Approved: March 30, 2005
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 21, 2005 in Room 519-S of the Capitol.

All members were present except:
Representative Edward O'Malley- excused

Committee staff present:
Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
Senator Stephen Morris
Representative Gary Hayzlett
Representative Kathe Decker
Representative Jerry Williams
Bob Boaldin, President, KS Legislative Policy Group & Morton County Commission
Madison Traster, Grant County Commission
Neil Gillespie, Steven County Economic Development Commission
Randall Allen, Kansas Association of Counties
Ed P. Cross, Executive Vice President, KIOGA
Bernie Koch, Wichita Chamber of Commerce
Larry Baer, League of Kansas Municipalities
Marlee Carpenter, Kansas Chamber of Commerce
Mark Tallman, KS Association of School Boards
Frank Young, Neosho County Engineer

Others attending:
See attached list.

SB 128 - Creating the oil and gas valuation depletion trust fund and providing for distribution of moneys therefrom.

SB 128 would provide for a partial diversion of gas severance tax receipts from the State General Fund (SGF) beginning in FY 2009 relative to collections in those counties with severance tax receipts of at least $100,000 in FY 2005. For such counties, an increasing portion of receipts would be diverted from the SGF beginning in FY 2009 into a new fund, the Oil and Gas Valuation Depletion Trust Fund (OGVDTF). The bill would be expected to reduce SGF receipts by the following amounts; FY 09 - $3.572 million, FY10 - $5,224 million, FY 11 - $6,616 million, FY 12 - $7.823 million.

The Chairman opened the public hearing on **SB 128.**

Senator Stephen Morris testified that **SB 128** is an economic aid measure targeted to those counties that are losing a significant portion of their tax due to rapidly declining mineral valuations (Attachment 1). Beginning in 2009, counties would be entitled to receive distributions from their accounts within the Trust Fund by January 15, when the previous tax year's gas leasehold property valuation was less than 50 percent of such valuation in tax year 2006. This distribution would be 20 percent of the moneys credited to a county trust account. Thus the damage dealt to counties losing funds from devaluation would be dulled over time instead of having the major part of the impact happen over two or three years.

Representative Gary Hayzlett appeared in support of **SB 128.** His testimony provided a brief history by decade from 1930 to 2000 (Attachment 2). He stated that the Hugoton Gas field is currently a depleting resource, and in view of a billion dollars in severance tax that has come out of the area, it appears that putting something aside to help supplement the tax base, when this resource is depleted, would be the right thing to do.

Bob Boaldin, KS Legislative Policy Group & Morton County Commission (KLPG) testified in support of

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 21, 2005 in Room 519-S of the Capitol.

SB 128 (Attachment 3). In 1982 when the severance tax issue was before the Kansas Legislature, a compromise with natural gas producing counties was reached, permitting 7% of the severance tax (4.33) returned back to the county where the natural gas was produced. Since them those funds have been used to support public education and local units of the government. Due to the decline of the Hugoton Gas Field, they can no longer rely on natural gas and those related industries to provide the necessary tax base of their governments and schools. **SB 128** would simply provide a portion of the severance tax currently remitted to the state to be held in a trust for the benefit of local governments.

Madison Traster, Grant County Commission, rose in support of **SB 128** (Attachment 4). He stated that asking for a trust fund to be set up is not without precedent, and has been done in Alaska and Wyoming. The proud people of Grant County do not want to become dependent on the state in the future and SB 128 would alleviate, at least partially, the shock of the depletion as they apply their energies, ingenuity and resourcefulness to create a new economy.

Neil Gillespie, Steven County Economic Development Commission appeared in support of **SB 128** (no written testimony). He stated that when a great source of money has been derived from natural resources, it is best to set aside a percent for investments to supplement future obligations when that natural resource is depleted.

Randall Allen, Kansas Association of Counties expressed support for **SB 128**, a forward looking bill (Attachment 5). At their annual conference, November 2004, their membership unanimously adopted the following statement: *"The Kansas Association of Counties supports the establishment of a depletion trust fund using funds from the severance tax collected by the state in order to offset revenues that will be lost after the depletion of natural resources."*

Six letters of written testimony (Attachment 6) were submitted from (1) Ray Brown, Haskell County Commission, (2) John Crump, Kearney County Commission, (3) Richard Veach, Pioneer Communications (4) Jane C.W. Brubaker, Andy Beikman, Ray Lee, Cheyenne County Board of Commissioners, (5) Randall C. Braddock, Dave Schwieterman, Gano Schmidt, Nikki Schwerdfeger, and Keith Puckettt, Hamilton County Commissioners, (6) C. Shannon Dimitt, Martie Floyd, and John S. Smith, Stanton County Commissioners.

Staff from the Research Department distributed data regarding the 2004 average mill levy for each county in response to a Committee member's request (Attachment 7).

Ed Cross, KIOGA, rose in opposition to **SB 128** (Attachment 8). He stated that although the intent of the bill was noble, the bill had serious implications for the state of Kansas. He quoted the rationale behind the Governor's veto of **SB 487** which dealt with the same issue last year.

SB 128 ignores oil and gas ad valorem tax collections and further ignores the fact that oil and gas ad valorem taxes have increased statewide by 45.5% since 1999 and by 29.64% for the 14 county region mostly affected by **SB 128**, with a majority of ad valorem taxes go straight to the counties. **SB 128** is trying to address problems that are decades away and he urged the Committee not to pass

The Chairman requested that staff provide a ten year trend report on severance taxes and production data for all counties that would qualify under **SB 128.** That data was distributed on March 22, 2005, (Attachment 9). In response to a question regarding the rationale behind KIOGA's policy that opposed SB 128, Mr. Cross stated the main reason they opposed the bill was the fear of severance taxes or any taxes being raised. He added that **SB 128** has the potential to create regional tax fights across the state.

The Chairman acknowledged Representative Bill Light, a supporter of **SB 128**, that was in attendance. The Chairman closed the hearing on **SB 128.**

HB 2525 - Retailers' sales tax in Neosho county

Mr. Courtwright stated that **HB 2525** is a local sales tax bill that would authorize Neosho county to have an additional ½ cent sales tax authority for the purpose of roadway construction and improvement. They would place this on a ballot within the next year.

The Chairman opened the public hearing on **HB 2525.** He introduced Representative Jerry Williams, who in turn introduced the three Neosho County Commissioners; Donne G. Yarnell, Royce Edwards and Scott Parish, as well as Mr. Frank Young, the engineer who rose to testify on HB 2525.

Mr. Frank Young, offered the following testimony in support of **HB 2525**, a bill concerning a dedicated sales tax for road improvement projects in Neosho County (Attachment 10). They requested permission from the Kansas Legislature to put before the voters a proposal that would create another ½ cent sales tax to replace the current ½ cent jail tax upon it's expiration to fund a major road improvement project in central Neosho County. If approved by the voters, it is the County Commission's intent that the two taxes would not run concurrently, and would maintain the current tax rate as is. The bill would sunset when the projects are paid off.

There being no other conferees the Chairman closed the hearing on **HB 2525.**

HB 2527 - Property tax abatements; school district levy, limitation

Mr. Courtwright stated that **HB 2527** would relate to the ability of cities and counties to provide for property tax exemptions or abatements. **HB 2527** states that if enacted there would be no abatement of ad valorem property tax for real or personal property granted after the effective date of this act by the governing body of any city or the board of county commissioners of any county or other taxing subdivision of the state shall be deemed to abate the ad valorem property tax levied by a school district pursuant to K.S.A. 72-6431, and amendments thereto. The provisions of this section shall not be deemed to apply to any abatement granted prior to the effective date of this act for any calendar year for which any such exemption was granted. A 1997 Kansas Legislative Research Department report entitled: *Kansas Accountability Requirements for Locally-Granted Property Tax Exemptions"* was distributed to the Committee on March 22, 2005. A copy is on file Kansas Legislative Research Department.

Representative Decker, testified in support of **HB 2527** (Attachment 11). She stated that when **HB 2474** was debated on March 3rd, the provision in **HB 2527** was part of the package. Representative Decker was approached by KCCI and told they would like to have a chance to reach a compromise on this issue. She understands the concern and have reintroduced the issue so the House Taxation Committee, KCCI and other interested parties can have a chance to reach the promised compromise.

She added that several attorneys have stated that they don't know if this faced a court challenge whether it would stand up, because they were uncertain if cities or counties had the right to abate statewide taxes. That should be clarified to assure the process is being done correctly and if there is some compromise that can be reached.

Bernie Koch, Wichita Chamber of Commerce, rose in opposition to **HB 2527** (Attachment 12). They are interested in the bill because about half of all tax abatements in Kansas are in Sedgwick County. They received information recently, from the County Appraiser's office that indicated 72% of the valuation is primarily manufacturing machinery and equipment. Their primary purpose in granting property tax abatements was to neutralize their high machinery and equipment property taxes in Kansas, that are the highest in the region.

He called the Committee's attention to several studies; the first indicating that 87 percent said state and local incentives were important in determining where job expansions would take place and the second stating that "the gains from raising equipment investment through tax or other incentives dwarf losses from any non-neutralities that would result." **HB 2527** would have the effect of weakening their ability to compete with other states, and the rest of the world as well, particularly countries where manufacturing was highly subsidized. Included in his testimony was data on tax abatement percentage tables and the City of Wichita/Sedgewick County Economic Development Incentive Policy.

Larry Baer, League of Kansas Municipalities, testified in opposition to **HB 2527** (Attachment 13). It proposes to eliminate the current statutorily and constitutionally permitted abatements of ad valorem taxes on real and personal property levied by school districts. **HB 2527** is simple in its presentation but would be complex, confusing and detrimental to local economic development efforts in its application.

Marlee Carpenter, Kansas Chamber of Commerce, appeared in opposition to **HB 2527** (Attachment 14) It prohibits cities and counties from abating this tax and eliminates an important economic development tool that communities use to attract and retain business. Her testimony included how the bill would affect eleven Kansas communities.

Mark Tallman, KS Association of School Boards, appeared to testify against **HB 2527** (Attachment 15). The KASB Delegate Assembly had adopted the following position on property tax abatements. *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.* The second and most recent part of their position proposes the following: *that some form of state approval should be required in order to abate the statewide school levy. That would allow consideration of the statewide economic impact of such abatement.*

The Chairman asked if there were any communities that had abated just the 20 mill and left the remaining mill levy on. Mr. Courtwright stated they would check with the Board of Tax Appeals and get back to the Committee.

There being no other conferees, the Chairman closed the hearing on **HB 2527.**

The meeting was adjourned at 10:30 a.m. The next meeting is March 22, 2005.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: March 21, 2005

NAME	REPRESENTING
Bernie Koch	Wichita Area Chamber
Andy Shaw	Kearney & Associates
Gary Hayzlett	Legislator #122
[illegible]	Neosho County
Donnie [illegible]	Neosho Co.
Scott [illegible]	Neosho County
[illegible]	STATE REP 08
Frank Young	Neosho Co. Engineer
[illegible]	-
Bill Light	124th
[illegible]	MORTON COUNTY
[illegible]	———
Mark Tallman	KASB
George Peterson	Ks Taxpayers Network
Mike Scanlon	City of Mission
John Peterson	Raytheon Aircraft Corp
BRAD HARRELSON	KFB

STEPHEN MORRIS
SENATOR, 39TH DISTRICT
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State of Kansas

Senate President

COMMITTEE ASSIGNMENTS
CHAIRMAN: LEGISLATIVE COORDINATING COUNCIL
ORGANIZATION, CALENDAR AND RULES
NCSL AGRICULTURAL AND RURAL DEVELOPMENT
MEMBER: AGRICULTURE
WAYS AND MEANS
LEGISLATIVE BUDGET
STATE BUILDING CONSTRUCTION
PENSIONS, INVESTMENT AND BENEFITS
STATE FINANCE COUNCIL
CSG AGRICULTURE TASK FORCE

Testimony
by
Senator Stephen R. Morris
to
House Taxation Committee
Monday, March 21, 2005

Re: SB 128

Mr. Chairman, and Committee members, SB 128 creates a Gas and Oil Valuation Depletion Trust Fund for 46 counties in Kansas that is derived from severance tax proceeds. This is an economic aid measure targeted to those counties that are losing a significant portion of their tax due to rapidly declining mineral valuations. A prime example is the 50 percent reduction in gas production from the Hugoton Field during the last ten years.

Beginning in 2009, counties would be entitled to receive distributions from their accounts within the Trust Fund by January 15, when the previous tax year's gas leasehold property valuation was less than 50 percent of such valuation in tax year 2006. This distribution would be 20 percent of the moneys credited to a county's trust account. Thus, the damage dealt to counties losing funds from devaluation would be dulled over time instead of having the major part of the impact happen over two or three years.

This legislation is very important to the economic "well-being" of a significant number of counties in Kansas. The fiscal note is based on current production and current prices. The actual fiscal note is likely to be much less because of the rapid decline in production (10 percent loss each year).

Thank you for your consideration of this vital piece of legislation impacting our mineral producing counties.

Hs Taxation Committee
March 21, 2005
Attachment 1

STATE OF KANSAS

GARY K. HAYZLETT
REPRESENTATIVE, 122ND DISTRICT
GREELEY, HAMILTON, KEARNY,
SCOTT, & PARTS OF
HASKELL & FINNEY COUNTIES
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIR: TRANSPORTATION
MEMBER: ENVIRONMENT
WILDLIFE, PARKS AND TOURISM
SELECT COMMITTEE ON
SCHOOL FINANCE

House Committee on Taxation
March 21, 2005
The Honorable Gary Hayzlett
Regarding Senate Bill 128

Mr. Chairman and Members of the Committee:

Please allow me a few minutes of your valuable time as I attempt to provide a brief history of the discovery and development of gas and oil in southwest Kansas.

1930's - The 1930's brought in the dust bowl days, depression and also the first gas well drilled in the Hugoton Field.

1940's – We saw the further development of the gas field and we were proud to know we lived in the largest gas pool in the United States. As an incidental benefit of the natural gas exploration, was the discovery of an abundance of water, which initiated a vast development of irrigation in the area.

1950's – This decade brought further development of the gas and water industries and created what seemed like an oasis out of a semi-arid plain with a growing season idealistic to the growth of many agricultural commodities. Carbon black plants came to southwest Kansas because of the natural gas development.

1960's – This era brought an abundance of gas and inexpensive costs of energy. Life was good. Agricultural and gas related industries flourished.

1970's – The gas industry continued to develop and due to the low cost of energy, commercial feed lots and packing plants located in southwest Kansas. The local economy was strong.

1980's – The 1980's brought national and statewide changes that we could not control. Suddenly, attention was focused on southwest Kansas as an untapped source of revenue for the State. In 1983, the severance tax was enacted. In the late 1980's, southwest Kansas was experiencing new production in the Hugoton field known as "infill drilling" which created additional dollars for the State of Kansas. Along with additional dollars, came over production of wells and the more rapid depletion of the Hugoton Field.

1990's – Southwest Kansas continued to maintain a stable economy, however, the depletion of the gas and water was becoming a grave concern. During the mid to late 1990's, pressures had dropped to the extent that compression of the field became necessary in an attempt to maintain volume. The added cost of compression and an increase in natural gas prices for irrigation had a negative impact on the agricultural industry in this area. A still existing drought also began. The late 1990's brought about increased awareness of the fragile nature of the county assets in southwest Kansas.

2000 – Current – These years brought about several businesses closing their doors and leaving the area. This is due to the depletion of natural gas and water. Our tax base is dwindling as well.

Members of the Committee, I am grateful to all those who took the time to read this and I would ask for your support of Senate Bill 128. This would provide some assistance during a time of transition as we seek other avenues of growth of our tax base.

Senate Ways and Means Committee
Senate Bill No. 128
February 15, 2005
By: Bob Boaldin, President
Kansas Legislative Policy Group

Good morning Mr. Chairman and members of the Committee. Thank you for allowing me the opportunity to testify today. I'm Bob Boaldin, president of Kansas Legislative Policy Group (KLPG), which is a coalition of over 30 western Kansas counties. I'm a native of Elkhart, Kansas and a businessman who owns a rural telephone company, and a farmer and rancher. In 2003, I received the Governor's Award of Excellence for my company Epic Touch Communications. I have served Elkhart and Morton County for 28 years in elected positions. I was the youngest elected mayor of Elkhart and have been a member of the Morton County Board of County Commissioners since 1986.

KLPG was organized in the early 1980's to address concerns and oppose imposition of the severance tax. As you know, we lost the severance tax battle. Since enactment of the severance tax, the natural gas fields have transferred to the Kansas general fund coffers over one billion dollars (1983-2003; $1,010,113,000 Source: Kansas Department of Revenue). In 1982 when the severance tax issue was before the Kansas Legislature, a compromise with natural gas producing counties was reached, permitting 7% of the severance tax (4.33%) returned back to the county where the natural gas was produced.

The amount returned back to the counties was greatly appreciated. 50% of the funds have been used to support public education and 50% to support the local unit's of government. These funds have been judiciously expended with the best interest of our constituents at heart.

Due to the decline of the Hugoton Gas Field city, county and school officials are becoming increasingly concerned about the future of our tax base. We are aware the Hugoton Field has a limited life expectancy. How long the field will continue remains unknown.

Southwest Kansas is entering a period when we can no longer rely on natural gas and those related industries to provide the necessary tax base of our local governments and schools.

Hs Taxation Committee
March 21, 2005
Attachment 3

Today we seek your cooperation in supporting Senate Bill 128. This is not a new tax. It simply provides a portion of the severance tax currently remitted to the state to be held in a trust for the benefit of local governments. The bill prescribes the distribution method.

Thank you for allowing me to testify and I am pleased to answer any questions.

Bob Boaldin
610 South Cosmos Street
Elkhart, Kansas 67950
Telephone 620-697-2111

Testimony By
Madison M. Traster
Grant County Commission
To
House Committee on Taxation
March 21, 2005
Regarding Senate Bill 128

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you in support of Senate Bill 128. My name is Madison M. Traster, I have been a county commissioner for 8 years. Western Kansas is an island of prosperity, due in large part to our mineral resources. The production of these minerals, primarily natural gas, is the basis of a large economy generating tax revenue for the state in the form of individual income tax, property tax and severance tax. These minerals also support a large work force. For example, we have nine facilities in Grant County that either process or compress the natural gas on its way to the eastern markets.

The Hugoton gas field is a unique phenomenon of nature. The sale of natural gas from this field has contributed over a billion dollars in revenue to the State of Kansas in the form of severance tax as well as hundreds of jobs, business opportunities, etc. That is the good news. The bad news is that the Hugoton field is being depleted. The Hugoton field is a contributor of taxes, not an industry asking for tax abatement.

Asking for a trust fund to be set up is not without precedent. The same kinds of things happened in Alaska and Wyoming. These states have learned their lesson and started putting some of these funds in a trust for those affected.

As the resources are depleted, there will be a profound decrease in our tax contribution to the state. The domino effect will travel through Topeka to Kansas City, Wichita, and over our entire state.

While we are working very hard to diversify our economy to cushion the economic and social impact of the ultimate depletion of our natural gas reserves, we believe these funds should be set aside to be used as we adjust to new economic conditions, and as we shift to other businesses and industries to rebuild our tax base.

We are a proud bunch of people. Even now we are putting funds into economic development, as we do not want to become dependent on the state in the future. We are asking the Legislature to set aside some of these monies to help level out our economy in future years. It took millions of years to lay down these mineral deposits and we are depleting them in a few short years. This bill will alleviate, at least partially, the shock of the depletion as we apply our energies, our ingenuity and our resourcefulness to create a new economy.

Thank you.

KANSAS
ASSOCIATION OF
COUNTIES

Testimony re. SB 128
House Taxation Committee
Randall Allen, Executive Director
Kansas Association of Counties
March 21, 2005

Chairman Wilk and members of the committee, I am Randall Allen, Executive Director of the Kansas Association of Counties. I am here today to express our support for SB 128, a forward looking bill that anticipates the day when certain natural resources are depleted in our state.

At our annual conference held last November, our membership unanimously adopted the following statement:

> *"The Kansas Association of Counties supports the establishment of a depletion trust fund using funds from the severance tax collected by the state in order to offset revenues that will be lost after the depletion of natural resources."*

Many of our counties face a huge transition in the future as their economies adjust to a time when tax revenue from oil and gas dwindles and new economies (hopefully) replace existing industries and bring new jobs and economic activity to an area. This is a significant positive measure to help counties who are experiencing this transition. We urge the committee to report SB 128 favorably for passage.

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. For more information, please contact Randall Allen or Judy Moler at (785) 272-2585.

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Hs Taxation Committee
March 21, 2005
Attachment 5

Testimony
House Committee on Taxation
Senate Bill No. 128
March 21st, 2005
Haskell County Commissioner
By: Ray Brown

Mr. Chairman and Members of the Committee:

Thank you for the privilege of appearing before you in support of Senate Bill 128.

My name is Ray Brown. I am a commissioner from the great county of Haskell, located in southwest Kansas. Haskell is a small, rural county, which happens to enjoy benefits derived from an active gas field usually referred to as the Hugoton Field.

We support Senate Bill 128 because we realize that sometime in the future the gas field will be depleted, jobs will be lost and our tax base will be severely reduced. When this becomes a fact it will help to have the trust fund established in this bill to use in order to protect our tax base. The portion of the severance tax that we currently receive is used to keep our local mill levies low.

I would like to point out to the committee that these counties have contributed over one billion dollars to the State of Kansas economy in the last 20 years. We consider the monies set out for our use in this trust fund as a welcome beginning to insure a more stabilized tax base as the gas field depletes.

Respectively submitted and representing all Haskell County Commissioners.

Ray Brown, Haskell County Commissioner

Doug Smith
presenter

SWKROA
SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION

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JOHN CRUMP, President **JIM KRAMER**, Vice President **JOE LARRABEE**, Treasurer
ERICK NORDLING, Executive Secretary **B.E. NORDLING**, Ass't Secretary

Testimony Before the House Assessment and Taxation Committee Senate Bill No. 128 March 21, 2005

Chairman Wilk and Members of House Assessment and Taxation Committee:

I am John Crump of Lakin in Kearny County, located in the Southwest portion of our State. I serve as President of the Southwest Kansas Royalty Owners Association (SWKROA). Our Association has existed for more than 55 years. Our mission is to protect the interests of royalty owners in the Hugoton Gas Field. Our Board has directors representing each of the 10 counties in the Field and I am appearing this morning on the basis of that representation.

The subject of SB 128 is not specifically a matter for royalty owners as such, but I represent long established and, I think, well-regarded group which is concerned about the production of natural gas from Hugoton Field

As you know, that Field is huge, containing more than 11,000 wells and covering more than 2.6 million acres in Southwest Kansas. In 2003, these 10 counties paid more than $70 million in severance tax to state, but the economic impact in our area is more than the severance taxes paid. Although those taxes are significant; there are income taxes from companies and individuals, ad valorem taxes from companies and individuals. In fact, 75% of all tax revenues generated in Grant County are from gas production, not to mention employment in area and impact of infrastructure.

But, that will change and is already changing. Production is decreasing, although lower volumes of production are masked by higher mcf prices (11 cents in early fifties vs. almost $7.00 today). The Kansas Geological Survey estimates that 85% of the Field is already depleted, although it notes "ultimate cumulative production consistently has been underestimated".

We see the decline mostly in loss of pressure - more than 300 psi in old days versus vacuum today (years ago the gas flowed freely from the ground, now we are literally sucking the gas out of the ground).

Production companies are doing several things to prolong production - compressors, fracking, some redrilling. The Hugoton Field is still a very active field, but we are aware it is declining.

I urge your favorable consideration this bill. We make this recommendation primarily from sense of fairness. The Hugoton Field has contributed millions in tax revenues over the years and this bill would help ease the transition as the Field finally depletes. Especially, in those areas which have made that contribution - to loss of important source of income

We are not the only area in Kansas producing gas. Southeast Kansas is now becoming an important area in gas production and much of state has been historically important in oil production.

We cannot speak for those areas, but for Southwest Kansas, we feel relief offered by this bill would be fair and equitable.

Those of us who reside in Southwest Kansas are aware that as citizens of Kansas we have an obligation support state as whole, not just our group of counties. We have been and are continuing provide that support. We feel it would be only fair for the State of Kansas to be prepared grant us some assistance as Hugoton Field begins its decline.

Thank you for your consideration.

PIONEER COMMUNICATIONS
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Fax: 620 / 356-3242
Internet: www.pioncomm.net

House Committee on Taxation
Senate Bill No. 128
March 21, 2005
By: Richard Veach
Ulysses, Kansas

Madam Chairman and members of the Committee. Thank you for allowing me the opportunity to present written testimony today. Regretfully, I am out of state and unable to personally attend. I'm Richard Veach General Manager of Pioneer Communications that is headquartered in Ulysses. Pioneer Communications provides a variety of telecommunications services to more than twenty-five communities in southwest Kansas.

We employee 150 full-time and 20 part-time employees. Pioneer Communications is the second largest employer in Grant County. I am particularly proud that Pioneer Communications has been successful in recruiting and attracting college graduates to return to their roots. In the past five years we have hired six outstanding college graduates to "come home" and work at Pioneer Communications. I am speaking as both a businessperson as well as a resident of southwest Kansas. My purpose is to express support for Senate Bill 128.

I have lived in Ulysses for over 18 years. It is a wonderful town and my wife and I enjoyed raising our two children in the community. They grew-up in a small town atmosphere and received excellent public education.

When our family moved to Ulysses, 17 to 18 new homes a year were constructed. For the past few years, just a few new homes have been constructed annually. The biggest growth spurt occurred in 1989 when Amoco moved offices from Liberal to Ulysses.

Ulysses is blessed to be a major player in the natural gas industry. It is home to several major gas producers and support industries such as natural gas and oil exploration companies, well maintenance and water hauling. The majority of our local ad valorem tax base is gas and oil related. The industry has literally been the foundation of our community for 60 years. When I began as general manager of Pioneer Communications, approximately 80% of assessed ad valorem tax was based on natural gas and oil. Today, it represents approximately 60%. As the Hugoton Field declines it not only affects the natural gas and oil portion of valuation it also affects value of support industries. The impact of this occurring is impossible to measure. However, it will certainly be devastating to our local and regional economy.

From the standpoint of Pioneer Communication, we have noticed the access lines for local exchange service has flattened out. There has been downsizing in some local businesses. We notice more vacant residential and commercial properties. There are more homes for sale in the community than normally witnessed in the market.

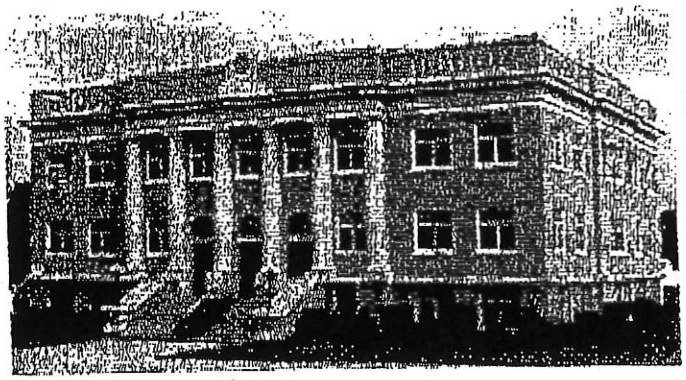
We all are aware the Hugoton Field has a limited life expectancy. How long the field will continue is unknown. However, there is no question the field is in decline and this is substantiated by the Kansas Geological Survey, the Kansas Corporation Commission and expert testimony to the Kansas Department of Revenue, Oil and Gas Committee.

Senate Bill 128 is an intregal part of the continued success of southwest Kansas. As the decline of the Hugoton Field progresses we must work to identify ways to relieve the financial burden of the loss of valuation on businesses, farmers, ranchers and future generations.

Personally, I want Pioneer Communications to continue to be a leading edge communications provider. I also want our community to continue to be a wonderful place for our children to return once they have completed their college studies, work and raise their families in Ulysses. I believe Senate Bill 128 is a good step in the right direction. I ask for your support.

Thank you for allowing me to present testimony today.

Cheyenne County Clerk



212 East Washington
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March 18, 2005

To the Attention of the House Taxation Committee:

The Cheyenne County Board of Commissioners write to you so that we may voice our strong approval of Senate Bill 128. We feel this bill is farsighted and may some day be of great benefit to the residents of Cheyenne County. Cheyenne County's oil and gas production has increased in the past few years and the State of Kansas has benefitted a great deal from this increase. We feel Senate Bill 128 will be a beneficial safety net should Cheyenne County's oil and gas production drastically decrease. This bill would help shoulder the tax burden of our residents if such a decrease would occur.

We strongly support Senate Bill 128 and hope that you will as well.

Sincerely,

Jane C.W. Brubaker, Chairman

Andy Beikman, Commissioner

Ray Lee, Commissioner

Hamilton County Commissioners
P. O. Box 1167
Syracuse, KS 67878

Telephone 620-384-5880
Fax No 620-384-5853

March 17, 2005

Re: **Senate Bill 128**

Dear Mr. Chairman and Members of the Committee:

The Hamilton County Commissioners respectfully present their support, individually, and as a Commission, for Senate Bill 128. As oil and gas valuation account for over 48% of Hamilton County's total valuation, this bill would help secure our County's future as our gas fields are depleted.

At the present time, Hamilton County is encouraging the development of the diary industries in Southwest Kansas, as well as the businesses related to this industry. A new high school was also completed about three years ago at a cost of eight million dollars. Construction of a new runway at the Hamilton County Airport is about to begin. This is being accomplished with federal, state, and local funds. Maintenance of these facilities and the other County infrastructure would be impossible without the funds received from the oil and gas taxes.

The trust fund set up by this Bill would help insure that Hamilton County would be solvent for many years in the future.

Respectfully,

HAMILTON COUNTY BOARD OF COMMISSIONERS

Randall C. Braddock, Chairman

Dave Schwieterman, Vice-Chairman

Gano Schmidt, Commissioner

Nikki Schwerdfeger, Commissioner

Keith Puckett, Commissioner

Board of County Commissioners

STANTON COUNTY, KANSAS

BIG BOW: MARTIE FLOYD
MANTER: C. SHANNON DIMITT
STANTON: JOHN D. SMITH

P.O. BOX 190
201 NORTH MAIN
JOHNSON, KS 67855-0190
(620) 492-2140

March 18, 2005

Re: Senate Bill 128

Mr. Chairman and Members of the Committee:

The Board of Stanton County Commissioners would like to offer their support for passage of Senate Bill 128.

As County Commissioners, we have always encouraged economic development. Because of this, we now have dairy farms, hog farms, a local pharmacy, doctors, a dental office and a recently completed assisted living center.

This development is an example of our efforts to encourage new types of business to help offset the decline of our tax base brought about by the depletion of the oil and gas in this area.

Senate Bill 128 will be an effective tool to continue these efforts into the future. It will enable us to fund projects at the local level. By making monies available after a 50% reduction in our valuation, this will make the continuation of these efforts possible at a time when they will be needed.

We believe that the passage of this bill is of significant importance to the local area as well as that of the State of Kansas.

Respectfully Submitted,

Stanton County Commissioners

C. Shannon Dimitt

C. Shannon Dimitt

Martie Floyd

Martie Floyd

John D. Smith

John D. Smith

	County Name	2004 Avg
084	Russell	0.178460
042	Hodgeman	0.172738
013	Clark	0.168720
092	Smith	0.161496
105	Wyandotte	0.159139
039	Harper	0.155072
053	Lincoln	0.154662
096	Sumner	0.154516
071	Osborne	0.153715
076	Pratt	0.153036
029	Ford	0.151181
005	Barton	0.151168
027	Ellsworth	0.150923
082	Rooks	0.150811
050	Labette	0.150395
015	Cloud	0.148979
083	Rush	0.148120
073	Pawnee	0.147878
067	Neosho	0.147829
093	Stafford	0.147663
051	Lane	0.147248
079	Republic	0.146258
063	Montgomery	0.145533
018	Cowley	0.143694
098	Trego	0.143239
101	Washington	0.142430
025	Elk	0.142417
006	Bourbon	0.141774
062	Mitchell	0.140962
014	Clay	0.140633
010	Chautauqua	0.140350
037	Greenwood	0.140148
078	Reno	0.140138
074	Phillips	0.139682
033	Graham	0.137997
102	Wichita	0.137990
077	Rawlins	0.137725
045	Jewell	0.136661
097	Thomas	0.136340
089	Shawnee	0.136115
056	Lyon	0.135641
080	Rice	0.135507
031	Geary	0.135458
008	Butler	0.135282
001	Allen	0.134635
104	Woodson	0.134575
072	Ottawa	0.133132
036	Greeley	0.132884
024	Edwards	0.132479
030	Franklin	0.130798
055	Logan	0.130361
086	Scott	0.129283
069	Norton	0.129136
003	Atchison	0.129007
068	Ness	0.126683

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	County Name	2004 Avg
035	Gray	0.125745
057	Marion	0.125699
004	Barber	0.125647
020	Decatur	0.124818
099	Wabaunsee	0.124413
017	Comanche	0.123980
002	Anderson	0.123525
058	Marshall	0.123487
040	Harvey	0.122613
043	Jackson	0.122086
038	Hamilton	0.122017
019	Crawford	0.121692
091	Sherman	0.120831
090	Sheridan	0.120664
048	Kingman	0.120574
044	Jefferson	0.120311
052	Leavenworth	0.119755
100	Wallace	0.119337
103	Wilson	0.118388
007	Brown	0.118295
049	Kiowa	0.117633
009	Chase	0.117103
066	Nemaha	0.116840
021	Dickinson	0.116802
059	McPherson	0.116438
032	Gove	0.115902
070	Osage	0.114476
060	Meade	0.114365
081	Riley	0.113893
026	Ellis	0.113785
087	Sedgwick	0.113293
028	Finney	0.111197
085	Saline	0.111082
088	Seward	0.109779
061	Miami	0.109560
064	Morris	0.108194
046	Johnson	0.106237
023	Douglas	0.104109
022	Doniphan	0.103635
011	Cherokee	0.098393
094	Stanton	0.092326
054	Linn	0.090912
012	Cheyenne	0.090183
065	Morton	0.088475
041	Haskell	0.082432
075	Pottawatomie	0.082054
047	Kearny	0.074727
034	Grant	0.071565
095	Stevens	0.071155
016	Coffey	0.069031
999	State Totals	0.116682

Kansas Independent Oil & Gas Association
800 S.W. Jackson Street – Suite 1400
Topeka, Kansas 66612
Phone: 785-232-7772 Fax 785-232-0917
Email: kiogaed@swbell.net

Testimony to the House Tax Committee
Senate Bill 128 – Creating the oil and gas valuation depletion trust fund and providing for distribution of moneys therefrom

Edward P. Cross, Executive Vice President
Kansas Independent Oil & Gas Association

March 21, 2005

Good morning Chairman Wilk and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association (KIOGA). KIOGA is an association of independent oil and gas producers with over 800 members from all regions of the state. My comments today are also supported by the Kansas Petroleum Council and the Eastern Kansas Oil & Gas Association. I am here today to express our opposition and concerns surrounding Senate Bill 128 (SB 128).

SB 128 sets up an oil and gas valuation depletion trust fund to be accessed in the future by those counties who collected $100,000 or more in oil and gas severance taxes in FY 2005 or any fiscal year thereafter. The trust fund is funded through severance taxes paid by those eligible counties.

The intent of the bill is noble. Helping rural areas is good policy for states like Kansas. However, SB 128 has serious implications for the state of Kansas. The concept proposed in SB 128 was presented last year as SB 487. Governor Sebelius outlined the serious implications in her veto message. Governor Sebelius said, "I support and will continue to search for ways to strengthen the rural Kansas economy. However, I believe that a much more extensive analysis of both provisions in SB 487 is needed because of their potential far-reaching consequences on the state budget and the future development of southwest Kansas. For these reasons I find it necessary to veto SB 487."

The Kansas oil and gas industry is a $3 billion industry and is the second largest industry in Kansas in terms of gross domestic product. The oil and gas industry contributed nearly $205 million in taxes during calendar year 2003. According to production data provided by the Kansas Department of Revenue, total natural gas production in Kansas has declined by an annual average of 6.4% over the last 8 years and crude oil production has declined by an annual average of 3.2% over the same period. However, total oil production actually increased 3 of the last 4 years including last year's 1.3 million barrel increase. While there is no doubt that crude oil and natural gas production in Kansas is gradually declining, the industry is not going to walk away from a $3 billion asset anytime soon. The oil and gas industry will remain a core component of the Kansas economy for decades to come.

Generally, as production declines, so too does tax receipts. However, marginal oil and gas prices have increased in the last 4 years and this increase in marginal prices have more than offset the decline in production in terms of taxes collected. Marginal gas prices have increased by 25.6% over the last 3 years and marginal oil prices have increased by 20.9% over the last 3 years. As a result, the Kansas Department of Revenue reports that Kansas collected $35.7 million more in oil and gas severance tax receipts in calendar year 2003 than in calendar year 2002 and $47 million more in calendar year 2003 than in calendar year 1999. Kansas also collected $6 million more in oil and gas ad valorem tax receipts in 2003 than in 2002 and $34.8 million more in oil and gas ad valorem tax receipts in calendar year 2003 than in calendar year 1999. Oil and gas ad valorem tax receipts for Kansas have increased by 45.5% from 1999 to 2003. Oil and gas ad valorem tax collections are conspicuously absent from consideration in SB 128.

SB 128 basically raids the state's general fund of a portion of the oil and gas severance tax collections for the formation of a trust fund for a select few counties who are fortunate enough to have relatively high levels of oil and gas production. The oil and gas severance tax is a state-wide tax with proceeds arising from many counties and dedicated to the general fund for the good of the entire state. Dedicating general fund monies to specific regions will no doubt encourage other regions and industries to pursue similar raids on the general fund for regional interests. SB 128 has the potential to create regional tax fights across the state. In addition, a diversion of a portion of the severance tax collections from the general fund could trigger a need to increase taxes to replenish the general fund.

Last year's SB 487 affected 14 counties in Kansas. Ad valorem tax collections on natural gas production in the 14 county region addressed by SB 487 increased by 23.3% from 1999 to 2003 and ad valorem tax collections on oil production in that region increased by 186.1% over the same period. That 14 county region collectively collected $15,260,500 more in natural gas production ad valorem taxes in 2003 than in 1999. In addition, the same 14 county region collectively collected $4,885,450 more in oil production ad valorem taxes in 2003 than in 1999. That 14 county region collectively collected $20,145,950 more in oil and gas ad valorem taxes in 2003 than in 1999. SB 128 affects 47 counties, but in reality will boil down to roughly the same 14 counties addressed in SB 487 give or take a few.

SB 128 ignores oil and gas ad valorem tax collections and further ignores the fact that oil and gas ad valorem taxes have increased statewide by 45.5% since 1999 and by 29.64% for the 14 county region mostly affected by SB 128. A majority of ad valorem taxes go straight to the counties.

SB 128 is ahead of its time. The problem SB 128 is trying to address is decades away. Severance tax collections for the state of Kansas have increased by 100% from 1999 to 2003 (from $46.9 million to $93.9 million). SB 128 ignores the fact that oil and gas ad valorem taxes have increased by 45.5% from 1999 to 2003 and the fact that counties keep a majority of the ad valorem tax collections. In addition, severance tax collections and ad valorem tax collections are sure to increase next year with assessed values for oil properties increasing by 25% and natural gas properties increasing by 39%. The counties already receive 7% of the severance tax collections generated in their respective counties. Schools receive 3 ½% and the counties use the other 3 ½% as they see fit. Perhaps the counties could use part or all of the 3 ½% of severance tax receipts and a portion of their growing oil and gas ad valorem tax receipts to initiate an oil and gas valuation depletion trust fund.

We urge the committee to consider these facts and not pass SB 128. Thank you for your time and consideration. I stand for questions.

	Statewide Natural Gas Production in thousands of mcfs	growth	Statewide Gas Sev Taxes in thousands of $	growth	Statewide Oil Production in thousands of barrels	growth	Statewide Oil Sev Taxes in thousands of $	growth
FY 1996	730,251		$51,662		43,288		$16,704	
FY 1997	703,563	-3.65%	$61,742	19.51%	41,711	-3.64%	$19,670	17.75%
FY 1998	649,665	-7.66%	$51,690	-16.28%	38,798	-6.98%	$15,576	-20.81%
FY 1999	589,684	-9.23%	$34,883	-32.52%	34,231	-11.77%	$9,130	-41.38%
FY 2000	556,079	-5.70%	$41,610	19.28%	33,540	-2.02%	$15,346	68.08%
FY 2001	505,582	-9.08%	$93,982	125.87%	33,760	0.66%	$15,287	-0.39%
FY 2002	467,976	-7.44%	$44,933	-52.19%	33,196	-1.67%	$14,939	-2.28%
FY 2003	444,510	-5.01%	$60,496	34.64%	33,244	0.14%	$17,758	18.87%
FY 2004	417,613	-6.05%	$71,032	17.42%	34,017	2.33%	$20,007	12.66%
FY 2005 est	385,000	-7.81%	$85,040	19.72%	33,000	-2.99%	$28,266	41.28%
FY 2006 est	355,000	-7.79%	$71,285	-16.17%	33,000	0.00%	$23,320	-17.50%

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	CY 2003 Gas Severance Tax	CY 2003 Oil Severance Tax	Both	Qualify for SB 128?	count
ALLEN	$630	$15,844	$16,473	no	0
ANDERSON		$4,708	$4,708	no	0
ATCHISON			$0	no	0
BARBER	$1,763,749	$160,762	$1,924,511	YES	1
BARTON	$50,469	$532,577	$583,047	YES	1
BOURBON	$0	$3,775	$3,775	no	0
BROWN			$0	no	0
BUTLER		$295,464	$295,464	YES	1
CHASE	$34,397	$13,771	$48,168	no	0
CHAUTAUQUA	$19,295	$52,271	$71,566	no	0
CHEROKEE		$0	$0	no	0
CHEYENNE	$164,048	$182,328	$346,376	YES	1
CLARK	$496,139	$55,936	$552,075	YES	1
CLAY		$0	$0	no	0
CLOUD			$0	no	0
COFFEY		$29,194	$29,194	no	0
COMANCHE	$1,749,942	$631,692	$2,381,634	YES	1
COWLEY	$8,981	$114,832	$123,813	YES	1
CRAWFORD		$5,426	$5,426	no	0
DECATUR		$52,479	$52,479	no	0
DICKINSON		$5,104	$5,104	no	0
DONIPHAN			$0	no	0
DOUGLAS		$687	$687	no	0
EDWARDS	$398,708	$81,300	$480,008	YES	1
ELK	$4,906	$21,762	$26,667	no	0
ELLIS	$165	$1,567,117	$1,567,282	YES	1
ELLSWORTH	$12,504	$81,825	$94,329	no	0
FINNEY	$5,231,633	$2,102,020	$7,333,653	YES	1
FORD	$78,467	$57,500	$135,968	YES	1
FRANKLIN	$0	$22,297	$22,297	no	0
GEARY		$0	$0	no	0
GOVE		$219,942	$219,942	YES	1
GRAHAM		$752,850	$752,850	YES	1
GRANT	$10,304,500	$1,011,597	$11,316,097	YES	1
GRAY	$5,920	$73,065	$78,984	no	0
GREELEY	$384,561	$70,034	$454,595	YES	1
GREENWOOD	$0	$91,725	$91,725	no	0
HAMILTON	$1,844,628		$1,844,628	YES	1
HARPER	$422,643	$122,499	$545,142	YES	1
HARVEY	$26,910	$40,994	$67,905	no	0
HASKELL	$5,886,837	$1,978,091	$7,864,928	YES	1
HODGEMAN		$240,959	$240,959	YES	1
JACKSON		$3,079	$3,079	no	0
JEFFERSON		$3,981	$3,981	no	0
JEWELL			$0	no	0
JOHNSON	$0	$2,132	$2,132	no	0
KEARNY	$9,651,689	$281,131	$9,932,820	YES	1
KINGMAN	$1,228,069	$227,338	$1,455,407	YES	1
KIOWA	$894,162	$167,606	$1,061,768	YES	1
LABETTE	$37,026	$726	$37,753	no	0
LANE		$214,384	$214,384	YES	1
LEAVENWORTH	$9,785	$11,182	$20,967	no	0
LINCOLN			$0	no	0
LINN	$0	$22,245	$22,245	no	0
LOGAN	$244	$140,617	$140,861	YES	1
LYON		$2,515	$2,515	no	0
MARION	$42,266	$22,429	$64,695	no	0
MARSHALL			$0	no	0
MCPHERSON	$11,890	$87,780	$99,670	no	0
MEADE	$1,139,766	$368,031	$1,507,796	YES	1
MIAMI	$0	$16,519	$16,519	no	0
MITCHELL			$0	no	0
MONTGOMERY	$497,148	$21,221	$518,370	YES	1
MORRIS		$66,640	$66,640	no	0
MORTON	$6,451,856	$479,550	$6,931,406	YES	1

NEMAHA		$41,087	$41,087	no	0
NEOSHO	$698,068	$6,434	$704,502	YES	1
NESS		$748,739	$748,739	YES	1
NORTON		$16,248	$16,248	no	0
OSAGE		$1,358	$1,358	no	0
OSBORNE		$49,052	$49,052	no	0
OTTAWA			$0	no	0
PAWNEE	$146,296	$75,897	$222,193	YES	1
PHILLIPS		$190,074	$190,074	YES	1
POTTAWATOMIE		$0	$0	no	0
PRATT	$199,010	$112,874	$311,884	YES	1
RAWLINS		$53,337	$53,337	no	0
RENO	$272,124	$298,289	$570,413	YES	1
REPUBLIC			$0	no	0
RICE	$82,620	$254,103	$336,723	YES	1
RILEY		$0	$0	no	0
ROOKS		$661,854	$661,854	YES	1
RUSH	$26,418	$138,322	$164,740	YES	1
RUSSELL		$451,715	$451,715	YES	1
SALINE		$18,222	$18,222	no	0
SCOTT	$30,490	$192,936	$223,426	YES	1
SEDGWICK	$2,855	$60,788	$63,643	no	0
SEWARD	$4,682,984	$572,808	$5,255,792	YES	1
SHAWNEE			$0	no	0
SHERIDAN		$88,362	$88,362	no	0
SHERMAN	$22,609	$0	$22,609	no	0
SMITH			$0	no	0
STAFFORD	$159,995	$436,977	$596,972	YES	1
STANTON	$3,510,745	$335,271	$3,846,015	YES	1
STEVENS	$15,416,347	$938,526	$16,354,873	YES	1
SUMNER	$117,396	$148,829	$266,225	YES	1
THOMAS		$78,635	$78,635	no	0
TREGO		$184,063	$184,063	YES	1
WABUNSEE		$50,012	$50,012	no	0
WALLACE	$17,381	$220,112	$237,493	YES	1
WASHINGTON			$0	no	0
WICHITA	$12,754	$46,443	$59,197	no	0
WILSON	$326,196	$13,878	$340,074	YES	1
WOODSON	$1,013	$21,436	$22,449	no	0
WYANDOTTE			$0	no	0
Statewide	$74,579,234	$19,338,211	$93,917,446		46

L. Frank Young, P.E.
Director

Neosho County

Organized 1864

COUNTY COMMISIONERS
Donnie G. Yarnell-1st District
Royce Edwards -2nd District
Scott Parish-3rd District

Public Works Department

March 21, 2005

Representative Kenneth Wilk
Chairman
House Taxation Committee

Sir:

The Neosho County Commission hereby offers the following information in support of House Bill 2525 concerning a dedicated sales tax for road improvement projects in Neosho County.

Neosho County currently has a dedicated ½ cent sales tax for use in funding the newly constructed Neosho County Law Enforcement Center. This dedicated sales tax is due to fully fund the bond issue and sunset sometime in early 2006. We are requesting permission from the Kansas Legislature to put before the voters a proposal that would create another ½ cent sales tax to replace the current ½ cent jail tax upon it's expiration to fund a major road improvement project in central Neosho County. If approved by the voters, it is the County Commission's intent that the two taxes would not run concurrently, and would maintain the current tax rate as is.

This proposal is being made as an effort by the Neosho County Commission to improve the safety of a major route crossing central Neosho County connecting the south city limits of the major city in Neosho County, Chanute, with the county seat in Erie. The current roadway consists of 14 miles of deteriorating pavement and two major bridges. The roadway functions as a major collector classified as KDOT routes RS 168 and RS 1942 and is an alternate route to K-39 Highway that serves the northern portion of Neosho County and enters Chanute at the northeast corner of the city.

RS 168 consists of 11 miles of chip and seal pavement given over to county maintenance by the state highway department in 1948. The roadway is characterized by rolling hills with limited sight distance, narrow pavement, one major, 20-foot wide Neosho River bridge constructed in 1953, and a pavement that is a mixture of pre-1950's stabilized aggregate, many conventional chip and seal coatings, and a 1970's overlay that is separating from the rest of the materials. The mixture of materials is causing many potholes and other maintenance problems resulting in frequent repairs and a continually worsening condition of the pavement. In addition, the 1953 Neosho River bridge has serious structural limitations and is classified a "functionally obsolete" by our most recent bridge inspection report due to width and weight limitations. Additionally, several areas frequently flood requiring emergency personnel to barricade the roadway, often at night, to prevent the public from driving into unexpected flood waters. Even with this effort, several times in the last 10 years, motorists have driven into flood waters along this route.

Courthouse-100 South Main Erie, Kansas 66733 Phone (620) 244-3855 F

RS 1942 consists of 3 miles of old US 169 highway turned over to Neosho County by KDOT in 1985. This road is constructed of old, narrow concrete pavement overlaid and widened with asphalt and maintained by the county with conventional chip and seal coat since 1985. The route begins at 35th Parkway at the south city limits of Chanute and connects with RS 168 three miles to the south. Problems with this route include broken and separated concrete pavement that allows water infiltration. These cracks reflect through the overlays creating a "bump" approximately every 20 feet. In one half-mile section, 55 of these "bumps" were recently counted. Although KDOT assured the county the road was in top condition when it was "given over" in 1985, the 2-inch asphalt overlay simply hid the problem for a few years and now the highway is in even worse condition than when KDOT decided a new one was needed. A bridge also exists on this route that has severe deck deterioration due to past salt accumulation and is currently rated at an 11-ton load limit.

RS 1942 has a current traffic count of 2300 vehicles per day and RS 168 has a count of just under 1100 vehicles per day as published by KDOT in June 2004. Since these roads serve the southern end of Chanute, the economic impact of improvements to these routes will be positive for our county. Currently the Wal-Mart Supercenter is located just north of 35th Parkway in Chanute and shoppers from the southern and eastern portions of Neosho County and western Crawford County will use this road if safety and accessibility are improved. The current road has severe limitations for oil field and agricultural traffic due to the width and load limit problems on the bridges.

The county seat at Erie is the location of the Courthouse and jail facility, so emergency personnel travel this route daily. This is also the route for ambulance travel to the Chanute hospital, also located in the southwestern part of Chanute, for residents in central and eastern Neosho County. Future growth in the City of Chanute is limited by flood plain barriers to southerly and westerly directions. As this growth develops, this route will continue to gain importance.

For the past 10 years, the County has been attempting to make improvements using local funds along these routes. Recent increases in paving and bridge construction costs have made it apparent that using traditional federal aid and local funding options cannot raise enough funds for a project of this magnitude. Neosho County's current federal funding eligibility is only $2.6 million through 2010, barely enough to maintain existing roads and bridges countywide. . The estimated cost of this project is currently between $12 and $14 million. If the county is ever going to make an improvement of this magnitude while maintaining current infrastructure elsewhere in the county, new funding sources are needed. The expiration of the ½ cent jail tax gives the voters a rare opportunity to maintain a current source of funding without raising property taxes.

We respectfully ask that you allow the voters of Neosho County to voice their opinion on this important issue.

Thank you for your consideration.

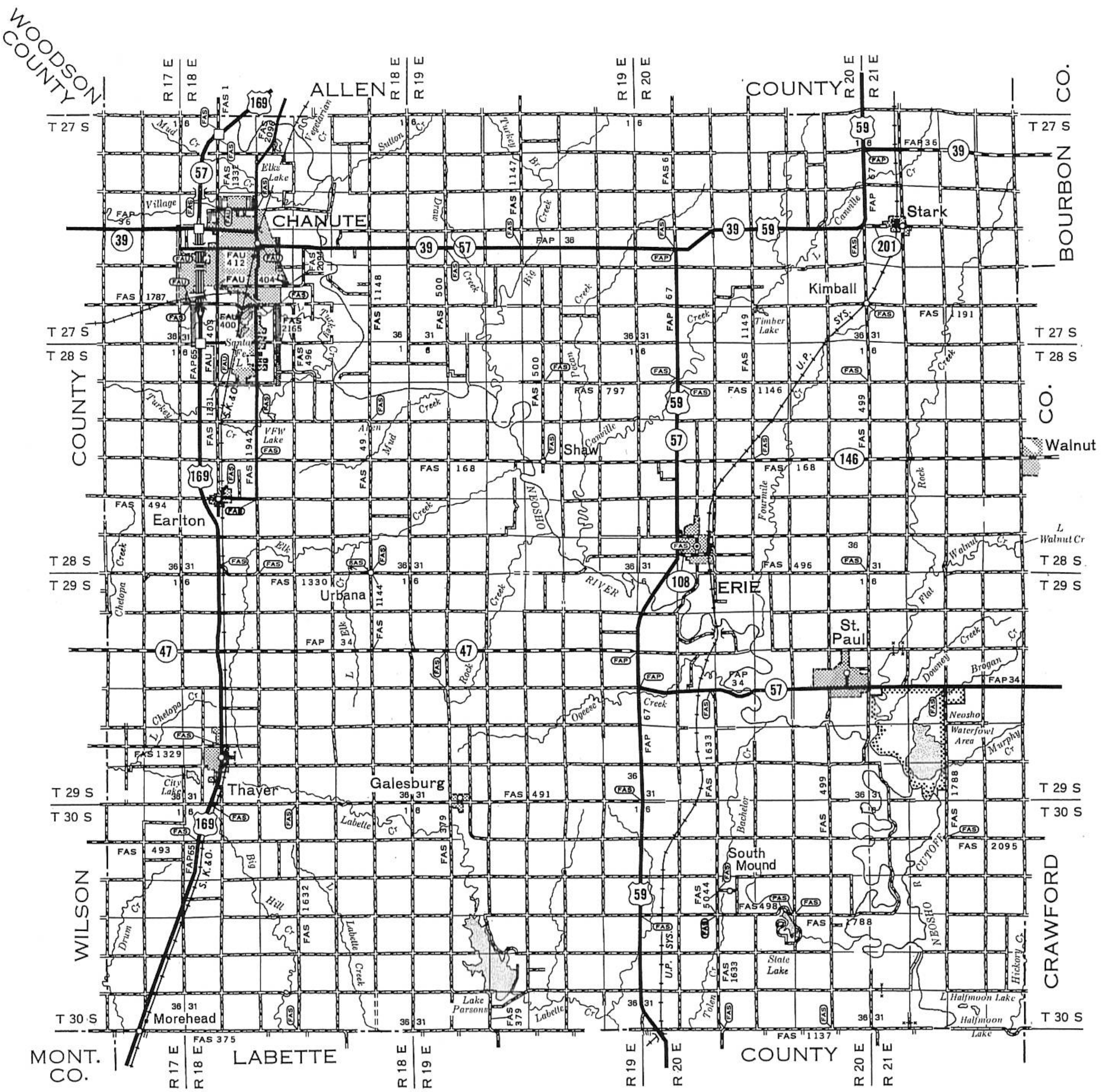
Respectfully submitted,

Donnie Yarnell
Chairman
District One
Neosho County Board of Commissioners

Royce Edwards
Member
District 2
Neosho County Commission

Scott Parish
Member
District 3
Neosho County Commission

L. Frank Young, P.E.
Neosho County Engineer



NEOSHO COUNTY ROAD IMPROVEMENT PROJECT

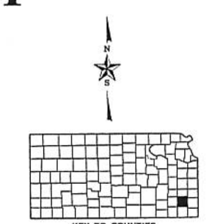
LEGEND

ROADS AND ROADWAY FEATURES

- PRIMITIVE ROAD
- UNIMPROVED ROAD
- GRADED AND DRAINED ROAD
- SOIL SURFACED ROAD
- GRAVEL OR STONE ROAD— NOT GRADED OR DRAINED
- GRAVEL OR STONE ROAD— GRADED AND DRAINED
- GRAVEL OR STONE ROAD WITH STABILIZED SURFACE
- BITUMINOUS ROAD—LOW TYPE
- PAVED ROAD
- DIVIDED HIGHWAY
- HIGHWAY WITH FULL CONTROL OF ACCESS AND INTERCHANGE

ROAD SYSTEM DESIGNATION

- FEDERAL-AID INTERSTATE HIGHWAY SYSTEM — FAI
- FEDERAL-AID PRIMARY HIGHWAY SYSTEM — FAP
- FEDERAL-AID SECONDARY HIGHWAY SYSTEM — FAS
- INTERSTATE NUMBERED HIGHWAY — 70
- U S NUMBERED HIGHWAY — 40
- STATE HIGHWAY SYSTEM OR STATE NUMBERED HIGHWAY — 20
- END OF DESIGNATED SYSTEM OR MARKED ROUTE — 24 FAS



FA SYSTEM REVISED TO APRIL 2, 1992

GENERAL HIGHWAY MAP
NEOSHO COUNTY
KANSAS

PREPARED BY THE
KANSAS DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION PLANNING
IN COOPERATION WITH THE
U. S. DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION

SCALE 1 0 1 2 3 4 MILES

1989

10-4 67

KATHE DECKER
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CLAY CENTER, KANSAS 67432
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STATE OF KANSAS

TOPEKA

HOUSE OF REPRESENTATIVES

REPRESENTATIVE, SIXTY-FOURTH DISTRICT
CLAY, DICKINSON, GEARY, AND RILEY COUNTIES

STATE CAPITOL
ROOM 303-N
TOPEKA 66614-1504
(785) 296-7637

COMMITTEE ASSIGNMENTS
CHAIRPERSON: EDUCATION
SELECT COMMITTEE ON SCHOOL FINANCE
MEMBER: CORRECTIONS AND JUVENILE JUSTICE

HB 2527

Thank you, Chairman Wilk, for holding a hearing on **HB 2527.** When **HB 2474** was debated on March 3rd, the provision in **HB 2527** was part of the package. I was approached by KCCI and told they would like to have a chance to reach a compromise on this issue. I understand the concern and have reintroduced the issue so this committee, KCCI and other interested parties can have a chance to reach the promised compromise.

Kathe Decker
64th District

the Chamber
Wichita Area Chamber of Commerce

March 21, 2005

Testimony on HB 2627
House Taxation Committee
Bernie Koch
Wichita Area Chamber of Commerce

Thank you for the opportunity to testify on House Bill 2627. I'm Bernie Koch with the Wichita Area Chamber of Commerce.

We are interested in this bill because about half of all tax abatements in Kansas are in Sedgwick County. On Friday, the County Appraiser's Office gave us information that indicates 72% of the valuation is machinery and equipment, primarily manufacturing machinery and equipment. Our primary purpose in granting property tax abatements is to neutralize our high machinery and equipment property taxes in Kansas. We're the highest in the region.

In 2003, Sedgwick County had 31 percent of the state's manufacturing jobs and 38 percent of the earnings from manufacturing employment. About one out of every five workers is a manufacturing worker. That's one of the highest percentages in the country. Manufacturing is the engine that drives our economy.

Tax abatements are an important tool as we try to grow an economic recovery. They do not generally remove property from the tax rolls, merely delay the property from being placed on the tax rolls for up to ten years.

Since September of 2001, our work force has shrunk 4 percent. Manufacturing jobs have shrunk 17.6 percent. That's 13 thousand fewer manufacturing jobs. We are making a comeback. Over the past year, our manufacturing jobs are up 3,600, but we still have a long way to make up to get back to where we were.

The companies that receive these abatements are large, medium, and small. We have the Boeings and Cessnas, but also the BG Products, JR Custom Metals, and Weaver Manufacturing.

A 2002 report by Kansas Inc. stated, "Arguably, 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."

Hs Taxation Committee
March 21, 2005
Attachment 12

That's backed up by the most recent survey by Area Development Magazine, which does a yearly survey of those in business who make the decisions on where to locate new and expanding businesses.

87 percent said state and local incentives are important in determining where job expansions will take place. The top five factors are labor costs, highway accessibility, availability of skilled labor, state and local incentives, and energy availability and costs.

Some of you may remember that the relationship of tax abatements to school finance has been discussed before. In fact, it was part of the 1992 school finance discussion. Because of that concern, earlier legislatures required a cost/benefit study be done of each tax abatement before it is granted. They also required that the impact on state government be included in those cost/benefit analyses.

We support that because we are confident that the influence of tax abatements on school finance is a positive one. Before you consider this type of legislation, I suggest it would be appropriate to review the information that you are requiring to be collected.

The problem of high machinery and equipment property taxes is why there's another piece of legislation on the books, the 15 percent refundable tax credit for business personal property.

Finally, I would like to call to your attention the most far-reaching study of equipment and investment and economic growth that anyone has ever done. J. Bradford De Long and Lawrence Summers of Harvard and MIT took a look at economic growth over 25 years in over 70 countries around the world.

Their study concluded the following:

- Accumulation of machinery is a prime determinant of national rates of productivity growth.
- There is a clear, strong and robust relationship between national rates of machinery and equipment investment and productivity growth.
- High rates of equipment investment can account for nearly all of Japan's extraordinary growth performance after WWII.
- "The gains from raising equipment investment through tax or other incentives dwarf losses from any non-neutralities that would result."

- The social return to equipment investment in well-functioning market economies is on the order of 30 percent per year. Social Return is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole.

This study is one of the reasons that Iowa eliminated all business personal property taxes during the 1990s. They realized that the benefits dwarfed any losses.

We know of 11 states do not have any property tax on manufacturing machinery and equipment. In the Midwest, they include Minnesota, Illinois, Iowa, and North and South Dakota. Delaware, Hawaii, New Hampshire, New Jersey, New York, and Pennsylvania also do not levy a property tax on manufacturing equipment. These states have a permanent tax abatement on machinery and equipment.

House Bill 2627 would have the effect of weakening our ability to compete with these states, and the rest of the world as well, particularly countries where manufacturing is highly subsidized.

For that reason, we oppose it.

Thank you for the opportunity to speak with you today on this subject.

Sedgwick County Property Exempt due to Tax Abatements
Source: Sedgwick County Appraiser's Office
March 18, 2005

Appraised Value Exempt Real Property			
Land	Improvements	Total	No. of Parcels
12,004,150	342,306,440	354,310,590	73
Appraised Value Commercial Personal Property			
	Exempt Value		No. of Exempt
	921,316,060		960

Table 5-2:
Effective Property Tax Rates for Machinery and Equipment, Tax Year 2002

State		Mill Levy	Assessment Ratio	Effective Rate, Year 1	Effective rate over asset life - 5 year asset	Effective rate over asset life, 10 year asset
Colorado						
	Statewide	72.22	29.00	2.30	2.25	2.52
	Metro	78.89	29.00	2.52	2.46	2.76
	Nonmetro	53.24	29.00	1.70	1.66	1.86
Iowa						
	Statewide	n/a	0.00	0.00	0.00	0.00
	Metro	n/a	0.00	0.00	0.00	0.00
	Nonmetro	n/a	0.00	0.00	0.00	0.00
Kansas						
	Statewide	117.10	25.00	2.93	2.61	2.28
	-adj. 15% credit			2.49	2.22	1.94
	Metro	116.81	25.00	2.92	2.60	2.27
	-adj. 15% credit			2.48	2.21	1.93
	Nonmetro	117.49	25.00	2.94	2.62	2.28
	-adj. 15% credit			2.50	2.22	1.94
Missouri						
	Statewide	55.43	33.33	2.03	1.87	1.72
	Metro	60.04	33.33	2.20	2.03	1.86
	Nonmetro	42.64	33.33	1.56	1.44	1.32
Nebraska						
	Statewide	19.03	100.00	2.09	1.87	1.82
	Metro	20.69	100.00	2.28	2.04	1.98
	Nonmetro	17.48	100.00	1.92	1.72	1.67
Oklahoma						
	Statewide	94.30	12.23	1.27	1.24	1.39
	Metro	103.83	12.45	1.42	1.39	1.56
	Nonmetro	80.48	11.96	1.06	1.03	1.16

Note: Items valued under $400 are not taxed in Kansas.
SOURCE: Calculations by PRI.

12-4

Combined Ratings* of 2004 Factors Site Selection Factors			
Ranking		2003	2004
1.	Labor costs	89.7	96.4
2.	Highway accessibility	88.9	90.2
3.	Availability of skilled labor	89.0	89.1
4.	State and local incentives	92.7	87.5
5.	Energy availability and costs	80.8	85.8
6.	Corporate tax rate	85.1	84.4
7.	Occupancy or construction costs	86.3	83.6
8.	Tax exemptions	86.2	83.3
9.	Availability of telecommunications services	77.9	82.3
10.	Environmental regulations	72.9	80.7
10T.	Availability of high-speed Internet access	N/A	80.7
11.	Cost of land	77.3	76.6
12.	Availability of land	78.1	75.7
13.	Low union profile	71.6	75.5
14.	Proximity to major markets	80.0	72.7
15.	Right-to-work state	60.8	69.5
16.	Raw materials availability	55.8	64.9
17.	Availability of long-term financing	57.5	63.0
18.	Proximity to suppliers	58.5	62.4
19.	Availability of unskilled labor	55.8	59.4
20.	Accessibility to major airport	53.1	53.8
21.	Training programs	47.3	50.4
22.	Proximity to technical university	34.0	32.4
23.	Railroad service	27.9	26.9
24.	Waterway or oceanport accessibility	18.5	21.1

Combined Ratings* of 2004 Factors Quality-of-Life Factors			
Ranking			
1.	Low crime rate	69.8	80.2
2.	Health facilities	64.2	72.2
3.	Ratings of public schools	57.3	66.7
4.	Housing availability	59.0	65.8
5.	Housing costs	56.3	64.5
6.	Colleges and universities in area	49.0	58.1
7.	Cultural opportunities	46.3	51.9
8.	Climate	49.5	50.5
8T.	Recreational opportunities	47.9	50.5

*All figures are percentages and are the total of "very important" and "important" ratings of the *Area Development* Corporate Survey and are rounded to the nearest tenth of a percent.

Another 30 percent are corporate officers (Figure 8). In other words, we can rest assured that those responding to our survey are high-level decision-makers.

Respondents' Priorities

Next we asked our survey-takers about their priorities when making site selection decisions. We asked them to rate the site selection factors as either "very important," "important," "minor consideration," or "of no importance." We then added the "very important" and "important" ratings in order to rank the factors in order of importance (figures 9 and 10).

Whereas in 2003, *state and local incentives* was ranked as the number-one factor for the first time in our survey's history, this year the rankings are more in line with our traditional findings; i.e., *labor costs* and *highway accessibility* rank as the top-two site selection factors, and in that order. More than 96 percent of the survey respondents rated *labor costs* as "very important" or "important," compared with 89.7 percent last year. More than 90 percent gave similar ratings to *highway accessibility,* as compared with 88.9 percent last year.

9-21

TAX ABATEMENT PERCENTAGE TABLES

☑ NEW JOB CREATION

✗ Full-time Equivalent (FTE) jobs based on 2080 hours per year. New job numbers are adjusted by a factor based on average new wages divided by the average wage for all jobs in the Wichita MSA.

	3% PER NEW JOBS 1-5					2% PER NEW JOBS 6-10					1.5% PER NEW JOBS 11-20					Enter jobs & percent eligible
NEW JOBS (#)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
EXEMPTION (%)	3	6	9	12	15	17	19	21	23	25	26.5	28	29.5	31	32.5	
	1.5% PER NEW JOBS 11-20					1% PER NEW JOBS 21-50										
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
	34	35.5	37	38.5	40	41	42	43	44	45	46	47	48	49	50	
											0.6% PER NEW JOBS ABOVE 50					
									40	50	60	70	80	90	100	
									60	70	76	82	88	94	100	

☑ CAPITAL INVESTMENT

✗ Eligible real properties are newly constructed buildings or additions to exiting buildings

1% PER EACH $50,000 INVESTED BETWEEN $50,000 & $500,000 0.75% PER EACH $50,000 INVESTED BETWEEN $500,000 AND $1,000,000										
$ IN THSNDS	50	100	150	200	250	300	350	400	450	500
EXEMPTION(%)	1	2	3	4	5	6	7	8	9	10
	550	600	650	700	750	800	850	900	950	1000
	10.75	11.5	12.25	13	13.75	14.5	15.25	16	16.75	17.5

CAPITAL INVESTMENT - *Continued*

✗ Eligible personal properties Include machinery & equipment used in the business operations

✗ Motor vehicles are NOT eligible for property tax abatement.

0.5% PER EACH $50,000 BETWEEN $1,000,000 & $2,000,000 0.25% PER EACH $50,000 BETWEEN $2,000,000 & $5,000,000 0.1% PER EACH $50,000 INVESTMENT ABOVE $5,000,000											Enter capital investment and percent eligible
$ IN THSNDS	1050	1200	1300	1400	1500	1600	1700	1800	1900	2000	
EXEMPTION(%)	18	19.5	20.5	21.5	22.5	23.5	24.5	25.5	26.5	27.5	
	2100	2200	2400	2600	2800	3000	3500	4000	4500	5000	
	28	28.5	29.5	30.5	31.5	32.5	35	37.5	40	42.5	
			10000	15000	20000	25000	30000	33500	40000	50000	
			52.5	62.5	72.5	82.5	92.5	100	100	100	

☑ LOCATION PREMIUM - Businesses locating or expanding in established target areas may receive a 20% premium.

TOTAL TAX EXEMPTION ELIGIBILITY: 0% + Location Premuim 0 = 0%

City of Wichita/Sedgwick County
Economic Development Incentive Policy

Purpose

The appropriate purpose and use of incentives is to broaden and diversify the tax base, create new job opportunities for the citizens of the City of Wichita and Sedgwick County, and promote the economic growth and welfare of the City of Wichita and Sedgwick County. Economic development incentives are necessary because of the inherent competition between localities for new businesses and jobs. The governing bodies of both the City and County have adopted this policy with the recognition that certain provisions are applicable to only one and not both jurisdictions. The intent of these guidelines is to complement any incentive program that may be adopted by other municipalities within Sedgwick County or by the State of Kansas.

All requests by businesses for local incentives will have an Economic Impact Analysis (EIA) and a Return on Investment (ROI) calculation completed prior to consideration by the appropriate governing body. A designated agent on behalf of the City and County will conduct the EIA and ROI analyses and any fees associated with this application are the responsibility of the applicant. The EIA will be used initially to determine the viability of the proposed project and must show a positive economic impact upon the City/County. The ratio of public benefits to public costs should not be less than 1.3 to one.

Eligibility

To be eligible for any public incentives of any kind, a business must be engaged in one or more of the following activities:

- *Manufacturing*. Determined by appropriate NAICS codes
- *Service Sector*. Majority of revenues must be derived from transactions originating outside the State of Kansas.
- *Research and Development*. The conducting of research, development or testing for scientific, medical, food product or industrial purposes.
- *Warehousing and Distribution*. Majority of goods stored/shipped must be destined for end-users located outside the Wichita MSA.
- *Corporate Headquarters*. May include "back office" operations and customer service activities, but shall not include out-bound call centers. Majority of revenues must be derived from transactions originating outside the Wichita MSA.
- *Transportation*. Freight or passenger transportation services. Majority of revenue must be derived from interstate commerce/travel.
- *Commercial Redevelopment*. Must address rejuvenation of officially designated urban redevelopment areas.
- *Tourism*. Attractions and events considered likely to attract at least 30% of attendees from outside the Wichita MSA.
- *Affordable Housing*. Incentives may include tax-exempt IRBs and sales tax exemption, but shall not include property tax abatement.
- *Medical Services*. Regional medical centers and specialty hospitals considered likely to attract at least 30% of patients from outside the Wichita MSA.

A business shall be considered for public incentives only if the average wages paid to its employees are equal to or greater than the average wages for that type of business as determined by 3-digit NAICS codes within the Wichita MSA or greater than the average wage for all jobs in the Wichita MSA when wages are calculated excluding the wages for the transportation equipment manufacturing sector (NAICS sector 336). A business must also be current in its payments of *ad valorem* property taxes to be considered for any public incentives.

In addition to the above criteria, in making a decision to approve or disapprove an incentive, the City Council and/or County Commission will consider the following information:

- The size of the project based upon private investment in the site development, plant facilities and infrastructure;
- The total number of jobs, wages, benefits and types of jobs created;
- The relationship between jobs development and total investment;
- Potential for future expansion and increased employment;
- Potential for retention of existing employment;
- Potential for diversification of the regional economy;
- Potential for inclusion of disadvantaged minority or women-owned businesses as contractors, suppliers, etc.
- Project specific issues that impact upon local infrastructure responsibilities of the City and/or County;
- Project specific incentives that may be pursued to stimulate other development areas that the City and County may deem of significant benefit to the community;
- Economic development incentives from other local governments and/or the State;
- Financial impact and budget ramifications.

Compliance

All Economic Development Incentives will be formalized in a written agreement between the City of Wichita and/or Sedgwick County and the recipient company. The recipient company will be required to meet the following performance criteria:

- Jobs created as announced
- Capital investment in real property as announced
- Compliance with wage requirements
- Compliance with all applicable governmental laws, rules and regulations
- Compliance with any conditions imposed by the Economic Development Incentive Agreement.

The City of Wichita and Sedgwick County reserve the right to audit a company to assure compliance with the Economic Development Incentive Agreement. The City Council and/or Board of County Commissioners may discontinue any ongoing incentives and require the incentives already received to be repaid in full or in part, as set forth in the Economic Development Incentive Agreement, if the performance criteria are not met.

Project Evaluation

Each project will be evaluated on an individual basis. Changing economic conditions and availability of funds may cause the City of Wichita and Sedgwick County to modify, amend, or discontinue any economic development incentive program. Should an incentive program be discontinued, the City Council and Board of County Commissioners will honor any incentive committed to before the discontinuance of the program. Economic development incentives may not be transferred or otherwise conveyed to another party, unless agreed to by the City of Council and Board of County Commissioners.

Incentive Level Matrices
Economic development incentives available from the City of Wichita and Sedgwick County include (but are not limited to) industrial revenue bonds (IRBs), property tax abatements, sales tax exemptions, forgivable loans and infrastructure improvements. The City Council and/or Board of County Commissioners will determine the amount, terms and conditions of property tax abatements and forgivable loans based on matrices that equate recommended incentive levels with job creation, wage levels and capital investments.

Property Tax Abatement Matrix

The City of Wichita and Sedgwick County are authorized under state law to grant tax abatements on private business property either in connection with the issuance of IRBs or under Article 11 of the state constitution that enables economic development exemptions (EDX) for certain types of businesses. While IRB abatements may be granted for all types of business included in the list of eligible businesses, EDX abatements are limited to expanding manufacturing, research and development and warehouse and distribution businesses that create or retain jobs.

Property taxes may be abated for new improvements to real property and for newly acquired items of personal property used by an eligible business in connection with an expansion or relocation of the business' operations in Wichita and/or Sedgwick County. Land and existing buildings are not generally eligible for property tax abatement. Existing buildings within the City of Wichita will only be considered for tax abatement if the building has been vacant for at least three years and is acquired by a party not related to the previous owner. Motor vehicles are not eligible for property tax abatement under this Policy.

The term of tax abatement on real property improvements under this Policy shall be an initial term of five years, plus an additional five years subject to review and approval of the City Council and/or Board of County Commissioners at the end of the initial term. Tax abatement on eligible items of personal property shall be limited to a term of five years. The recommended percentage of property taxes to be abated shall be based on new job creation and capital investment by the eligible business, as follows:

Job Creation: For the purpose of determining the recommended percentage of tax abatement, the number of new full-time equivalent (FTE) jobs created by the project will be adjusted by a factor based on the relationship between the wages to be paid for the new jobs and the average wage for all jobs in the Wichita MSA. For example, if the area average wage is $40,000 and the average wage for the created jobs is $50,000, the factor for adjusting the number of created FTE jobs would be 125%. If the actual number of FTE jobs created is 60, the adjusted number of new FTE jobs used to determine the recommended abatement would be 75.

For the purpose of this Policy, FTE jobs are defined as full-time employees who are paid to work at least 2,080 hours per year, or part-time or temporary employees consolidated to obtain the full-time equivalent of 2,080 hours per year.

The amount of recommended tax abatement based solely on FTE job creation is based on a sliding scale that allows smaller projects to benefit. A property tax abatement may be recommended for each new FTE job as follows: 3% for the first five new FTE jobs, 2% for six to 10 new FTE jobs, 1.5% for 11 to 20 new FTE jobs, 1% for 21 to 50 new FTE jobs and 0.6% for each new FTE job in excess of 50, up to a maximum tax abatement for job creation of 100%.

Capital Investment: A property tax abatement may be recommended for each $50,000 of private investment in plant and equipment as follows: Between $50,000 and $500,000 – 1.0%; between $500,000 and $1 million – 0.75%; between $1 million and $2 million – 0.5%; between $2 million and $5 million – 0.25%; above $5 million – 0.10%. The maximum recommended tax abatement for capital investment is 100%.

Location Premium: Businesses in the City of Wichita shall be encouraged to locate and/or expand within special redevelopment areas of the City. To foster such action, businesses may receive an additional recommended tax abatement equal to 20% for locating into special redevelopment areas, as may be determined from time-to-time by separate action of the City Council.

Payments-In-Lieu-of-Taxes (PILOTs): Any business receiving a tax abatement may be required to make payments in lieu of taxes equal to the amount of property tax abated. Said PILOT payments shall be payable to the Sedgwick County Treasurer for proportional distribution to all local taxing jurisdictions which levy taxes on the abated property. A business may also be required to make PILOT payments at any time in the event of non-compliance with the conditions imposed by the economic development incentive agreement, as an alternative to complete cancellation of the tax abatement.

Service Fee Payments: The City of Wichita and Sedgwick County reserve the right to impose on any business receiving a tax abatement the payment of service fees through the provisions of the economic development incentive agreements for services provided by the applicable Unified School District and the Sedgwick County Fire District. The amount of the service fee shall be based on the tax rate of the applicable Unified School District and/or the Sedgwick County Fire District, and any service fees thus paid shall be remitted to such School and/or Fire District.

Appendices

- EDX Application Process
- IRB Application Process
- Forgivable Loan Agreement Form and Procedures
- Infrastructure Improvements for Economic Development
- Standard Economic Development Incentive Agreement
- Tax Abatement Calculation Tables
- BOTA Application Form and Procedures
- Definitions

PERCENT OF SEDGWICK COUNTY PROPERTY TAX BASE COMPOSED OF COMMERCIAL AND INDUSTRIAL PROPERTY

		COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT		COMMERCIAL & INDUSTRIAL REAL PROPERTY		TOTAL COMMERCIAL & INDUSTRIAL PROPERTY	
	TOTAL PROPERTY TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE
1984	$1,339,610,776	$183,930,207	13.73%	$220,623,496	16.47%	$404,553,703	30.20%
1985	$1,394,266,112	$187,085,820	13.42%	$227,298,750	16.30%	$414,384,570	29.72%
1986	$1,448,022,385	$185,445,528	12.81%	$250,987,830	17.33%	$436,433,358	30.14%
1987	$1,494,160,620	$195,126,906	13.06%	$261,418,256	17.50%	$456,545,162	30.56%
1988	$1,537,513,579	$211,576,704	13.76%	$266,438,350	17.33%	$478,015,054	31.09%
(1989 was the first year after reappraisal and reclassification. Mach/equip from 30% to 20%. Comm/indust real property remained 30%.)							
1989	$1,867,511,789	$180,826,219	9.68%	$613,043,418	32.83%	$793,869,637	42.51%
1990	$1,912,253,139	$177,862,882	9.30%	$622,574,204	32.56%	$800,437,086	41.86%
1991	$1,962,204,160	$212,948,990	10.85%	$625,921,336	31.90%	$838,870,326	42.75%
1992	$2,017,833,007	$220,016,005	10.90%	$638,151,101	31.63%	$858,167,106	42.53%
(1993 was the first year during which both comm/indust machinery & equipment and comm/indust real property were assessed at 25%)							
1993	$2,007,037,441	$281,394,061	14.02%	$469,597,688	23.40%	$750,991,749	37.42%
1994	$2,060,281,521	$282,127,156	13.69%	$535,365,114	25.99%	$817,492,270	39.68%
1995	$2,118,312,007	$295,632,718	13.96%	$523,594,346	24.72%	$819,227,064	38.67%
1996	$2,204,320,563	$309,179,886	14.03%	$557,505,466	25.29%	$866,685,352	39.32%
1997	$2,335,445,803	$326,055,773	13.96%	$609,002,374	26.08%	$935,058,147	40.04%
1998	$2,453,805,137	$355,717,918	14.50%	$635,027,905	25.88%	$990,745,823	40.38%
1999	$2,596,920,364	$360,099,087	13.87%	$671,695,039	25.87%	$1,031,794,126	39.73%
2000	$2,793,561,274	$373,823,471	13.38%	$729,440,214	26.11%	$1,103,263,685	39.49%
2001	$2,936,049,479	$339,430,675	11.56%	$783,474,306	26.68%	$1,122,904,981	38.25%
2002	$3,048,850,929	$344,206,950	11.29%	$853,894,122	28.01%	$1,198,101,072	39.30%
2003	$3,292,453,456	$342,905,188	10.41%	$960,007,708	29.16%	$1,302,912,896	39.57%
2004	$3,433,068,013	$349,660,903	10.19%	$993,632,126	28.94%	$1,343,293,029	39.13%

I&C-%.XLS

Source: Sedgwick County Clerk (2004 figures final -- released 11/01/04)

11/10/04

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LKM
League of Kansas Municipalities

Date: March 21, 2005

To: House Committee on Taxation

From: Larry R. Baer
Assistant General Counsel

Re: HB 2527 – Testimony in Opposition

Thank you for allowing me to appear before you on behalf of the League of Kansas Municipalities and its member cities to present testimony on HB 2527.

The League opposes HB 2527. It proposes to eliminate the current statutorily and constitutionally permitted abatements of ad valorem taxes on real and personal property levied by school districts.

The purpose of tax abatements is to provide some economic based incentives for economic development that relates to existing, expanding or new businesses, whether through the constitutional eco-devo exception; or as part of an IRB issuance; or, to encourage neighborhood revitalization or downtown redevelopment.

To remove the school districts levy from the formula, decreases the value of the incentive provided by current law. It is hard to put a value on a school's share of the total local tax. This varies drastically from city to city because school district boundaries do not track with either city corporate limits or county lines. See the attached exhibit. However, it is thought that about 20 to 40 percent of the total city, county, school property tax mix (not including the 20 mills levied by the state for schools) is attributable to the local school levy. The data on the attachment tends to bear this out.

This 20 to 40 percent is the amount that would be lost as an economic incentive to business, both big and small, and to those that desire to avail themselves to other programs that permit tax incentives for neighborhood or downtown revitalization.

We do not believe that HB 2527 can accomplish what it purports to do. There are a number of statutory acts that authorize tax abatements or rebates. We submit that one statute purporting to set aside all of the various provisions where abatements or rebate of property taxes is not adequate. It would be necessary to amend each such act to achieve the results that the bill's sponsor seeks.

Hs Taxation Committee
March 21, 2005
Attachment 13

THE KANSAS CHAMBER

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HB 2527

House Taxation Committee

Marlee Carpenter, Vice President of Government Affairs

March 21, 2005

Chairman Wilk and members of the committee;

The Kansas Chamber of Commerce and our over 10,000 small, medium and large business members oppose HB 2527. Currently, local cities and counties have the ability to abate the 20-mills of statewide property tax. HB 2527 prohibits cities and counties from abating this tax and eliminates an important economic development tool that communities use to attract and retain business.

- Kansas has few economic development tools. Prohibiting this property tax abatement further limits Kansas' ability to compete. Many companies who receive property tax abatements continue to make payments in-lieu of property tax to their local school districts.
- This provision is a tax on investment which will harm job retention and growth, thereby hurting our state tax base.
- This provision will increase the cost of doing business in Kansas.
- This provision will make Kansas less competitive with other states in attracting businesses that would create jobs.
- This provision sends the wrong message to the business decision-makers throughout the country who might be evaluating locations for future expansions. The provision sends a message that the tax climate in Kansas is unstable and that incentives that are currently on the books are at risk and this measure could negatively influence future job location decisions.

How this measure will affect local Kansas communities

Hill City, Kansas

The passing of this bill would build a major wall between recruiting potential business and our communities. It would be very difficult for communities of our size to attract any businesses without this type of incentive. We have just recruited a business from Canada that will employee 18 people to start with and has the potential to possible employee 75 to 100 in the next two years. We would not have gotten this employer here if it weren't for the tax abatement incentive as part of the package. We are working with 3 other companies that could employee and additional 60 people.

The tax abatement has been one of the major attractions in getting these companies to talk, and look at our area.

Stockton, Kansas

Any economic development tool that is taken away from small rural communities is a determinant to economic development. I personally worked with a $650,000 property tax abatement between the City of Stockton and Wilken's Manufacturing that initially saved 40 plus jobs and created 20 new jobs. Without the abatement the company was considering leaving the state. Presently, I am working with a new start-up company in Graham County that will bring in 8 - 14 new manufacturing jobs to Hill City. Without the property tax abatement and other state incentives the project won't happen.

Wichita, Kansas

The Greater Wichita Economic Development Coalition completed its first year of operation in 2004. During that time, our organization assisted in the retention and creation of 2,556 jobs. The annual payroll for those jobs was over $108,000,000 for an average annual salary of $42,534. New capital investment totaled more than $38,000,000. Tax abatement played a large role in recruiting and retaining jobs. The value of the property tax abatement is estimated at $2,894,912 on real estate and $247,000 on machinery & equipment. As you know, Wichita lost more than 12,000 aviation-related jobs since 2001. Tax abatement incentives allowed this community to diversify. Of the total jobs retained and recruited, 59% were outside of manufacturing entirely and only 22% were in aviation-related manufacturing. The ability to offer tax abatement on real and personal property as an incentive to attract or retain quality jobs is imperative to Wichita's economic development efforts in an increasingly competitive and global marketplace.

Hays, Kansas

This is a real concern to us in rural Kansas. If this would pass it would limit and possibly eliminate our ability to retain and attract primary jobs to the state. This is a bargaining tool that our Economic Development office uses as they work with manufacturers and other basic industries, such as EnerSys, Inc. in Hays that employs approximately 170 full-time employees

Great Bend, Kansas

We used abatements to get an expansion at Superior Essex, which added 50 jobs; at KMW, a 40 job increase

Hutchinson, Kansas

Hutchinson/Reno County has a great track record in attracting new industry and retaining existing industries through the use of tax abatements. Listed below is just a sampling of companies that were offered tax abatements to create jobs and invest in Hutchinson/Reno County. $72 million investment created 1260 new jobs for the following companies, ALCOA AEROSPACE, TSW Products, Collins Industries, Mega Mfgr., Lowen Corp, Tyson Foods. Please add Hutchinson to the list of communities opposing this bill.

Emporia, Kansas

The proposed legislation in HB 2474 prohibits the granting of tax abatement on the 20 mills for school would add $5,000 per million dollars of capital investment. Menu Foods Midwest Corporation is a Canadian pet food company that located in Emporia in 1997. Menu has expanded three times since 1997, with a total capital investment of over $40,700,000 in buildings and equipment. These expansions have created 330 jobs with a new payroll to Emporia of $13,418,000. Had the 20 mills not been exempt from the property tax abatement granted to Menu it would have cost Menu an additional $1,320,700 in business costs. Menu more than likely would have located in Missouri or Oklahoma rather than Emporia. Caterpillar, Inc. located a manufacturing facility in Emporia in 1999. The capital investment was $20,000,000 in building and equipment. The estimated additional cost to Caterpillar would have been nearly $500,000. In conversations with the Caterpillar plant manager, it was indicated that Emporia was not the lowest cost center, but the additional cost was within an acceptable amount. However, had an additional $500,000 cost been added to the project, they would have located in Missouri.

Valley Center, Kansas

We have authorized 12 abatements. The companies are National Plastic Color, Central Kansas Truss, Valley Offset Printing, Stearman Aviation and Sunflower Gardens. The total number of jobs is 133.

Coffeyville, Kansas

As with other rural communities, the removal of this tool would be a huge disadvantage for our community. We have created 436 new jobs with a total investment of $39,685,837 for the following companies, Acme Foundry, Inc., Coffeyville SEKTAM, Inc., BOC Gases, Darwin Industries, Four State Maintenance and Supply and Harmon Properties.

Topeka, Kansas

An important component of the package of incentives that are available to use, is the 10 year tax abatement provided through IRB statutes and the constitutional amendment creating the economic development tax abatement which was overwhelmingly approved by the citizens of Kansas, who understand then and continue to understand, the need to attract and keep good, quality jobs in Kansas. Some of the companies in Topeka/Shawnee County, that have utilized tax abatements, created new jobs or were able to maintain employment levels, by increased investment in machinery and equipment and/or through expansions of their facilities or the location of new facilities. Companies such as: Co-Nect-It-Frame Corp., Delta Designs, Del Monte Foods (formerly Starkist Foods), Frito-Lay, Hills Pet Nutrition, Hummert International, Industrial Chrome, Mainline Printing, PTMW, Reser's Fine Foods, Ritz Camera, CJS Industries, Southwest Publishing, Payless ShoeSource, Security Benefit Group, Alliant Foods, UCB (now Innovia), Blue Cross Blue Shield, Target Distribution Center, and Jostens. These companies collectively employ over 11,000 Kansans at their locations. Tax abatements have helped bring about over $ 360 million dollars in new capital investment into the Topeka/Shawnee County & Kansas economy over the last 10-12 years.

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Testimony on
HB 2527 – Abatement of Statewide Mill Levy

Before the
House Committee on Taxation

By Mark Tallman, Assistant Executive Director/Advocacy
March 21, 2005

Mr. Chair, Members of the Committee:

Thank you for the opportunity to comment on **HB 2527**. The KASB Delegate Assembly has adopted the following position on property tax abatements.

> **Property Tax Abatement**
>
> 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.

This position reflects a concern by local school boards that property tax abatements can have the affect of shifting the tax burden from abated property to other property. These concerns were increased by the enactment of the statewide mill for school districts in 1992. Under the school finance system now in place, the funding raised by the 20 mill levy is the first source of revenue for each school district's general fund budget. The state makes up the difference in the form of general state aid. In the few cases where the 20 mills raise more than the district's budget, the excess is sent to the state to help finance the system. Obviously, when property is abated through local action, the state is responsible for funding whatever revenues are not collected for the local school system.

KASB's policy position does not support the complete prohibition on abatement of the statewide mill levy, which is our understanding of **HB 2527**. However, the second and most recent part of our position proposes the following: that some form of state approval should be required in order to abate the statewide school levy. This would allow consideration of the statewide economic impact of such abatement.

Thank you for your consideration.

Hs Taxation Committee
March 21, 2005
Attachment 15