, towns, and counties to create new investment will not provide additional tax dollars when the investment is not made. The state needs to do everything it can to assist communities to grow private investment. Thank you for allowing me the opportunity to address this issue.

*Senate Assessment & Taxation
2-18-03
Attachment 8*

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

SB 163

February 18, 2003

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony before the Senate Assessment and Taxation Committee
By Marlee Carpenter, Director of Taxation and Small Business

Chairman Corbin 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 SB 163. 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 SB 163 would reduce the effectiveness of the property tax abatement and the local community's ability to grow its tax base.

SB 163 would greatly inhibit a city's ability to attract business. The Kansas business property tax is high for the region. I have attached a chart from Kansas, Inc.'s latest study showing Kansas business property taxes compared to other states. In addition, the school levy is the largest portion of the property taxes collected. Forty-four percent of property taxes collected for calendar year 1999 went to schools. To abate property taxes for all property except for the school levy is not as much incentive. To attract and retain businesses Kansas must be able to compete. It should be up to the local communities to determine if the business coming in deserves a property tax abatement. Finally, the point must be made that owners of many of the exempted properties have agreements with local communities to make payments "in lieu of" taxes to local governments. This means that many exempt businesses are making partial payments to local governments and school districts.

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."

*Senate Assessment & Taxation
2-18-03
Attachment 9*

KCCI opposes SB 163. KCCI believes that in order to keep Kansas competitive, the cost of doing business in the state cannot be increased. SB 163 would increase the cost of doing business for the types of business Kansas most needs — new and expanding businesses. Thank you for your time and I will be happy to answer any questions.

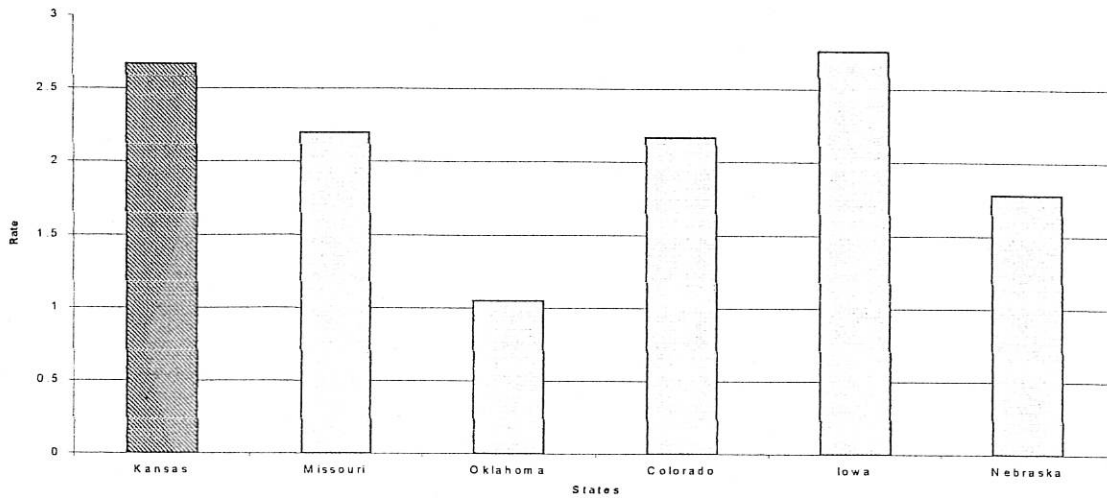
About the Kansas Chamber of Commerce and Industry

The Kansas Chamber of Commerce and Industry (KCCI) is the leading broad-based business organization in Kansas. KCCI is dedicated to the promotion of economic growth and job creation and to the protection and support of the private competitive enterprise system.

KCCI is comprised of nearly 2,000 businesses, which includes 200 local and regional chambers of commerce and trade organizations that represent more than 161,000 business men and women. The organization represents both large and small employers in Kansas. 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.

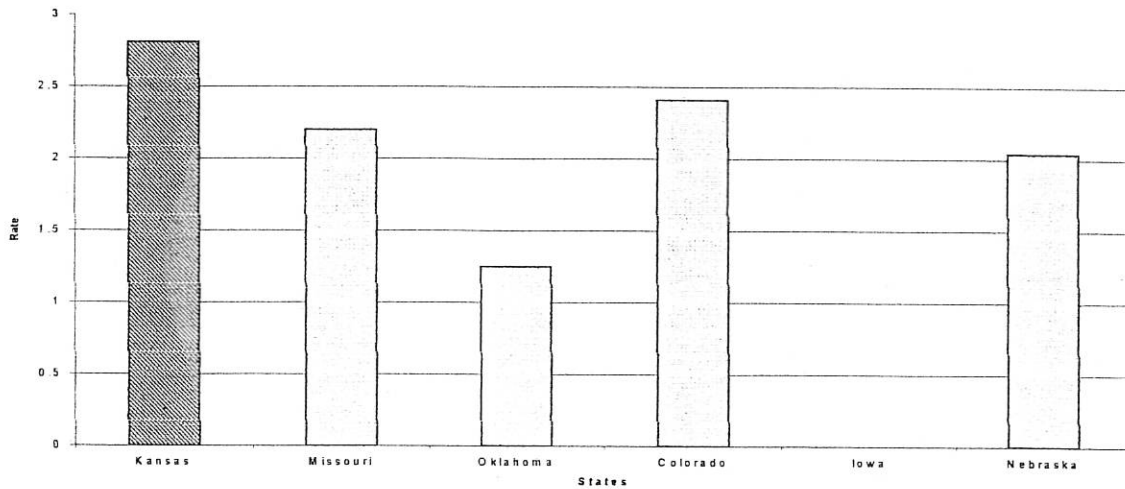
Commercial/Industrial Property Tax



Source: Kansas, Inc, "Business Taxes and Costs: A Cross State Comparison", 2001 Update

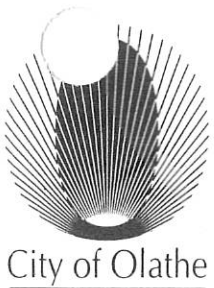
- The effective rate for commercial/industrial property was calculated by Kansas, Inc. based on 1998 figures.
- The effective rate for commercial/industrial property in Kansas is higher than all states in the region except for Iowa. Iowa however, does not have any property tax on business machinery and equipment.

Business Machinery and Equipment Property Tax



Source: Kansas, Inc, "Business Taxes and Costs: A Cross State Comparison", 2001 Update

- The effective rate for business machinery and equipment was calculated by Kansas, Inc. based on 1998 figures.
- Kansas has the highest property tax rate for business machinery and equipment in the region. Iowa has eliminated the property tax on business machinery and equipment.



MEMORANDUM

TO: Members of the Senate Assessment and Taxation Committee
FROM: Donald R. Seifert, Policy Development Leader *DRS*
SUBJECT: SB 163; Exclusion of School Levy from Tax Abatement Authority
DATE: February 18, 2003

On behalf of the city of Olathe, thank you for the opportunity to express opposition to SB 163. 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. This bill is substantially identical to last year's HB 2716 and similar bills in prior sessions that have never moved out of committee.

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 all 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 SB 163, specific concerns over abatement of school taxes should be resolved locally under current law.

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

Olathe 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 sound 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.

*Senate Assessment & Taxation
2-18-03
Attachment 10*