Approved: February 17, 2006
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 25, 2006 in Room 519-S of the Capitol.

All members were present.

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

Conferees appearing before the committee:

Proponents:
- Hal Hudson, National Federation of Ind. Businesses
- Pat R. Hubbell, Kansas Railroad
- Jeff Berke, CJS Industries
- Jim Showalter, PTMW, Inc.
- Denise Walsh, Hills Pet & Nutrition, Inc.
- Marlee Carpenter, Kansas Chamber of Commerce
- Ed Wallace, General Motors
- George Turner, General Motors
- Ken Daniel, Midway Wholesale
- Mark Beshars, Sprint
- Robert J. Fasl, AT & T

Written testimony only
- Wes Ashton, Overland Park Chamber of Commerce
- Harriet Lange, Kansas Association of Broadcasters
- Christy Caldwell, Greater Topeka Chamber

Neutral:
- Mike Taylor, United Government of Wyandotte County

Opponents:
- Don Moler, League of Kansas Municipalities
- Randall Allen, Kansas Association of Counties
- Erik A. Sartorius, City of Overland Park
- Mark Tallman, KS Association of School Boards
- Bob Martz, City of Wichita, included written testimony of Mayor Carlos Mayans/City Manager George R. Kolb
- Rob Raine, Director of Finance, City of Wichita
- Matt Shatto, City of Lenexa, included written testimony of Mayor Michael Boehm, City of Lenexa
- Bill Yanek, Kansas Association of Realtors

Written testimony only
- Duane Mathes, Edwards County Commissioner

Others attending:
- See attached list.

Representative Siegfreid introduced Jacob Wood, his intern from Kansas State.

HB 2619 - Property taxation; relating to exemptions; certain commercial and industrial machinery and equipment.

The Chairman opened the hearing on **HB 2619.**

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 25, 2006 in Room 519-S of the Capitol.

PROPONENTS:

Hal Hudson, National Federation of Ind. Businesses, testified that property taxes place a burden on Independent Businesses. The time and effort spent inventorying and enumerating their property in a report to the county appraiser every year is often more costly than the actual taxes paid (Attachment 1).

Pat R. Hubbell, Kansas Railroad, testified that public utility tangible personal property was excluded in the bill. He proposed an amendment that would include railroads which follows:
(1) "Commercial and industrial machinery and equipment" means property classified for property tax purposes within subclass (5) of class 2 of section 1 of article 11 of the constitution of the state of Kansas and railroad machinery and equipment classified for property tax purposes within subclass (3) of class 2 of section 1 of article 11 of the constitution of the state of Kansas; (Attachment 2).

Jeff Berke, CJS Industries, said "Property tax exemptions for economic development, and other property tax breaks represent important reductions in the cost of capital. This exemption will encourage the continued expansion of existing capital intensive businesses and relocation of new business here in Kansas (Attachment 3)."

Jim Showalter, PTMW, Inc., said that the laws have become complex and difficult to understand let alone comply with. The purchase price of the piece of equipment may or may not be what is subject to tax. He added that they have not taken full advantage of the exemptions available because the benefit does not always justify the costs of the application and annual compliance costs (Attachment 4).

Denise Walsh, Hills Pet & Nutrition, Inc. appeared in support of **HB 2619.** She requested an exemption over an income tax credit for two reasons: 1) An exemption would positively impact the timing of cash receipts by eliminating the need for a payment all together. An income tax credit would negatively impact cash receipts of companies due to the lag time in making tax payments and waiting several months or sometime years for a credit to be refunded on an income tax return. 2) While both are beneficial, analysts and shareholders directly reward reductions in standard costs while effective tax rates are looked at in trends with a much more indirect impact (Attachment 5).

Ms. Walsh said the bill will have a long-term positive effect on potential expansions and investments into the manufacturing facility in Topeka. In response to the Chairman request, she agreed to provide copies of a chart that reflected the comparison of year one property tax expense on a $1,000 investment in machinery and equipment in plants they operated in four states.

Marlee Carpenter, Kansas Chamber of Commerce, said that the Kansas economy is growing at a slower pace than the rest of the country and that this legislation will help move the Kansas economy forward, create jobs and grow the Kansas tax base. Included in Ms. Carpenter's testimony were graphs based on research done by the Center for Economic Development and Business Research at Wichita State University (Attachment 6).

Ed Wallace & George Turner, General Motors, said that phasing out the personal property tax will eliminate one of the significant issues to manufacturers when making decisions for investments in our State (Attachment 7).

Ken Daniel, Midway Wholesale, testified the current high tax rate is an extreme impediment to getting businesses to locate in Kansas, expand in Kansas and upgrade their equipment in Kansas, which hurts productivity growth (Attachment 8).

Mark Beshars, Sprint, said that Sprint Nextel will soon complete a spin-off company with approximately 5,000 new jobs. He said that they will be looking for a new headquarters location and repeal of the personal property tax on new telecommunications equipment and assets would be a positive tool in retaining these jobs in Kansas. He offered an amendment on **HB 2619** which was included in his testimony (Attachment 9).

Robert J. Fasl, AT & T, said that the assessment of AT&T Kansas' personal property at the public utility 33% rate does not reflect today's competitive marketplace, but is a relic of the former regime in which AT&T Kansas operated as a regulated monopoly (Attachment 10).

Written testimony only: 1) Wes Ashton, Overland Park Chamber of Commerce stated that the elimination of taxes will reduce the cost of doing business which should spark new investment, expansion and increased profits. 2) Harriet Lange, Kansas Association of Broadcasters provided testimony that stated the passage of this bill would jump start the Kansas economy. When business is good on Main Street, advertising sales are good as well. 3) Christy Caldwell, Greater Topeka Chamber stated that Section 2 of the bill will assist many small businesses that are more likely to utilize lesser-priced equipment (Attachment 11).

NEUTRAL:
Mike Taylor, United Government of Wyandotte County, said if lawmakers are right and elimination of the tax will spark a flurry of new economic benefits, Wyandotte County will benefit. If they are wrong and this is simply a giant tax shift from businesses to homeowners, County residents are in serious trouble (Attachment 12).

OPPONENTS:
Don Moler, League of Kansas Municipalities, said that **HB 2619** could cost local taxpayers roughly $200 Million per year when fully implemented. He included a Local Mill Levy Analysis Chart, by county (Attachment 13).

Randall Allen, Kansas Association of Counties, testified that one of the most impacted counties, Montgomery, would lose more than 14% of its total assessed valuation. The economic gain in the county would not compensate for the increased property taxes of the people living in the county (Attachment 14).

Erik A. Sartorius, City of Overland Park, said the goal to promote, stimulate, foster and encourage new investments in commercial and industrial machinery in Kansas is a laudable one, however, the slow and gradual implementation of the plan would not apply in Johnson County. Steep and fast would be the more likely outcome. In Johnson County, the large amount of technology-based businesses suggests that their machinery and equipment had a shorter useful lifespan, and will be therefore be replaced more quickly (Attachment 15).

Mark Tallman, KS Association of School Boards, said there have been two ways to address concerns about taxing CI/ME. The first would tend to cause a shift in the tax burden to other property taxpayers, while the second would be to expand state-funded tax credits. It has been suggested that local governments could, over time, find replacement sources of revenue, however schools do not have the same ability to impose other taxes or revenue generating mechanisms to replace lost revenue. If the entire CI/ME tax base if lost, schools would lose over $37 million in tax revenue (Attachment 16).

Bob Martz, City of Wichita, testified that he knows that the City of Wichita will lose $8 million in revenue with the passage of this bill but has not heard from any expert, including the Department of Revenue, what the city stands to gain. Included in his testimony was a letter from Mayor Carlos Mayans/City Manager George R. Kolb that estimated that passage of the bill would reduce City revenues by $7.8 million, the equivalent of nearly 3 mills (Attachment 17).

Rob Raine, Director of Finance, City of Wichita, pointed out three things important to know about this legislation: 1) The financial impact to local government is real and substantial; 2) Speculation that these financial impacts will be entirely or even substantially offset by new economic development and activity is highly improbably; and 3) it is extremely unlikely that these financial impacts can or will be absorbed without significant consequence (Attachment 18).

Matt Shatto, City of Lenexa, read into the record a letter from Mayor Michael Boehm, City of Lenexa which stated that Lenexa stands to lose more than $900,000 in the first year. He said the eventual annual impact on the City would be in excess of $3.5 million, or 4 mills. He encouraged the committee to consider providing an income tax credit for the amount of property taxes paid as this would encourage economic growth without harming local governments (Attachment 19).

Bill Yanek, Kansas Association of Realtors, requested the Committee consider **HB 2679**, which would take a risk-averse path by considering an income tax credit in an amount equal to the amount of property tax levied instead of an outright exemption (Attachment 20).

Written testimony was received from Duane Mathes, Edwards County Commissioner, that stated "While our communities may see the benefits of an increase in sales and compensating use taxes as business upgrade their equipment, they are just one time injections to our local economies" (Attachment 21).

The Chairman closed the public hearing on **HB 2619**.

The Chairman suggested there was consensus from the opponents that while the intent of **HB 2619** was good, there was a lack of mitigation strategies available to address their concerns. The Chairman invited all conferees to offer any new mechanisms, other than a tax credit, for the Committees review.

In response to Committee questions pertaining to differences in the conferrees data the Chairman agreed to meet with Leadership and put together information summarizing the issue.

The Chairman invited Marlee Carpenter, Kansas Chamber, to return on Wednesday, February 1, to continue the discussion on the results of the proposed tax changes as she described in her testimony.

The meeting adjourned at 10:55 A.M. The next meeting is January 26, 2006.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: January 25 2006

NAME	REPRESENTING
Hal Hudson	NFIB/KS
Matt Shatto	City of Lenexa
Christy Caldwell	Topeka Chamber of Com.
Bernie Koch	Wichita Chamber of Commerce
Richard Samniego	Remsey & Assoc.
LARRY D. WOODSON	OSAGE County COMMISSIONER
Jackie Clark	Hallmark Cards
Ed Gray	Commerce
Deann Williams	KS MOTOR CARRIERS ASSOC.
Michelle Peterson	Capitol Strategies
John A. Donley	KS Lvsk. Assoc.
Mike Murray	Sprint
TONY A. SCOTT	KSCPA
John Frederick	Boeing
Harriet Lange	KAB
Pat Hubbell	Kansas Railroads
Brent Haden	KLA
Jim Moag	Spirit AeroSystems
April Holman	Kansas Action for Children

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: January 25

NAME	REPRESENTING
Ron R. Worley	Self
Art Brown	M. L. A.
Ronald Richey	Me
Mark Tallman	Ks Assoc of School Boards
Amanda J. Kiefer	Visitor
David R. Corbin	KDOR
Roger Hamm	KDOR
Tony Folsom	KDOR
[illegible]	Wichita Eagle
Rod Broberg	Saline County
[illegible]	DOB

LEGISLATIVE NFIB TESTIMONY

The Voice of Small Business®

KANSAS

Statement by
Hal Hudson, State Director
National Federation of Independent Business
Before the House Committee on Taxation
On House Bill 2619
January 25, 2006

Mr. Chairman and member of the House Taxation Committee:

Thank you for this opportunity to speak to you in support of House Bill 2619.

For the record, my name is Hal Hudson, and for the past 13 years I have served as State Director of the Kansas chapter of the National Federation of Independent Business (NFIB) and its nearly 6,000 members.

I would like to discuss HB 2619 in two parts. First is the proposal to exempt all machinery and equipment newly purchased after January 1, 2007. This is a good move to spur the Kansas economy through investment and upgrading of equipment by business and industry. You've heard this rationale from previous conferees.

I would like to emphasize one just one point. Contrary to some reports, this measure will not cause any city or county to lose any tax revenue they now are receiving. At worst, it only will reduce their future opportunity to gain new tax revenue. They are not collecting any tax on machinery that is not there now, and they will not collect any tax on such items if they are purchased exempt from tax and brought into their community in the future. But they may enjoy other benefits, such as increased real estate tax revenue from new and expanded businesses, and from homes of employees these growing businesses hire.

Second is the proposal to increase the exemption per single item of machinery and equipment to $1,000, from $400 under current law. Throughout my tenure with NFIB, small business owners have responded to our ballots and surveys saying property tax on personal property (machinery and equipment, office furniture and fixtures) is the most aggravating of all taxes they pay.

There are two basic reasons why NFIB members say "personal" property tax is so hated. First is the fact that they are required to inventory and enumerate their property in a report to their county appraiser, every year – for as long as they own items of taxable property. Often the time and effort spent in this exercise of voluntary self-assessment is more costly than the actual taxes paid.

House Taxation
1-25-06
Attachment 1

And then, there is the fact that payment of personal property tax bears no relationship to the ability to pay. A business, if it is having a good year, could reinvest its earnings in new machinery and equipment to expand its operations. At year-end, all profits have been reinvested, new employees added to the payroll, and there is no cash available to pay the increased property tax. But the tax still is owed.

Or, a business could be experiencing a very bad year, as did many small businesses in the first part of this decade. There is no profit from which to pay property tax, but it still is owed.

So, part two of HB 2619 would reduce the time consuming burden of recording and reporting items used in a business that have little or no value in terms of property tax revenue. It also would lessen the burden on county appraisers who must keep track of these items that produce very little tax revenue.

I hope the following example has been calculated correctly. If not, I am certain that someone will correct it for me.

Let's start with an item that cost $1,000 when purchased new. It now is more than seven years old and has been fully depreciated to the lowest amount allowed under the Kansas Constitution. It is properly appraised at $200, and assessed at 25 percent of that, or $50. This is the amount to which the mill levy will be applied. Assume a local levy of 150 mills. I believe the amount of tax in this calculation would be 75 cents. I submit to you that this small amount of tax does not justify the time and effort of either the property owner or the county appraiser in maintaining records and collecting the tax.

Mr. Chairman and members of the committee, I urge you to report HB 2619 favorably and to support its enactment by the full legislature.

Thank you.

Hal Hudson, State Director
National Federation of Independent Business
Phone: 785-271-9449
Fax: 785-273-9300
E-mail: hal.hudson@nfib.org

Concerns with HB 2619 –Personal Property Tax Exemption
January 25, 2006

- **What HB 2619 Will Do:** HB 2619 will exempt commercial and industrial machinery and equipment purchased or leased or brought into the state after January 1, 2007.
    - **What Machinery and Equipment Qualifies?** Commercial and industrial machinery and equipment within subclass (5) of class 2 of section 1 of article 11 of the Kansas constitution.
    - **What Machinery and Equipment is Excluded?** Public utility tangible personal property is excluded which includes railroad machinery and equipment which is found in subclass (3). Also excluded are motor homes (subclass 1), motor vehicles (subclass 4) and other personal property not otherwise specifically classified (subclass 6).

- **Current Income Tax Credit:** When the income tax credit (in §79-32,206) was enacted only subclass (5) and (6) personal property was included. Railroad machinery and equipment <u>was not</u> included until this section and the Kansas Dept. of Revenue did not consider it to be included. However, this section was amended by HB 2005 in 2003 to specifically include railroad machinery and equipment in this income tax credit beginning in 2005.

- **Railroad Property Excluded:** The State of Kansas centrally assesses railroad property (real and personal). A procedure has been in place from previous 4-R Act lawsuits to determine the percentage of personal property in the unit each year. Railroad personal property is typically around 40% of the total unit value.

- **The Federal 4-R Act:** Section 306 of the 4-R Act lists four taxing practices that "unreasonably burden and discriminate against railroads in interstate commerce." The 4-R Act provides:
    - <u>Rail transportation property may not be assessed at a higher ratio to its value than other commercial and industrial property in the same jurisdiction</u>;
    - A tax may not be levied or collected based on this unlawful assessment;
    - Railroads are protected from paying property taxes at a higher rate than the rate applicable to other commercial and industrial property; and
    - States are forbidden from imposing any other tax that results in discriminatory treatment of railroads.

House Taxation
1-25-06
Attachment 2

- **Amendment to Include Railroads:** In order to include railroads in this property tax relief, the following amendment is proposed:

Amendment Proposed to HB 2619
Page 1, line 43
Substitute new Section (d)(1)

(1) "Commercial and industrial machinery and equipment" means property classified for property tax purposes within subclass (5) of class 2 of section 1 of article 11 of the constitution of the state of Kansas **and railroad machinery and equipment classified for property tax purposes within subclass (3) of class 2 of section 1 of article 11 of the constitution of the state of Kansas**;

PATRICK HUBBELL
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800 JACKSON
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Testimony: HB 2619 - Before the House Taxation Committee
January 25, 2006

Jeffrey Berke CPA
General Manager
CJS Industries, Inc.
Topeka, Kansas

Chairman Kenny Wilk and members of the Committee, my name is Jeff Berke. I am the General Manager and one of the founders of CJS Industries. I am here to express our support for House Bill 2619.

Ours is a small manufacturing concern that started in business for a little over 12 years with 4 people. CJS is considered a contract manufacturer, in that we produce parts for other manufacturers to their specifications. Today, CJS employs over 30 people with an annual payroll in 2005 of over $1,200,000. These jobs represent an average annual wage of over $30,000.

In that time we've invested in over five million dollars in plant and equipment. Our business is a capital intensive one. Most of our major equipment purchases have been additions as we expand, as opposed to replacements. Our current acquisition is a replacement, primarily because there is no longer room in the building to "add" any major pieces of equipment.

CJS has been able to expand this way due to existing property tax exemptions available to us. But we still have a substantial property tax bill. Property taxes add significantly to the cost of maintaining equipment in Kansas, especially during downturns in the economy such as during 2002 and 2003. It's a considerable expense during down times, something that has to be taken into account when we start to consider any further expansion.

Most of our competition is with businesses from other states, and is very competitive. It requires that we continue to invest in new and improving technologies to stay competitive. Our market is regional in nature rather than local. Over 70% of our business comes from outside the state.

Property tax exemptions for economic development, and other property tax breaks represent important reductions in the cost of capital. This exemption will encourage the continued expansion of existing capital intensive businesses and relocation of new business here in Kansas. The cost of previous credits has shown to be more than offset by the increases in income and sales taxes generated by the increased employment in the state.

As a business owner and resident of Kansas I am asking this committee to take a long term approach to the economic development of the state of Kansas, and approve House Bill No. 2619

Thank you

PTMW, Inc.
O.E.M. Metal Fabrication and Assembly

3501 NW Hwy 24
Topeka, Kansas 66618
(785) 232-7792 Fax (785) 232-7793

Testimony: HB 2619
Before the House Taxation Committee
January 25, 2006
By James R. Showalter, Vice President of Finance
PTMW, Inc., Topeka, Kansas

TO WHOM IT MAY CONCERN:

The Honorable Kenneth Wilk and distinguished members of the Committee:

My name is Jim Showalter. I am the Vice President of Finance of PTMW, Inc. We would like to express our support for House Bill 2619.

PTMW, Inc., is a manufacturing company located on Northwest Highway 24, Topeka, Kansas. 135 individuals earn their livelihood with us. We are a woman owned business with the sole shareholder being Patti Christensen. Patti and her family started the company in her father's garage 23 years ago. The American story of having a good idea, working hard, and turning it into a successful company can be proven by PTMW's existence and success today.

Our primary products are used by the railroads and mass transit authorities. We build metal enclosures for electronic switches and equipment used trackside by the railroads. In addition, we manufacture equipment houses for electric utility companies, telecommunication companies, and we manufacture metal parts and provide powder cost services to our customers. You have seen our products but probably never noticed them. The next time you are stopped at a railway crossing, with the cross arms down, look left or right for a metal house beside the tracks. That is what we make. Our products are used from Alaska to Florida. Our customers reach from San Diego to Boston. PTMW is headquartered and operated from right here in Topeka. It is one of the best kept secrets in Kansas.

Now to the issue at hand. In November, our property tax bills arrived. They were simply incorrect. The tax bills were corrected and reduced to the appropriate amount after some hard work by our team and a consultant, along with significant cooperation from the County Treasurer. We eventually wrote checks to Shawnee County in December in excess of $40,000 for the first half of our personal property taxes. We would have liked to have used this money to upgrade our computer system and to purchase new, more efficient equipment which could have provided additional jobs for the community. Those improvements are still waiting.

Our frustration with property taxes comes in several forms. The laws have become complex and difficult to understand let alone comply with. The purchase price of the piece of equipment may or may not be what is subject to tax. Other issues such as freight, sales tax, set-up, and installation influence the "value" of the property that is to be reported to the county. Then, depending on the location of the property, the amount of the mill levy influences the amount of tax actually paid.

House Taxation
1-25-06
Attachment 4

Another frustration relates to the limited property tax exemptions. We are most appreciative to receive some benefit from these exemptions. Our frustration relates to the compliance side. As a business, we have to make sure that our paper work is filed at the appropriate time and with the appropriate office, just to qualify. Then, each year, there is the burden of the continued reporting to continue to receive this tax benefit. All of this compliance takes time, effort, and money. The process is protracted and full of many traps. Frankly, we have not taken full advantage of the exemptions available in many instances because the benefit does not always justify the costs of the application and annual compliance costs.

I would like to return our attention for a moment to the "overstated" property tax bills we received in November that I mentioned earlier. The overstatement resulted from the confusion in our office and the county offices related to the calculation of the employment earned credits on certain equipment purchased and placed in service in the past five years. Although everything appears to have been resolved appropriately, we incurred additional expense, as did the county, to get the matter corrected and resolved.

We realize that bigger businesses than ours have a full team of specialists focusing on things like property taxes. We also realize that businesses smaller than our have a team of one that cannot afford the time or the money to explore savings in the property tax exemption area. As a result, we feel that the property taxes that have been, and will continue to be paid by us, are a greater burden to companies of our size and a smaller burden to those companies that local governments woo with, amazingly enough, other property tax reductions.

Thank you for letting me visit with you today. We hope that you will see your way clear to support this bill and pass it into law. Our opinion is that this new equipment exemption will foster economic growth within our state and within PTMW. The economic effect of the additional employment will far exceed the lost revenues from these items of property.

Should you have questions or concerns, please contact me. Thank you for your consideration and cooperation.

Yours truly,

PTMW, INC.

James R. Showalter

James R. Showalter
Vice President of Finance

Hill's Pet Nutrition, Inc. and Subsidiaries
P. O. Box 148
Topeka, Kansas 66601-0148
(785) 354-8523

January 25, 2005

Mr. Chairman and members of the Committee:

My name is Denise Walsh. I am the Director of Corporate Tax for Hill's Pet Nutrition here in Topeka. I am here today to express our support of House Bill 2619 concerning the property tax repeal on the purchase of new industrial machinery & equipment and the increased de minimus exemption to $1,000.

Hill's Pet Nutrition, the world leader in specialty pet food, has a manufacturing facility located here in Topeka, KS. The enactment of House Bill 2619 would lower the standard production cost for our Topeka plant and make investments at this plant more competitive. Currently, our manufacturing facilities in California, Kentucky and Indiana have an advantage over our Topeka plant as they have lower property tax costs when competing for additional investment and production.

I also would like to address the impact of having either an exemption versus an income tax credit based on the property tax paid. It is our opinion that in order to achieve the benefits intended of increasing investment in the state and increasing employment an exemption would be more successful than an income tax credit. We mainly feel this way for two reasons:

1. An exemption would positively impact the timing of cash receipts of companies by eliminating the need for a payment all together. An income tax credit for property taxes paid would still negatively impact cash receipts of companies as companies would have to come up with the cash necessary to make the property tax payment and then have to wait for several months or sometimes years for a credit to be refunded on an income tax return. We feel an exemption would especially be positive for small and medium size businesses.
2. Property tax expense is part of standard cost, i.e., when comparing the cost of a product manufactured in location A vs. location B, a lower actual property tax expense has a positive and direct impact on the standard cost of that product. An income tax credit is charged on a different part of the financial statement and is shown as a lower effective tax rate. While both are beneficial, analysts and shareholders ("The Street") directly rewards reductions in standard costs while effective tax rates are looked at in trends with a much more indirect impact. Also when we as a company look at increased investment, the first cut is made based on standard cost, availability of raw materials and transportation networks. Even though a tax credit for property taxes paid might be available it might not have a direct impact until it is too late in the decision making process.

Therefore, when comparing the cost of production at our Topeka plant with our other manufacturing locations in the US, the adoption of House Bill 2619 will be a clear advantage to increasing or maintaining production at our Topeka Plant.

The fact is that House Bill 2619 will have a long term positive effect on any potential expansions and investments into the manufacturing facility in Topeka as products produced here would be more price competitive as we analyze differences in the standard costs of production between locations.

Thank you for your consideration and I would be pleased to answer any questions you may have.

Legislative Testimony

HB 2619

Wednesday, January 25, 2006

Testimony before the Kansas House Taxation Committee
By Marlee Carpenter, Vice President of Government Affairs

THE KANSAS CHAMBER

The Force for Business

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Fax: 785-357-4732

E-mail: info@kansaschamber.org

www.kansaschamber.org

Chairman Wilk and members of the Committee:

I am Marlee Carpenter with the Kansas Chamber and our over 10,000 members support the repeal of the property tax on new purchases of business machinery and equipment. This bill only affects new investment of property. Any property currently on the tax rolls will stay on the tax rolls.

The repeal of this tax will help business of all sizes and businesses in all industries. It will help manufacturing intensive firms, small retail firms and all firms in between. This bill will apply to new purchases of computers, copiers, manufacturing equipment, warehousing equipment as lease equipment. It will help every business in the state be more competitive.

Ninety-five percent of the Kansas Chambers over 10,000 have less than 50 employees. This bill will help level the playing field and help small businesses that typically do not apply for IRB and EDX property tax abatements. Manufacturing operations are typically capital intensive because those operation require expensive machinery and equipment. In Kansas, there are nearly 6,000 manufacturing firms that employ fewer than 50 employees. In addition, eighty percent of new jobs in Kansas are created by small businesses. This measure will small businesses grow their companies and jobs in the state.

HB 2619 is important because investment in the state is lagging. The Nov 1999 Kansas, Inc. study, "Business Taxes and Costs; A Cross-State Comparison" states that 80% of manufacturers who responded to their survey said, "the property tax on machinery and equipment in Kansas had a negative effect on their investment and expansion decisions." The study also found that effective tax rates on machinery and equipment in Kansas clearly are the highest in the region, significantly higher than in Colorado, the next highest state.

The Kansas economy is growing at a slower pace than the rest of the country according to Wichita State University's independent study of the Kansas economy. The study concluded that with the exception of job growth, which equaled the regional average, Kansas has ranked among the **bottom third** of states across economic performance measures such as: population growth, personal income growth, per capita personal income growth, growth in earning by place of work and average earnings per job growth.

In addition, the Kansas Chamber has contracted with Wichita State University to look at the impact of this tax change. I have attached the relevant charts to my testimony as well as Kansas, Inc.'s IKE indicators that lay out Kansas' current competitive position. As you can see, there will be a boost in state population, private sector job growth, state personal income, real disposable income, real gross state product, net investment and capitol stock. All of these increases will not occur if the property tax remains on new investment.

The mood for tax cuts is high in Kansas. Cole Hargrave Snodgrass & Associates recently completed its third survey of business owners and operators on behalf of The Kansas Chamber. When asked by the pollsters about the most important issue facing businesses in Kansas, for the third year in a row, excessive taxation tops the list. Additionally, 57 percent of the respondents say that the current tax structure is a deterrent to economic growth in Kansas and 62 percent say they pay too much in taxes. When asked which tax is most punitive to growth, 51 percent responded that property taxes were most punitive.

The Kansas Chamber believes that this legislation will help move the Kansas economy forward, create jobs and grow the Kansas tax base. Again, the Kansas Chamber and its over 10,000 members encourage you to vote for HB 2619.

The Kansas Chamber, with headquarters in Topeka, is the statewide business advocacy group moving Kansas towards becoming the best state in America to do business. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have more than 10,000 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.

Kansas Chamber of Commerce
Based on research done by the Center for Economic Development and Business Research at Wichita State University

Key Highlights for Kansas Economy:

1. Results in marginal population growth due to attraction of higher wage jobs
2. Creates more private sector jobs, constricts government sector jobs creating more sustainable economic model for Kansas
3. Increases state's overall productivity
4. Creates 3.85% increase in Kansas net investment
5. Also increases
   - Gross State Product
   - State Personal Income
   - Disposable Income
   - Gross State Product
   - Capital Stock

Results of Proposed Tax Change:

			Elimination of property tax on new CIME	Elimination of property tax on new CIME
Component	**Units**	**Actual**	**Change**	**% Change**
State population	People	2, 968,896	920	0.03%
Employment	Jobs	1,670,003	-382	-0.02%
Private Sector	Jobs	1,359,745	2,475	0.18%
Government	Jobs	310,258	-2,857	-0.92%
State personal income	Millions	$93,666.52	$362.78	0.39%
Real disposable income	Millions	$72,724.35	$255.04	0.35%
Real Gross State Product	Millions	$88,702.45	$48.48	0.05%
Net investment	Millions	$14,428.88	$555.17	3.85%
Capital stock	Millions	$137,389.53	$539.88	0.39%

Under the proposed tax change, the relative cost of capital to labor decreases and firms are able to optimize the mix of labor and capital equipment resulting in job gains in most private industry sectors over the 10-year span. By the 10th year, these sectors anticipate increased payrolls totaling 2,672. Loss in employment is associated with the government sector, which is anticipated to have constricted budgets following the proposed tax change. The overall decline in employment is so small it reflects no real change over time.

State personal income gets a boost from this proposed tax change with increases in both wage rates and capital earnings under both scenarios. Much of the gain is attributable to increased capital formation that contributes to higher labor productivity. High labor productivity is associated with higher wage rates. The combined increase in wage rates and returns to capital are further reflected in marginal gains to gross state output (GSP). Increases in price adjusted

GSP (Real GSP) are an indication of healthy economic development. Furthermore, increases in GSP and income will result in increases in local demand for goods and services. State demand reflects increases in the state's consumption of its own output.

10-Year Projections of Key Variables:

	Private Sector Employment	Real Disposable Income	Net Investment
	jobs	*$ million*	*$ million*
2007	1,214,000	$64,769	$12,901
2008	1,229,663	$65,636	$13,123
2009	1,245,520	$66,514	$13,348
2010	1,261,577	$67,403	$13,575
2011	1,277,834	$68,304	$13,804
2012	1,294,294	$69,215	$14,035
2013	1,310,960	$70,139	$14,269
2014	1,327,835	$71,074	$14,505
2015	1,344,921	$72,021	$14,743
2016	1,362,220	$72,979	$14,984

The table above presents a time-series projections of key economic variables over ten years, from 2007 through 2016.

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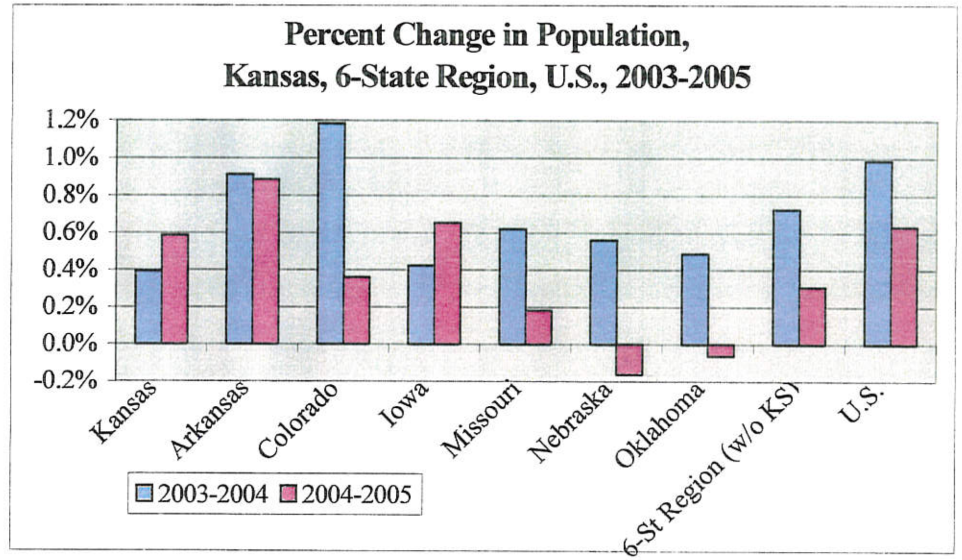
?OPULATION (2005 Data)

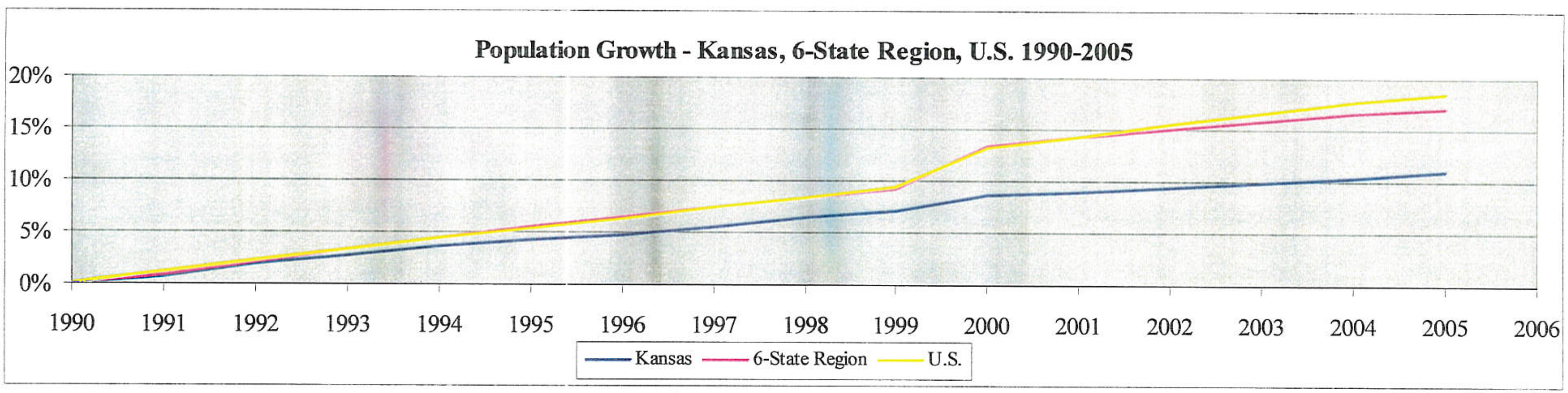
Short-term:

The U.S. Census Bureau estimated the population of Kansas at 2,751,509 in July 2005.

Current population estimates:
Arkansas – 2,752,629; Colorado – 4,601,403; Iowa – 2,954,451; Missouri – 5,754,618; Nebraska – 1,747,214; Oklahoma – 3,523,553; 6-State Region – 21,333,868; U.S. – 293,655,404



Long-term: From 1990 to 2005, the population of Kansas has increased by 10.9%, while the 6-State Region has grown at 17.0% and the U.S. at 18.5%.

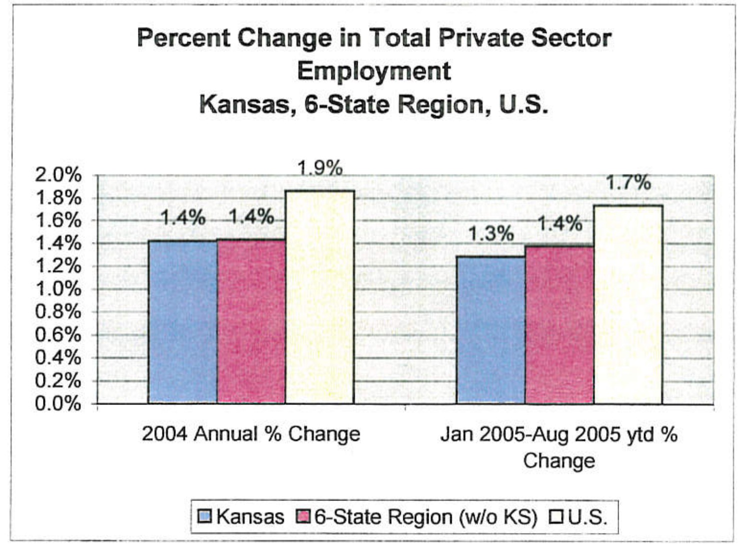


Source: U.S. Census – State Population Estimates and Kansas, Inc.

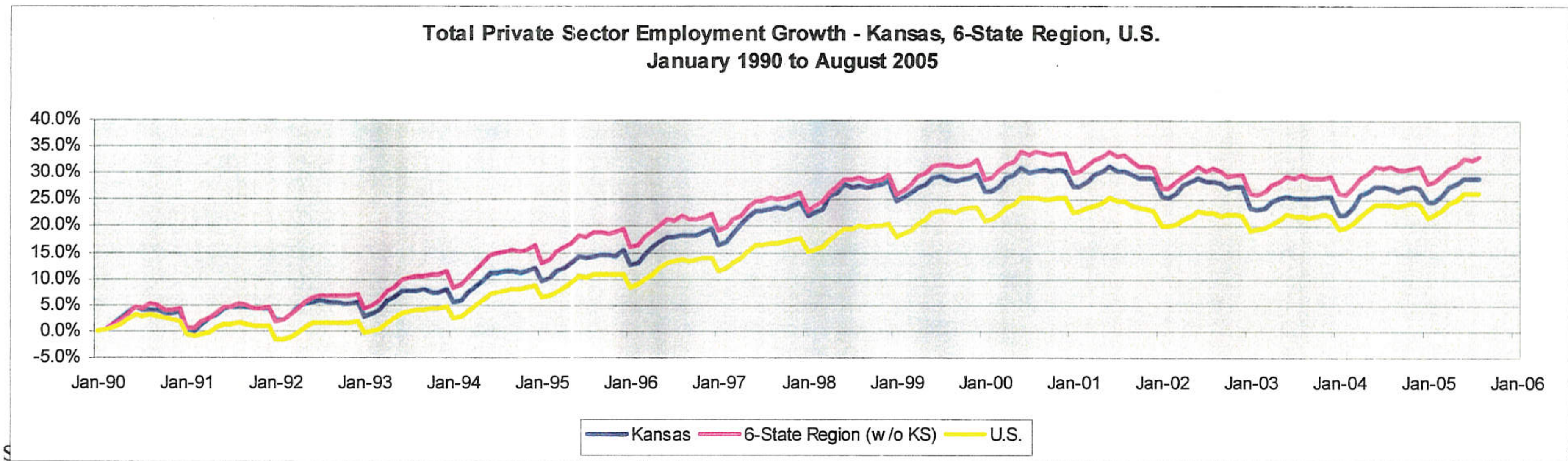
PRIVATE SECTOR EMPLOYMENT (August 2005 Data)

Short-term:

During December 2004, Kansas reported Total Private Sector Employment levels reached 1.08 million people, an annual increase of 1.4% for 2004. During August 2005, Kansas reported Total Private Sector Employment levels at 1.1 million, an increase of 1.3%, or 13,900 people compared to December 2004 levels.



Long-term: Since January 1990 (time period captures economic activity through two most recent recessions), Private Sector Employment in Kansas has increased by about 29.0%, or 246,800. During this period, growth in Kansas was greater than the U.S. (26.5%), but lagged the 6-State Region (33.1%).



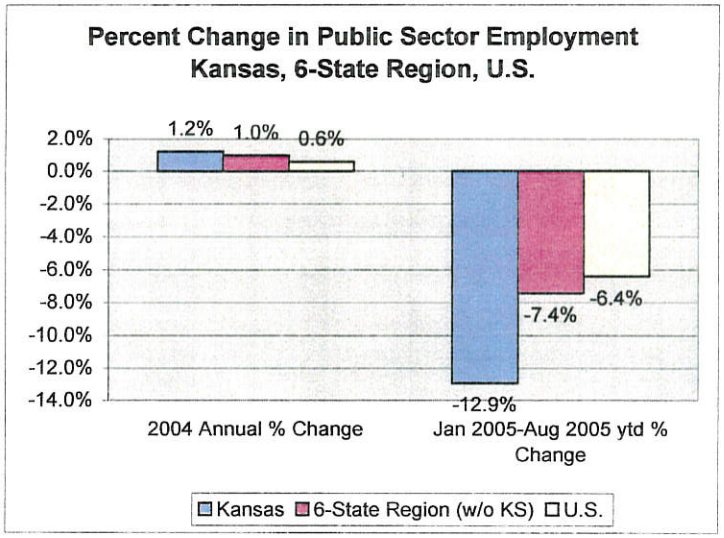
Source: Bureau of Labor Statistics and Kansas, Inc. Data is not seasonally adjusted.

7-9

PUBLIC SECTOR EMPLOYMENT (August 2005 Data)

Short-term:

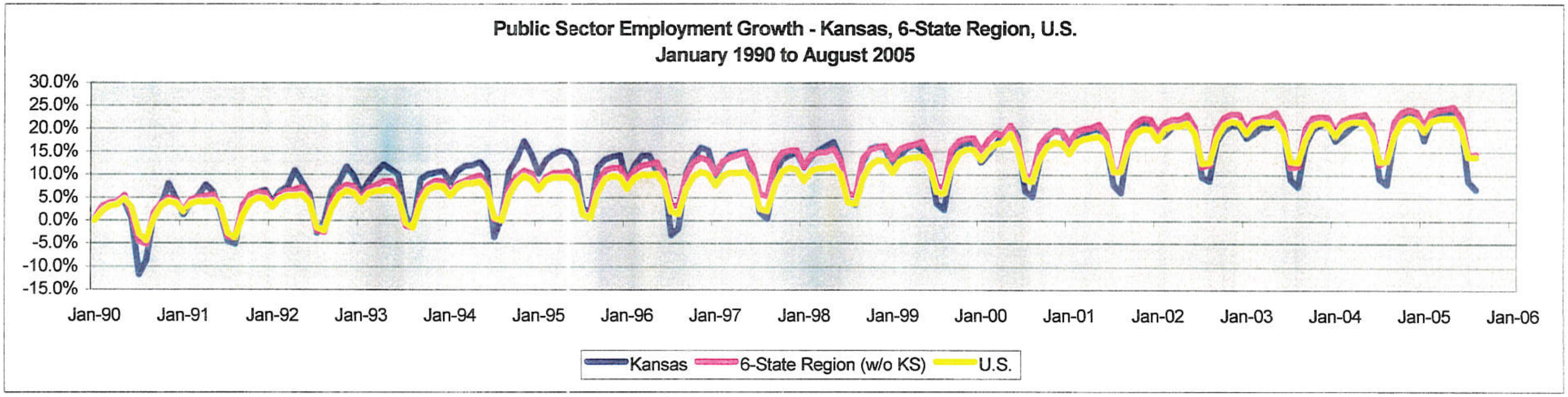
During December 2004, Kansas had Public Sector Employment levels of 260,800 people, an annual increase of 1.2% for 2004. During August 2005, there were 227,100 people in Public Sector Employment, resulting in a decrease of 12.9%, or 33,700 people compared to December 2004 levels.



<u>August 2005 Public Sector Employment</u>

Federal - 26,100 employees
State - 46,500 employees
Local - 154,500 employees

Long-term: Since January 1990, Kansas (6.9%) has trailed the 6-State Region (14.5%) and the U.S. (13.9%) in growth of Public Sector Employment.

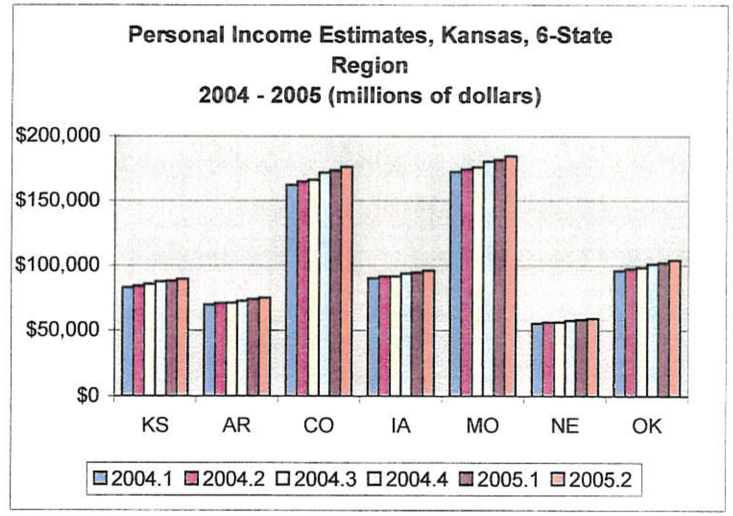


Source: Bureau of Labor Statistics and Kansas, Inc. Data is not seasonally adjusted.

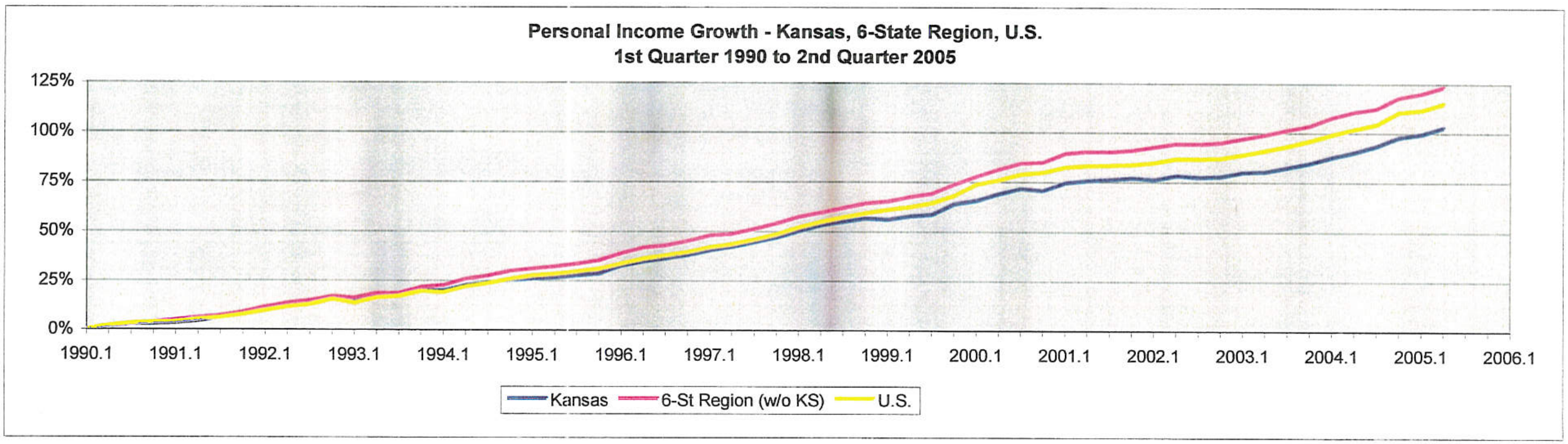
PERSONAL INCOME (2005 Quarterly Data)

Short Term:

Kansans estimated $89.4 billion in Personal Income during the second quarter of 2005, an increase of $1,477 million (1.7%) from the $87.9 billion estimated during the first quarter 2005.



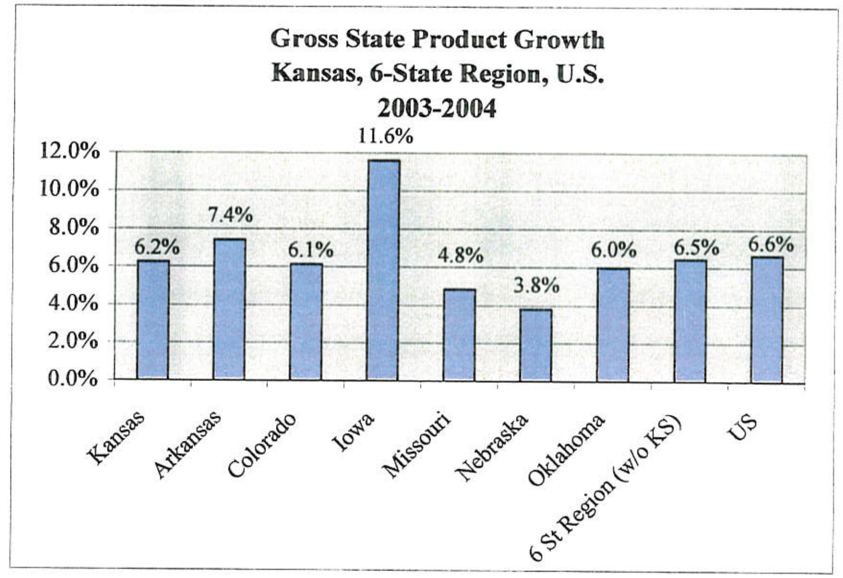
Long Term: Since January 1990, Personal Income in Kansas has increased 102.7%. Despite this increase, Kansas has lagged the 6-State Region average (123.3%) and the U.S. average (114.7%) in Personal Income growth.



Source: Bureau of Economic Analysis – State Quarterly Personal Income and Kansas, Inc.

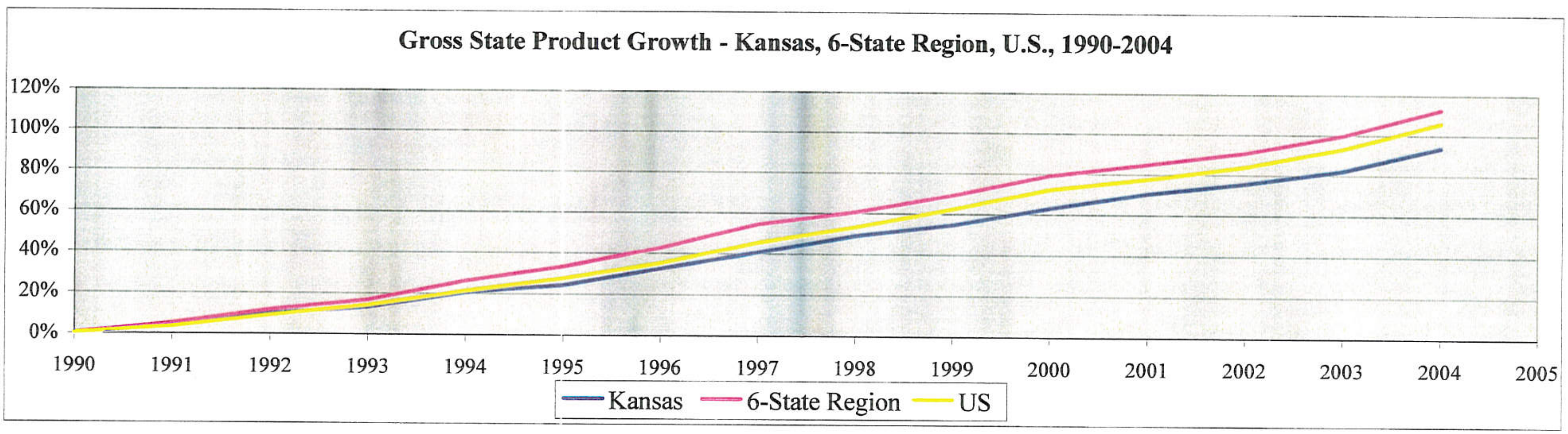
GROSS STATE PRODUCT (GSP) (2004 Data)

Short-term:
Kansas Gross State Product - $99,090 million



Gross State Products of 6-State Region (millions of dollars):
Arkansas – $80,056; Colorado - $199,953;
Iowa - $114,269; Missouri - $203,208;
Nebraska - $67,891; Oklahoma - $107,236

Long-term: From 1990 to 2004 GSP grew at 93.3% in Kansas, considerably less than the 6-State Region (112.4%) and the U.S. (105.3%).



Source: Bureau of Economic Analysis – Regional Economic Accounts and Kansas, Inc.

ED WALLACE &
GEORGE TU NER

Kansas House Taxation Committee
General Motors Testimony on the proposed M & E Property Tax Legislation
January 25, 2006

On behalf of the General Motors Fairfax Plant, I would like to thank you for the opportunity to provide input on the proposal to eliminate property tax on new business machinery and equipment in the state of Kansas.

The current GM Fairfax Plant represents the largest, single investment by a private company in the state. Construction began on the facility in 1985 and was completed two years later at a total cost of $1.05 billion.

Since the initial investment, General Motors has spent hundreds of millions of dollars to keep the Fairfax Plant's products and production technologies competitive in the world automotive market.

This investment includes such products as the Chevrolet Malibu and Malibu Maxx, which are rated "Best in Segment" in the current J. D. Power Quality Survey, and the all new Saturn Aura mid-size sedan, which will begin production this summer.

The products and investment that I just mentioned come about through a great deal of joint, hard work by our plant and its employees; joint meaning both General Motors management and our auto assembly partners, United Auto Workers Local 31. We at the Fairfax Plant need to remain competitive within the corporation and globally.

A major factor in the corporate decision for new investments is the cost to manufacture a product at one facility versus another.

A major cost disadvantage that our facility has is property taxes. The Fairfax Plant has consistently been one of three highest cost assembly plants in North America in terms of real and personal property tax expenses.

We are also one of two or three plants that has consistently paid over $10 million a year in real and personal property taxes. Our tax bill for last year was $11.4 million.

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Contrast that amount with an average GM Assembly Plant that pays property taxes in the $4 to $5 million range, and you can see that our cost is 2 to 3 times the average. This has been a difficult challenge to overcome as we fight for product allocation.

As you may know, there are many other states where GM operates manufacturing assembly facilities that do not impose a personal property tax on manufacturing Machinery and Equipment. Examples include Wisconsin, Maryland, Ohio, Pennsylvania, and New York. Your change to Kansas law will level that playing field.

We estimate, for example, that a change in the M & E portion of the law would have saved General Motors about $10 million over five years on the investment required for the Saturn Aura line had this law currently been in place.

Next month, the GM Board of Directors is scheduled to review yet another product proposal for our plant. This proposal is in the same investment range as the Saturn Aura – around $200 million and will be for another, new mid-size car product. Certainly, a change in the law would make our plant more cost competitive as we go forward.

By phasing out the personal property tax, the State of Kansas will eliminate one of the significant issues to manufacturers when making decisions for investments in our State, and we wholeheartedly support your efforts to remove this burden.

As Mr. Wallace said, "General Motors' problems have been well publicized in the past year," and a change in the law will help the GM Fairfax Plant and State of Kansas compete for future product allocation.

-nk you and I would be happy to answer questions.

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Midway Sales & Distributing, Inc. d/b/a
MIDWAY WHOLESALE
Topeka • Salina • Lawrence • Manhattan • Elwood • Kansas City • Wichita

Presentation to the House Taxation Committee
January 25, 2006

Kenneth L. Daniel, Jr., Topeka
Chairman and C.E.O., Midway Sales & Distributing, Inc.
Publisher, KsSmallBiz.com

Mister Chairman and Members of the Committee:

My name is Ken Daniel. I am the Founder of Midway Wholesale, a specialty building materials distributor headquartered in Topeka with branches in Salina, Manhattan, Lawrence, Elwood/St. Joseph, Overland Park, and Wichita.

A few months ago, Secretary Wagnon asked me to take off my small business hat and give her an unbiased opinion as to the most important move Kansas could make from a tax standpoint to bolster business in this state. She asked me to sleep on it before answering.

My answer was that we needed to fix the property tax on business machinery and equipment. That is still my answer.

- The high tax rate is an extreme impediment to getting businesses to <u>locate</u> in Kansas.
- The high tax rate is an extreme impediment to getting businesses to <u>expand</u> in Kansas.
- The high tax rate is an extreme impediment to getting businesses to <u>upgrade</u> their equipment in Kansas, which hurts productivity growth.
- The paperwork burden is enormous, especially for small businesses.
- Doing this should get us a great deal of credit nationally – maybe more than some other things that would cost more.

This bill contains the best strategy I've seen for fixing this problem.

Right now we have to maintain a completely separate, non-automated list of our machinery and equipment items. This is expensive. If you pass this, we will get to stop updating that list in 2007.

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P.O. Box 1246 • 218 SE Branner Street • Topeka, KS 66601-1246 • (785) 232-4572 • Fax (785) 357-779
www.midwaywholesale.com

This is a far better solution that the income-tax credits. Our eight partners each have a bunch of extra income tax preparation to claim about $2,000 per year in tax credits. $2,000 is too much to ignore but very expensive to get. Just dropping the new stuff off is a much better solution.

I strongly encourage you to support House Bill 2619. If there is time, I would be happy to answer any questions.

Some Additional Information:

According to a 2004 study of effective tax rates published by Kansas, Inc.:

Property taxes, business machinery and equipment—5-year asset life:
CO 2.25%, **KS 2.22%**, MO 1.87%, NE 1.87%, OK 1.24%, IA 0.00%
The Kansas figure is after the 15% business machinery and equipment income tax credit is deducted. Kansas is 53.5% above the average for the other five states in the region.

Property taxes, business machinery and equipment—10-year asset life:
CO 2.52%, **KS 1.94%**, NE 1.82%, MO 1.72%, OK 1.39%, IA 0.00%
The Kansas figure is after the 15% business machinery and equipment income tax credit is deducted. Kansas is 30.2% above the average for the other five states in the region.

- The property tax depreciation methods on business machinery and equipment overstate the value, so the effective tax rate is even higher.
- For the most part, small businesses don't file for the income tax credit because it is complicated and in many cases, the credit is less than the cost to file for it.
- Compliance with property tax on low-cost items is poor.

Sprint

Together with NEXTEL

Sprint Nextel
Mailstop: KSOPHL0512-5A904
6500 Sprint Parkway
Overland Park, KS 66251
Office: (913) 315-5833 Fax: (913) 523-0588

Mark Beshears
Vice President
State & Local Tax

January 24, 2006

The Honorable Kenny Wilk, Chairman
House Taxation Committee

RE: House Bill 2619 – Property Tax Exemption for Certain Commercial and Industrial Machinery and Equipment
Testimony on Behalf of Sprint-Nextel Corporation
Topeka, Kansas - Jan 25, 2006

I am Mark Beshears, Vice President of State and Local Tax for Sprint Nextel, Located in Overland Park, Kansas. I am pleased to be here today to provide input and to ask for your support in connection with an amendment to the Governor's prospective exemption for certain commercial and industrial machinery and equipment. Sprint Nextel would wholeheartedly support any initiative that reduces or eliminates the property tax on machinery and equipment. It has been common knowledge for years that Kansas tax on machinery and equipment has been identified by the business community as one of the major disincentives to invest in Kansas. So while the Governor's proposal will offer some real benefits for those that qualify, the Bill does not encompass state assessed property of which my industry is a part.

Of particular concern to us is the fact that many of our competitors, especially in the Wireless and Cable industries are not state assessed and will enjoy all of the benefits associated with this legislation. The Governor is to be commended for trying to stimulate investment in this state, but a significant portion of the investment that the administration is hoping to stimulate will be linked to investments the state is hoping the telecommunications industry will be making. As a consequence, we believe it is essential that the telecommunications industry be included within this initiative.

Deregulation has brought about a constant increase in demand by consumers and business for more affordable, advanced and assessable telecommunications. This trend will continue in Kansas and Nationwide as our economy becomes more service based and increases its reliance on telecommunications. As our industry grows the state's current tax structure must respond to this changing landscape and make certain that all companies competing within this marketplace are treated in a consistent fashion.

As indicated above, traditional telecommunications providers such as Sprint Nextel face new competition from cable companies resellers, as well as wireless and paging companies. Without an amendment to this Bill these competitors will be able to enjoy the benefits of the Governor's proposal while those of us that are state assessed will be asked to invest in Kansas without the benefits of this property tax exemption.

Unique to Sprint Nextel is the soon to be completed spin-off of our Local Telephone Company. There are approximately 5,000 Kansas jobs included in the Local Telephone Company. Within the next several years this company will be looking for a new headquarters location. Repeal of the personal property tax on new telecommunications equipment and assets would be a positive tool in retaining these jobs in Kansas.

We have prepared language which would exempt certain telecommunications machinery and equipment which we believe would go a long way towards leveling the playing field between the regulated and unregulated participants within the telecommunications industry. I would respectfully request your support for the passage. If you have any questions, I would be happy to address them at this time.

Session of 2006

HOUSE BILL No. 2619

By Committee on Taxation

1-17

AN ACT concerning property taxation; relating to exemptions; certain commercial and industrial machinery and equipment; certain materials and supplies; amending K.S.A. 2005 Supp. 79-201w and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) It is the purpose of this section to promote, stimulate, foster and encourage new investments in commercial and industrial machinery and equipment in the state of Kansas, ~~to contribute to the~~ economic recovery of the state, to enhance business opportunities in the state, to encourage the location of new businesses and industries in the state as well as the retention and expansion of existing businesses and industries and to promote the economic stability of the state by maintaining and providing employment opportunities, thereby contributing to the general welfare of the citizens of the state, by exempting from property taxation all newly purchased or leased commercial and industrial machinery and equipment, including machinery and equipment transferred into this state for the purpose of expanding an existing business or for the creation of a new business.

(b) The following described property, to the extent specified by this section, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

First. Commercial and industrial machinery and equipment acquired by qualified purchase or lease made or entered into on or after January 1, ~~2007,~~ as the result of a bona fide transaction not consummated solely for the purpose of avoiding taxation.

Second. Commercial and industrial machinery and equipment transported into this state on or after January 1, ~~2007,~~ for the purpose of expanding an existing business or creation of a new business.

(c) Any purchase, lease or transportation of commercial and industrial machinery and equipment consummated solely for the purpose of avoiding taxation shall subject the property to the penalty provisions of K.S.A. 79-1422 and 79-1427a, and amendments thereto.

(d) As used in this section:

(1) "Commercial and industrial machinery and equipment" means

and telecommunications machinery and equipment

to recognize the dramatic changes within the telecommunications industry,

and certain telecommunications machinery and equipment

all aforesaid

and network administrative assets; central office equipment; information, station and customer equipment and outside plant equipment of a telecommunications company

2006

and the above-referenced telecommunications machinery and equipment

2006

or the above-referenced telecommunications machinery and equipment property classified for property tax purposes within subclass (5) of class 2 of section 1 of article 11 of the constitution of the state of Kansas;

(2) "qualified lease" means a lease of commercial and industrial machinery and equipment for not less than 30 days for fair and valuable consideration where such machinery and equipment is physically transferred to the lessee to be used in the lessee's business or trade; and

(3) "qualified purchase" means a purchase of commercial and industrial machinery and equipment for fair and valuable consideration where such machinery and equipment is physically transferred to the purchaser to be used in the purchaser's business or trade.

Sec. 2. K.S.A. 2005 Supp. 79-201w is hereby amended to read as follows: 79-201w. The following described property, to the extent specified by this section, shall be exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

Any item of machinery, equipment, materials and supplies which, except for the operation of the provisions of this section, would be required to be listed for the purpose of taxation pursuant to K.S.A. 79-306, and amendments thereto, and which is used or to be used in the conduct of the owner's business, or in the conduct of activities by an entity not subject to Kansas income taxation pursuant to K.S.A. 79-32,113, and amendments thereto, whose original retail cost when new is ~~$250 or less for tax year 2002, and $400 or less for tax year 2003~~ *$400 or less for tax years 2005 and 2006, and $1,000 or less for tax year 2007*, and all tax years thereafter.

Sec. 3. K.S.A. 2005 Supp. 79-201w is hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

at&t

Testimony on behalf of AT&T Kansas
Before the House Taxation Committee

Presented by Robert J. Fasl
January 25, 2006

Chairman Wilk, members of the Committee, good morning. My name is Robert Fasl. I am the Director of Property Tax for AT&T Kansas (formerly SBC Communications). My testimony will focus upon how competition in the Kansas telecommunications market should result in legislation that effectively eliminates the burdensome *public utility* assessment of telephone company personal property in Kansas.

Technology, the marketplace, and deregulation have dramatically changed the landscape of the telecommunications industry. In the past, a telephone company, as a public utility, charged its cost of service directly to customers. Accordingly, with a guaranteed "rate of return," attention given to tax expense was not a high priority at that time. However, with competition from wireless carriers, cable companies, VoIP (Voice over Internet Protocol) providers, and competitive local exchange carriers (CLECs), telephone companies now must focus upon the financial impact of the overall tax liability.

Today, competition in the Kansas telecommunications market is robust. This competition has moved beyond traditional wireline technology, though competition is fierce from providers such as the CLECs. However, wireless, cable and VoIP providers are outpacing traditional wireline technology. For example, wireless phones in Kansas now outnumber wireline phones. Additionally, wireless subscribership in Kansas during 2005 *grew* approximately 13%, while statewide wireline subscribers *shrank* approximately 6%.

As a result of these shifts in telecom metrics, the Legislature should continue to ensure that companies competing to sell the same services to the same customers should be taxed at the same level. Unfortunately, this is not the case. In Kansas, wireless and cable companies, for example, are assessed at 25% of value. Despite the competitive telecommunications market in which AT&T Kansas operates, the company is still assessed as a *public utility* at 33% of value. The assessment of AT&T Kansas' personal property at the *public utility* 33% rate does not reflect today's competitive marketplace, but is a relic of the former regime in which AT&T Kansas operated as a regulated monopoly.

Ten years after the Telecommunications Act was enacted and the Kansas telecommunications marketplace was opened for competition, AT&T Kansas' personal property is assessed higher than other companies with which it directly competes. Accordingly, this more burdensome personal property valuation assessment should be effectively eliminated.

Telecommunications is an important and vital segment of the Kansas economy. Dependable and efficient telecommunications systems are critical to the future economic growth of Kansas. On behalf of AT&T Kansas, I thank you Mister Chairman and each member of the Committee for this opportunity to present my testimony. I respectfully request each of you support the proposed amendments to House Bill 2619 which effectively eliminate the assessment ratio discrimination of telephone company personal property as competition in the Kansas telecommunications marketplace is a reality.

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OVERLAND PARK
CHAMBER OF COMMERCE

LEGISLATIVE TESTIMONY

January 25, 2006

TO: Representative Kenny Wilk, Chairman
Members, House Taxation Committee

FROM: Wes Ashton, Director of Government Relations
Overland Park Chamber of Commerce

RE: HB 2619

Thank you for the opportunity to offer written testimony in support of HB 2619, dealing with the tax status of machinery and equipment in Kansas. The Overland Park Chamber of Commerce has approximately 1000 member businesses, and has followed this issue for many years.

Although Overland Park and Johnson County are not considered a manufacturing center, the Chamber believes that many of our member businesses, particularly small businesses, would be positively affected if the Legislature would eliminate the taxation of new machinery and equipment.

The Chamber supports any efforts of the Legislature that would improve the business climate in the state and improve our competitive position with neighboring states. Technology continues to be one of the most important factors in today's business world, as those costs have continued to increase. Those increases in costs also translate to an increase in the taxes paid when new equipment is purchased.

The elimination of taxes on new machinery and equipment will reduce the cost of doing business which should spark new investment, expansion and increased profits. The competitive position of the state should assist the economic development of Overland Park with businesses that may relocate to Kansas.

The Chamber also supports the change to the $1000 exemption level as a way to lower costs. Although the change in the exemption would not have a large fiscal note, there would be considerable savings in administrative costs to businesses. Those savings should have a positive impact on our small businesses.

The Chamber would also like to express a concern with HB 2619. Many local units of government have expressed their opposition to this bill based upon a concern that the revenue lost to local municipalities will simply shift the tax burden to commercial and

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913.491.3600 • FAX 913.491.0393 • www.opks.org

residential real estate. Both the City of Overland Park and Johnson County have estimated that they will experience a considerable loss of revenue if HB 2619 were to be implemented. Some members of the Chamber have also expressed concerns that the money saved in HB 2619 would only be shifted over to an increase in their real property taxes.

Because of these concerns, the Chamber urges this committee to carefully consider ways to improve the business climate while addressing the concerns of local units of government. These concerns may be able to be solved by implementing a change to the state tax credit or rebate to fund the change in whole or in part at the state level. If the state partnered with local units of government to lessen the negative effects, the business climate could be improved while avoiding some of the concerns of those in opposition.

The concepts entailed in HB 2619 are important to the businesses across the state, and is worthy of consideration by this committee. The results could improve the business climate across the state, and promote expansion. The Chamber respectfully requests that the changes considered by this committee lower the costs of doing business rather than shift them.

Thank you for your consideration on this issue and the opportunity to offer written testimony.

KAB KANSAS ASSOCIATION OF BROADCASTERS

1916 SW Sieben Ct, Topeka KS 66611-1656
(785) 235-1307 * FAX (785) 233-3052
Web site: *www.kab.net* * E-mail: *harriet@kab.net*

Written Testimony
HB 2619
Submitted to House Committee on Taxation
January 24, 2006
Harriet Lange, President

The Kansas Association of Broadcasters (KAB) appreciates the opportunity to submit written testimony in support of HB 2619. Our membership is comprised of free-over-the-air radio and television stations which serve Kansas.

As goes the Kansas economy, so goes the economic vitality of KAB member stations. When business is good on Main Street, business generally is good at KAB member commercial broadcast facilities where the only source of revenue is the sale of advertising. The jump start which HB 2619 would provide for the Kansas economy by encouraging business investment will help assure an economic recovery in the state that is robust.

When stations are healthy economically they are better equipped to provide the news, information and entertainment programming on which your constituents rely. We urge passage of HB 2619 for the benefit of businesses and Kansans in communities across the state.

Thank you for your consideration.

GREATER TOPEKA CHAMBER

GO TOPEKA

120 SE 6th Avenue, Suite 110
Topeka, Kansas 66603-3515

P.785.234.2644 F.785.234 8656
www.topekachamber.org
topekainfo@topekachamber.org

Written Testimony – HB 2619
House Taxation Committee
January 25, 2006
By: Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

The Greater Topeka Chamber of Commerce would like to express its support for HB 2619, which exempts business machinery and equipment purchased or leased after January 1, 2007 from personal property tax; and exempts machinery and equipment with a purchase cost under $1000, after the same date.

The enactment of this legislation has been long sought by the business community. Past legislatures have responded by creating the refundable tax credit for property tax paid on machinery and equipment which has been welcome relief. However, this legislation encourages capital investment in new machinery and equipment, encourages new technology and increased productivity in a more direct way. Approval of this bill will benefit the state through the attraction of new companies' investment in Kansas and by assisting long-standing Kansas companies to become more productive by updating equipment and growing their business in our state. The bill provides a measured approach that affects only new purchases of business machinery and equipment and moderately increases the tax exemption on lesser valued machinery and equipment.

We asked three Topeka businesses to testify before the Taxation Committee to delineate for you what this change in tax policy will do for their companies; how it will encourage further investment, job growth and stronger companies in our community and the state. PTMW, CJS Industries, and Hills Pet Nutrition are companies who provide good jobs for Kansans and with hard work have been successful in their market while competing nationally and internationally. They are companies that have persevered and their success generates other tax dollars for government. Our community wants to see these companies and others continue to grow and thrive in our state. Driving down costs and allowing them to invest in machinery and equipment without years after year of tax payments will go a long way to helping these businesses succeed. We thank members of the legislature and the Governor for furthering this tax policy legislation and we encourage your support.

We also express support for the Section 2 of this bill which increases the personal property tax exemption on property purchased that cost under $400, to $1000. This change in tax policy will assist many small businesses in the state that do not require expensive machinery and are more likely to utilize lesser-priced equipment for their stores and businesses. Many times incentives for growth focus on new businesses and larger, more technology-based businesses; many of our main street businesses do not qualify for those incentives. The passage of HB 2619 will include tax relief for these businesses as well. These businesses continue to be a significant component of our economy. The inclusion of this increased qualifying value tax exemption will allow them to participate even more in the growth of our economy.

Other states have instituted similar tax policy; we are competing for business investment with these states. Your support for HB 2619 will help Kansas businesses, prospective Kansas businesses, Kansas workers and the state by creating a stronger, growing economy for all of us.

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Testimony

Unified Government Public Relations
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House Bill 2619

Machinery and Equipment Tax Elimination

Delivered January 25, 2006
House Tax Committee

The Unified Government of Wyandotte County is taking a neutral position on House Bill 2619. That means we have serious concerns about the impact this measure will have on our citizens, but we want to be business friendly. It means we have many questions about the real impacts of this proposal, but are willing to listen and consider the wishes of Governor Sebelius and the Kansas Chamber of Commerce.

If they are right and elimination of the machinery and equipment tax will in fact spark a flurry of new economic benefits, our citizens will be well positioned to benefit because Wyandotte County is at the top of the list of all the counties in Kansas in dependence on machinery and equipment tax revenues. If they are wrong and this is simply a giant tax shift from businesses onto the backs of homeowners, Wyandotte County residents are in serious trouble.

16% of our local tax base comes from machinery and equipment. That's $174-million of assessed value for machinery and equipment. The Unified Government expects to collect $71-million in tax revenue in 2006. That's both the city and county and revenue. $11.3-million of that total comes from machinery and equipment tax. Another way to express the significance of machinery and equipment in Wyandotte County is to look at our largest taxpayer, General Motors. 70% of the taxes paid by the General Motors plant in Wyandotte County are for machinery and equipment.

The Unified Government has worked hard to cut the city/county tax rate in Wyandotte County. In ten years, the combined city/county mill levy has been reduced 31%. The Unified Government mill levy is now less than 50% of the total tax bill paid by Wyandotte County property owners. We did that despite losing $5-million annually in demand transfer revenues the Legislature decided to keep instead of sending back to local governments as promised.

Having the State support a plan which will potentially take more revenues from local govenments troubles some of our citizens. After reading about the plan to eliminate the machinery and equipment tax in the Kansas City Star, several citizens called me to express concern about how this plan will effect them. Some see it as a way to give big business a huge tax cut on the back of little homeowners. Mrs Betty Knowles on North 80th Street is upset and worried. If the State Chamber of Commerce is right and this is not just a big tax shift from business to homeowner, she can probably live with it. If the State Chamber of Commerce is wrong, she wonders how she will afford to stay in her home.

LKM
League of Kansas Municipalities

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To: House Taxation Committee

From: Don Moler, Executive Director

Re: Opposition to HB 2619

Date: January 25, 2006

First I would like to thank the Committee for allowing the League to testify today in strong opposition to HB 2619. At the League Governing Body meeting held on December 15, 2005, the League Governing Body considered this proposal, which had recently been made public, and voted unanimously to oppose it. The League bases our opposition on a number of factors, perhaps the most significant being that this is not a tax cut, but rather a tax shift.

Let me explain. It is a tax shift because it removes the tax from one area of the local property tax, that being equipment and machinery, and transfers the burden onto the backs of residential property taxpayers and small business taxpayers. It is hard to get a handle on the exact numbers, as this is proposed as a phase in, but as far as we can tell, this proposal could cost local taxpayers roughly $200 million per year when fully implemented. As a result, this $200 million, which is saved by those businesses purchasing significant pieces of machinery and equipment, excluding the railroad impact, would simply be passed to those individuals paying property taxes on single family homes and small businesses which do not utilize large pieces of machinery. We further oppose this piece of legislation as the burden, almost exclusively, is borne by local governments and their taxpayers. There is virtually no pain inflicted on the State of Kansas from this proposal. While it is all well and good to suggest that this will help stimulate business and economic development in Kansas, we would suggest that if, in fact, the state believes that to be the case, then the state should bear at least some of the burden which is being imposed by the removal of this tax.

It also gives us very little comfort that this proposal would be implemented over time. From materials provided by the Department Revenue using 2004 information it is our understanding that mill levies in some counties could increase by as much as 27 mills over time as a result of this proposal, with the statewide average being a 7 mill increase. It is disconcerting to look at the numbers because the changes in average mill levy throughout the State of Kansas are significant and cannot be overemphasized.

While the League, and our member cities, believe in economic development and in helping businesses be successful within our fine state, we also believe that this should be a partnership and not a burden which is placed by the State on local governments. As a result, we urge the committee to refuse to endorse this concept as it does not constitute a tax cut, but merely a tax shift, and places a great burden on the local property taxpayers of the State of Kansas. Thank you very much for allowing the League to appear before you today in opposition to HB 2619.

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Attachment 13

Commercial and Industrial /Machinery and Equipment Exemption

Local Mill Levy Analysis

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total	Adjusted Avg Levy for 100% Exempt CI/ME	Change in Average Levy
Wyandotte	1,110,992,382	181,113,621	16.30%	163.106	26.590
Montgomery	205,706,380	29,195,391	14.19%	143.072	20.306
Allen	79,488,947	10,305,173	12.96%	125.512	16.271
McPherson	290,455,618	35,708,175	12.29%	109.208	13.426
Cowley	204,004,662	22,949,708	11.25%	140.344	15.789
Saline	470,197,690	51,926,310	11.04%	96.368	10.643
Neosho	89,926,383	9,711,305	10.80%	150.138	16.214
Crawford	219,819,386	22,902,875	10.42%	109.414	11.400
Ford	219,946,113	22,445,861	10.21%	154.577	15.774
Sedgwick	3,608,117,774	367,524,139	10.19%	102.754	10.467
Wilson	69,865,679	6,693,062	9.58%	110.633	10.598
Atchison	113,923,684	10,353,362	9.09%	116.460	10.583
Shawnee	1,427,520,824	128,512,317	9.00%	123.287	11.099
Bourbon	84,953,824	7,388,001	8.70%	128.250	11.153
Cherokee	131,174,257	11,207,823	8.54%	85.296	7.288
Reno	462,334,743	38,567,727	8.34%	132.626	11.064
Labette	111,921,096	8,984,418	8.03%	152.032	12.204
Lyon	218,162,708	17,343,680	7.95%	122.986	9.777
Marshall	86,109,471	6,710,553	7.79%	117.391	9.148
Geary	133,854,235	10,419,568	7.78%	125.662	9.782
Doniphan	65,515,538	5,009,169	7.65%	92.002	7.034
Barton	196,623,885	14,764,516	7.51%	135.168	10.150
Nemaha	77,114,259	5,584,637	7.24%	103.842	7.520
Johnson	7,171,851,084	476,361,443	6.64%	95.190	6.323
Harvey	219,244,111	14,245,316	6.50%	109.960	7.145
Sumner	161,163,972	10,207,979	6.33%	143.550	9.092
Rush	35,386,001	2,145,084	6.06%	135.972	8.243
Douglas	1,038,091,400	60,909,205	5.87%	92.660	5.437
Mitchell	54,093,702	3,143,979	5.81%	131.296	7.631
Thomas	78,959,399	4,420,127	5.60%	121.757	6.815
Brown	82,094,070	4,305,836	5.25%	103.780	5.443
Phillips	47,865,995	2,411,006	5.04%	128.648	6.480
Sherman	62,001,706	3,097,984	5.00%	101.325	5.062
Riley	368,396,042	18,101,602	4.91%	93.523	4.595
Norton	39,807,488	1,945,883	4.89%	112.576	5.503
Butler	441,998,615	21,356,020	4.83%	121.350	5.863
Jackson	77,998,743	3,765,506	4.83%	108.887	5.256
Ellis	270,807,578	12,971,587	4.79%	89.266	4.276
Elk	22,581,705	1,050,894	4.65%	137.494	6.399
Wabaunsee	62,587,452	2,752,412	4.40%	107.846	4.743
Barber	73,225,639	3,207,270	4.38%	107.085	4.691
Leavenworth	491,118,236	21,316,537	4.34%	100.762	4.373
Finney	470,512,179	20,329,781	4.32%	90.076	3.892
Edwards	43,639,549	1,871,969	4.29%	114.200	4.899
Dickinson	134,700,485	5,720,569	4.25%	95.790	4.068
Rice	100,041,673	4,215,917	4.21%	118.977	5.014
Cloud	68,626,116	2,877,952	4.19%	138.979	5.828
Pratt	99,483,573	4,118,728	4.14%	140.882	5.833
Wichita	32,157,702	1,331,035	4.14%	127.104	5.261
Franklin	177,650,848	7,312,314	4.12%	119.806	4.931
Ellsworth	54,913,571	2,161,032	3.94%	130.566	5.138
Seward	267,620,682	10,298,407	3.85%	94.540	3.638
Russell	69,707,062	2,563,072	3.68%	154.750	5.690
Jefferson	131,678,865	4,788,301	3.64%	106.471	3.872
Harper	60,443,860	2,142,788	3.55%	133.319	4.727

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Commercial and Industrial /Machinery and Equipment Exemption

Local Mill Levy Analysis

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total	Adjusted Avg Levy for 100% Exempt CI/ME	Change in Average Levy
Chautauqua	23,937,357	837,393	3.50%	127.103	4.447
Osborne	35,609,420	1,244,317	3.49%	137.705	4.811
Marion	97,646,856	3,349,155	3.43%	115.942	3.976
Lincoln	34,888,396	1,180,593	3.38%	134.562	4.553
Kingman	97,822,789	3,295,786	3.37%	100.286	3.378
Osage	118,232,763	3,857,519	3.26%	98.696	3.220
Morris	56,391,783	1,790,960	3.18%	91.984	2.922
Clay	62,171,778	1,933,364	3.11%	120.416	3.744
Pottawatomie	368,842,391	11,278,498	3.06%	60.737	1.857
Greenwood	57,515,527	1,737,616	3.02%	122.972	3.715
Miami	313,307,824	9,341,510	2.98%	92.549	2.759
Woodson	28,210,937	828,141	2.94%	121.077	3.554
Gove	38,979,781	1,045,051	2.68%	93.689	2.512
Republic	48,059,471	1,252,717	2.61%	129.867	3.385
Gray	64,041,925	1,628,129	2.54%	103.400	2.629
Decatur	31,715,450	791,265	2.49%	112.393	2.804
Pawnee	54,110,624	1,248,728	2.31%	130.753	3.017
Smith	35,998,758	778,510	2.16%	147.252	3.185
Chase	38,675,768	826,303	2.14%	104.201	2.226
Trego	37,527,059	801,488	2.14%	121.511	2.595
Ottawa	56,636,207	1,132,810	2.00%	112.907	2.258
Rooks	60,887,283	1,217,220	2.00%	109.703	2.193
Anderson	67,034,996	1,332,858	1.99%	107.109	2.129
Linn	161,787,466	3,150,372	1.95%	73.352	1.429
Cheyenne	40,501,431	786,472	1.94%	73.961	1.436
Lane	32,801,724	627,316	1.91%	119.480	2.285
Logan	40,499,541	744,955	1.84%	102.201	1.880
Sheridan	33,509,739	608,113	1.81%	97.501	1.769
Washington	56,394,616	1,019,488	1.81%	126.524	2.287
Clark	37,917,371	637,520	1.68%	144.761	2.434
Scott	71,727,927	1,204,465	1.68%	105.070	1.765
Rawlins	31,123,637	477,371	1.53%	121.260	1.860
Stafford	64,285,561	880,479	1.37%	120.099	1.645
Graham	42,259,364	559,464	1.32%	109.609	1.452
Jewell	35,882,835	460,581	1.28%	123.184	1.582
Ness	53,189,491	666,659	1.25%	100.731	1.262
Hodgeman	33,440,623	403,859	1.21%	134.359	1.623
Kiowa	64,410,702	771,235	1.20%	82.328	0.986
Greeley	35,431,811	405,050	1.14%	110.582	1.264
Wallace	28,650,993	321,875	1.12%	94.664	1.063
Morton	160,018,126	1,616,023	1.01%	66.581	0.673
Comanche	42,159,476	415,111	0.98%	103.797	1.022
Grant	345,416,263	3,308,296	0.96%	53.822	0.516
Hamilton	72,648,427	672,703	0.93%	98.789	0.915
Stevens	354,980,725	2,630,783	0.74%	48.813	0.362
Haskell	212,379,658	1,478,147	0.70%	53.839	0.375
Meade	106,413,866	716,390	0.67%	85.285	0.575
Stanton	102,902,175	685,289	0.67%	72.236	0.481
Coffey	455,842,283	2,672,619	0.59%	47.780	0.281
Kearny	286,362,195	1,577,850	0.55%	51.184	0.282
Totals	27,019,361,810	1,844,997,342	6.83%	103.047	7.037

13-3

21.5 Mills Not Included

KANSAS
ASSOCIATION OF
COUNTIES

TESTIMONY
concerning House Bill No. 2619
Commercial and Industrial Machinery and Equipment
Property Tax Exemption
Presented by Randall Allen
House Taxation Committee
January 25, 2006

Chairman Wilk and members of the committee, my name is Randall Allen, Executive Director of the Kansas Association of Counties. I appreciate the opportunity to testify on behalf of our member counties **in opposition to** House Bill No. 2619, which exempts machinery and equipment purchased after January 1, 2007 from property taxation.

This past summer, the Special Committee conducted a thorough analysis of state and local tax policy. The Special Committee report to the Legislature reflects the following about the Committee's September meeting:

"Secretary of Revenue Joan Wagnon reviewed several major topics she said were imperative to consider when thinking about the future of tax policy for the next 10 to 20 years. She said that if the erosion of the tax base were to continue into the future, the result would be higher tax rates and less equity among various groups of taxpayers; less competitiveness and more taxpayer discontent; and more special interest groups' requesting exemptions – creating a vicious cycle. She said that the Legislature may wish to look at some of the work of the "Hodge Committee" of the early 1970s and seek a return to the basic principle that 'taxation is the rule, and exemption is the exception.' Having a broader tax base means tax rates can be lower and taxes can be more equitable and competitive, according to the principle."

We totally agree with Secretary Wagnon's comments in September, because they are consistent with the Golden Rule of Tax Equity, i.e. "to apply the lowest possible rates on the widest possible tax base." Shrinking the tax base, as is proposed in HB 2619, moves Kansas even farther away from tax equity, and only shifts the tax burden to the residual of the property tax base, including residential, commercial, and agricultural real property. We have already experienced the impacts of many well-intentioned exemptions from the property and sales tax bases. There is always a compelling reason to "fix" a perceived or real problem with state-to-state competitiveness by granting an exemption. The downward spiral means that fewer individuals and companies shoulder the burden of providing necessary services to Kansans. Where does it end? And, can we ever have the collective discipline to say no?

The stated objective of economic development is a laudable goal; however, the total exemption of machinery and equipment would have an adverse impact on those communities least able to afford it. For example, one of the most impacted counties, Montgomery, would

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eventually lose more than 14% of its total assessed valuation. For Montgomery County, with a population of 36,252 and 651 square miles in which to provide county services, the loss of the machinery and equipment tax base would come on top of a loss of 3% in the same tax base in 2005. Would increased economic development in Montgomery County compensate for a 14%+ loss in the property tax base and the accompanying shift of the tax burden to residual properties? There is no way to demonstrate that a proportional economic gain in the county would compensate for the proportionally higher property taxes that would hit other taxable properties and the people who live there. The likelihood that Montgomery County would see a comparable offsetting increase in economic activity appears remote.

The full assessed valuation of commercial and industrial machinery and equipment ($1.8 billion, or 6.83% of the total property tax base) will be forever lost to the property tax base if HB 2619 is passed. **As such, we urge the committee to kill this bill**. Having said that, we want to be on record as appreciating aspects of the bill should it move forward. This would include appreciation for:

1) its intended goal of stimulating new investment in commercial and industrial machinery and equipment in Kansas;

2) implementing the exemption in a future year so as to not impact current (2006) or immediate (2007) financial projections; and

3) phasing-in the exemption by targeting only new equipment purchased after January 1, 2007.

We also want to acknowledge the Secretary's willingness to have dialogue about strategies to help mitigate the impact of the exemption on local governments. We are unclear as to how such mitigation could happen without creating a drag on the State General Fund (SGF) but appreciate the offer to consider amendments. Thank you for the opportunity to explain our position on HB 2619.

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 members. Inquiries concerning this testimony can be directed to Randall Allen or Judy Moler at the KAC by calling (785) 272-2585.

The City of
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KANSAS

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Testimony Before The
House Taxation Committee
Regarding
House Bill 2619

January 25, 2006

The City of Overland Park appreciates the opportunity to appear before the committee and present testimony on House Bill 2619.

We can all agree that the bill's goal to "promote, stimulate, foster and encourage new investments in commercial and industrial machinery in the state of Kansas," and to encourage the expansion of businesses and the location of new businesses in Kansas is a laudable one. At the same time, we believe that if this policy change will be a boon to all of Kansas, then the State should share a more proportional risk in lost revenue.

We have heard the Department of Revenue say that the personal property tax revenues from business machinery & equipment will disappear slow and gradually, as well as the claim that increased sales tax revenues from new sales will make up for the property tax revenue lost by local governments. Frankly, we are not confident that the Department of Revenue has any solid basis for making such claims.

Predicting how individual companies will react to changes in tax policy is difficult, and while "slow and gradual" might be how things occur on a statewide level, we do not believe that's what will happen in Overland Park. In Johnson County, the large amount of technology-based businesses suggests that our machinery and equipment has a shorter useful lifespan, and will therefore be replaced more quickly. Rather than "slow and gradual," we think "steep and fast" is the more likely outcome.

With this in mind, we ask that the legislature give careful consideration to providing tax relief for newly purchased business machinery & equipment. If you believe this policy is the best way to encourage growth in businesses in Kansas, the City of Overland Park asks that the State partner with cities, counties, schools, libraries, and all other entities with a reliance on property taxes in assuming some of the risk involved. If the reasoning behind House Bill 2619 spurs economic activity as predicted, then the legislature should feel confident that aid to cities will not be required.

KANSAS ASSOCIATION OF SCHOOL BOARDS
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Testimony on **HB 2619**
before the
House Committee on Taxation

by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

January 24, 2006

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear today on behalf of the Kansas Association of School Boards. Our concerns about **HB 2619** cause us to stand in opposition to this bill. School board members understand the importance of economic development. We believe schools play a critical role in building and sustaining the state economy. The commercial and industrial machinery and equipment exemption proposed by the Governor offers the possibility of economic stimulation. But it promises the certainty that revenue from this tax source will be reduced and eventually eliminated.

Two ways to address concerns about taxing CI/ME have been proposed. The first, represented by this bill, would tend to cause a shift in the tax burden to other property taxpayers. For school districts, this would occur in funds such as the local option budget and capital improvement bonds. It would also tend to reduce revenue from the statewide 20 mill levy, which means state aid for school district general funds would have to be increased to compensate.

(As members of the committee know, revenues from the 20 mills are subtracted from each school district's general fund budget, and the state makes up the difference. If the 20 mill levy raises less, state aid must increase in order to avoid reducing school district budgets.)

The second approach would be to expand state-funded tax credits, in order to lessen the impact on local units. Unfortunately, this would have an even greater impact on school district budgets, because the cost of these credits would compete with increases in school district aid. Your Post Audit Division study has confirmed what other studies have shown: state aid for schools is inadequate to provide the level of suitable funding required by the Kansas Constitution.

Many school board members remember the experience of the 1990s, when the Legislature approved significant reductions in the statewide mill levy in order to cut property taxes. These reductions required increased state aid to replace property tax revenue. Because of this cost, base state aid per pupil was increased very little. In order to meet rising costs, school districts had to increase local option

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budgets, which meant that as the statewide levy was reduced, local tax levies increased. This contributed to the funding situation that has placed school finance in the hands of the Supreme Court.

It has been suggested that local units of government could, over time, find replacement sources of revenue. Schools do not have the same ability to impose other taxes or revenue generating mechanism to replace this lost revenue. The local option budget is funded by local property taxes and state aid - both of which could be affected by the CI/ME proposal. Local sales taxes for schools are both constitutionally suspect and impractical in many places because of equality issues regarding the ability to generate sufficient funds to ensure equal education as among districts. In other words, schools do not enjoy quite the autonomy other local governing bodies enjoy regarding differing abilities to generate revenue.

If the entire CI/ME tax base is lost, schools would lose over $37 million in revenue. Because of this concern, we oppose **HB 2619**.

Thank you for your consideration.

CITY OF WICHITA

LEGISLATIVE TESTIMONY

TO: Chairman Wilk and Members of the Taxation Committee

SUBJECT: Testimony in Opposition of House Bill 2619

SUBMITTED BY: Robert Martz, Wichita City Council member, District 5

DATE: January 25, 2006

Good Morning, Chairman Wilk, Committee members, my name is Bob Martz, and I am a member of the Wichita City Council. I appreciate the opportunity to appear before the committee today.

I am here today representing a consensus of the Wichita City Council in opposing House Bill 2619. The Wichita City Council whole-heartedly supports any efforts to stimulate business in Kansas, and particularly in Wichita. The Wichita City Council has been aggressive in this area:

- For the past 12 years, the City of Wichita's mill levy rate has not materially risen, and the City of Wichita's levy remains among the lowest in the State among first class cities.
- The City of Wichita has aggressively offered incentives, often times with the State as our partner, for businesses seeking to locate and expand in Wichita, and
- The City of Wichita has invested $9.5 million to enhance affordable airfares at Kansas' largest airport (Wichita Mid-continent), to retain business in south-central Kansas.

However, I do *not* agree with stimulating the economy on the backs of the 350,000 Kansans that the Wichita City Council represents and who call Wichita home – which is what I believe this bill will do unless amended to replace the revenue that the City of Wichita will lose.

Whether phased in or not, I believe that House Bill 2619 would ultimately cost the City of Wichita nearly $8 million in annual revenue, which is the equivalent to nearly 3 mills. That revenue is currently used to fund fire stations and police officers to keep our citizens safe; it funds parks for our youth, and streets for our citizens to travel to and from work. If this bill is passed, the Wichita City Council will be faced with either increasing the mill levy (for the first time in 12 years) by nearly 3 mills, or with implementing severe service reductions. Worse yet, other governing bodies serving Wichita citizens, including the Sedgwick County Commission (which would lose around $10 million in revenue, I believe) and the various local school districts would also be faced with similar situations.

We know that the City of Wichita will lose $8 million in revenue with the passage of this bill. What I don't know, and what I have not heard from any expert, including the very capable and component staff at the Department of Revenue, is how much potential revenue might be received by the City of Wichita (or the State of Kansas for that matter) as a result of this bill. If this bill is passed, the Legislature would essentially be wagering that the increased revenue from additional economic activity would offset the known $8 million in revenue that will ultimate by lost to the City of Wichita every year. Unfortunately, if this bet does not pay off, the penalty will be paid not necessarily by the Legislature, but by the citizens of Wichita – who will be faced with local service reductions or higher local taxes.

However, regardless of the action the Legislature takes, the City of Wichita will adapt and overcome. We did it in 1995, when the Legislature reduced the motor vehicle assessment from 30% to 20% - a move that has cost the City of Wichita over $6 million annually. We did it in 2001, when over $6.5 million in demand transfer revenue to the City of Wichita was eliminated by the State. The City of Wichita survived those legislative actions by cutting some services, by increasing some fees, and by not providing additional needed services for our citizens. However, this revenue reduction will most likely be the straw that will break our citizens' back: the one that forces the Wichita City Council to consider either draconician expenditure reductions, jeopardizing the delivery of basic service to our citizens, or increasing the mill levy. The Wichita City Council can and will make those tough choices if and when needed: however, when that time comes, the true loser will not be the Legislature, nor the City Council - but the citizens we are sworn to serve.

Thank you for your interest in this bill, and I would be happy to respond to any questions.

CITY OF WICHITA

INTEROFFICE MEMORANDUM

TO: Sedgwick County Delegation Members

FROM: City of Wichita, Mayor and City Council

SUBJECT: House Bill 2619/Machinery and Equipment Tax Exemption

DATE: January 24, 2006

The City of Wichita opposes House Bill 2619, the Governor's proposed property tax exemption for machinery and equipment. The bill would exempt all newly purchased or leased equipment from the tax (applies to property purchased or leased after January 1, 2007). Proponents of the bill suggest that repealing the tax will help to grow jobs, investment and the tax base in the state.

The City of Wichita has a strong track record for supporting economic development initiatives to stimulate business growth and development. The City's commitment to a robust climate for business is evidenced by its maintenance of a constant mill levy rate for the last 12 years (even though the state eliminated demand transfers which to day would generate an additional $9 million to the City's General Fund), the approval of incentives such as forgivable loans and tax exemptions, along with its investment in affordable air service ($9.5 million to date) and other actions.

The proposed legislation, which does not offer a revenue replacement, would shift the financial burden to the over 350,000 citizens of the City of Wichita. It is estimated that the loss in revenue from the exemption of machinery and equipment would reduce City annual revenues by $7.8 million, an equivalent of nearly 3 mills (2.9). The impact of such a reduction would be felt on all services funded from the General Fund. It would directly impact service delivery levels for police and fire protection, park and recreation programs, library services, the construction and maintenance of roads and bridges and all of the support services.

The City of Wichita recognizes and appreciates the State's desire to grow the economy. It is widely recognized that Kansas is growing at a slower pace than the rest of the country as evidenced by statistics relating to population, personal income, and average earnings per job. However, it is the City of Wichita's position that eliminating the tax on machinery and equipment will more than likely not have the desired economic benefit. If the City continues the same level of service overall, a mill levy increase will be needed thereby increasing the tax burden on both businesses and residents. The result will be a disincentive for new companies to locate in Wichita and for existing companies to remain. Furthermore, there is an increased financial burden on the City's most vulnerable citizens… those who are low-to-moderate income, especially the elderly and others on fixed incomes.

Without a dedicated revenue source defined by the legislature and incorporated into this bill, the City of Wichita opposes this legislation. We stand ready to work hand-in-hand with our state partners on alternative solutions to economic growth.

Carlos Mayans

Mayor Carlos Mayans

George R. Kolb

City Manager George R. Kolb

Rob Raine
Ass't Dir. of
Finance

TESTIMONY

City of Wichita
455 N Main, Wichita, KS. 67202
Wichita Phone: 316.268.4351
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CITY OF WICHITA
Jeanne Goodvin
Government Relations Directo

House Bill 2619
Business Machinery and Equipment Tax Exemption

January 25, 2006

The City of Wichita opposes House Bill 2619. The City recognizes its partnership with the State in providing a place where more than 350,000 Kansans work, live, play, ... and call it home. We are very mindful of the generous support we receive from the Legislature in the form of capital dollars for our highways and bridges, grants for public health and human services, support for public transportation, leverage for economic development. Perhaps the greatest show of support has been in the flexibility and latitude allowed for local governments to pursue the priorities it identifies.

It is not now or ever our intention to suggest the State is insensitive to the issues and concerns of the people of Wichita. On the contrary, it is to that sensitivity we are appealing today, believing that a better understanding of how issues presented to you here under the dome actually play out on Main Street will help you to empathize with our concern over this legislation.

There are three things about this legislation we believe are important to know: 1) the financial impact to local government is real and substantial; 2) speculation that these financial impacts will be entirely or even substantially offset by new economic development and activity is highly improbable; and 3) it is extremely unlikely that these financial impacts can or will be absorbed without significant consequence.

This committee has heard and will hear a great deal of testimony regarding the dollar impact of this legislation on local government. It has been suggested to the committee – without any meaningful research or empirical evidence in support -- that these fiscal impacts may be disregarded or discounted because they will be offset by future economic growth; in effect, contending that a known, real, tangible, measurable consequence can be sacrificed in exchange for speculation and conjecture.

In Wichita, Commercial and Industrial Machinery and Equipment (CIME) account for 9.2% of the assessed valuation tax base, or $244,305,447. At the City's current mill levy rate of 31.898, which has been virtually unchanged for the past 12 years, property tax revenue from CIME is approximately $7.8 million. Loss of this revenue is to be phased in over time, but eventually the City of Wichita will have to reduce services or raise taxes to offset $7.8 million in lost revenue. The fact that 48% of the current CIME is has reached the 20% residual value is not of great consequence because the oldest equipment is likely to be the first equipment replaced. These facts only delay but do not discount or eliminate the ultimate loss of revenue.

The first column in Table 1 (below) shows the value of CIME for Wichita over time (1996 to 2005). Column two shows the 52% value of CIME that has not yet been fully depreciated to the 20% residual value, and which will therefore be reduced in value by *at least* one-seventh in the succeeding year. If new CIME is not added in an amount equal to or greater than one-seventh the value of the amount in column two, then the total for CIME (column one) will decrease from the prior year. If the amount in column one increases over the prior year, that is indicative of growth enough to more than offset the loss of the one-seventh depreciation.

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Column three is the sum of two amounts. The first amount is one-seventh of the amount appearing in column 2 for the prior year. The second amount is the difference between the amount in column one for the current year and the prior year. For example, the amount of $22,824,152 in column three for 1998 is the sum of one-seventh of the prior year amount in column two ($110,628,979 x 0.14287 = $15,804,456) and the difference between the current year amount in column one ($219,768,050) and the prior year amount ($212,748,037).

Table 1. Annual Change of CIME Valuation.

	1	2	3	4	5
Year	**Wichita CIME**	**52% of CIME**	**New CIME**	**CIME Market Value**	**New Improvements**
1997	212,748,037	110,628,979	21,427,541	85,710,165	34,715,272
1998	219,768,050	114,279,386	22,824,152	91,296,608	35,136,179
1999	236,332,519	122,892,910	32,890,096	131,560,384	52,154,268
2000	266,391,529	138,523,595	47,615,140	190,460,558	40,487,875
2001	249,885,947	129,940,692	3,283,503	13,134,012	31,530,964
2002	252,918,876	131,517,815	21,595,885	86,383,540	31,530,964
2003	251,961,473	131,019,966	17,830,857	71,323,427	35,853,674
2004	251,467,622	130,763,163	18,223,287	72,893,148	31,530,964
2005	244,305,447	127,038,832	11,518,277	46,073,108	55,925,067

Column three, therefore, is the gross annual growth in CIME. It reflects the amount of *new* assessed value added to the tax rolls in Wichita attributable CIME. It is this amount (or at least this amount) that would "go away" each year going forward from the implementation of HB 2619 until eventually all CIME is replaced or until what is left becomes a relatively insignificant amount. It should be noted that this amount is understated because a portion of the 48% of CIME that has reached the 20% residual value is also replaced or otherwise removed from the tax rolls. CIME is assessed at 25% of the market value; column four increases the amount in column three to reflect 100% market value. That is the minimum estimated dollar amount annually expended for new CIME.

If the new exemption is to create enough economic activity and generate new assessed value enough to offset the loss, column three identifies, or at least estimates, that amount annually needed. The average annual value for column three is $21.9 million. Column five provides perspective; it shows the actual amounts of new improvements added to Wichita's assessed value. The average annual value for new improvements is $38.8 million. Therefore, this exemption would have to provide enough incentive to increase economic development by 57% -- each and every year -- to offset the known loss of revenue. $21.9 million is the 25% *assessed* value. The actual amount of *market* value would have to be nearly $90 million.

It is unlikely the incentive provided is strong enough to leverage that amount of investment. Table two shows the annual impact over seven years to a business that invests $250,000 in new equipment.

Table 2. Example of $250,000 CIME Investment.

	Assessed Value	Property Tax Rate	Taxes Paid
Year 1	62,500	113.456	$7,091
Year 2	53,563	113.456	$6,077
Year 3	44,625	113.456	$5,063
Year 4	35,688	113.456	$4.049
Year 5	26,813	113.456	$3,042
Year 6	17,875	113.456	$2,028
Year 7	12,500	113.456	$1,418

The annual average taxes paid by this imaginary company for this $250,000 worth of CIME is $4,110.

The City of Wichita would not lose $7.8 million overnight. But ultimately that is the amount by which services would have to be reduced or taxes shifted. In all likelihood, rather than provide an incentive for new companies to locate in Wichita, this change would – at least initially – provide greater incentive for companies to replace their older equipment –equipment in the 48% residual group – with newer tax exempt equipment, accelerating the time frame in which the full $7.8 million loss would be realized.

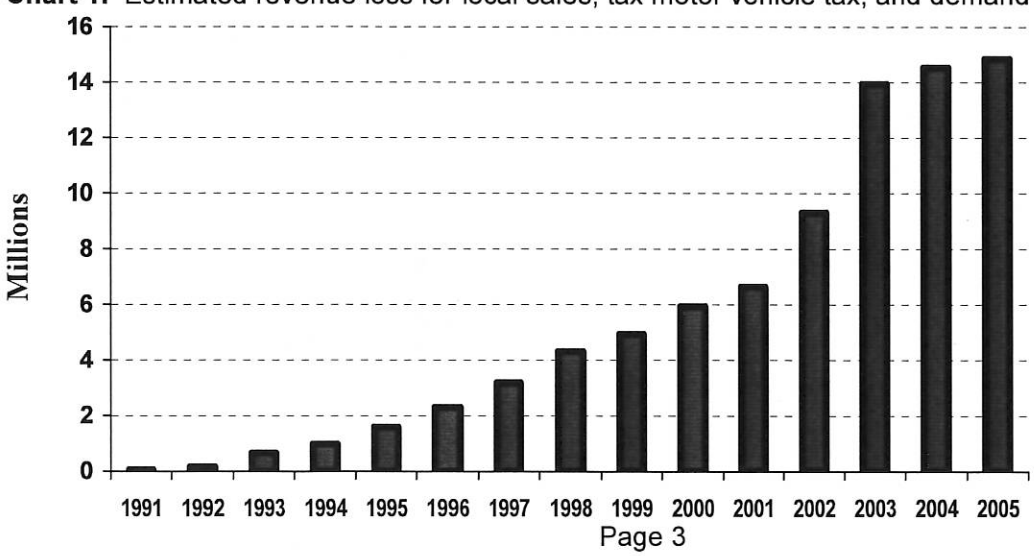
Certainly, comments like, "this will lead to a service reduction or tax increase," is also speculation and conjecture. In the interest of credibility on this issue, it is important to relay the current financial condition of the City and how this particular issue will effect it.

First, it is important to understand that there is not a single City of Wichita budget. Like the state, county and all other public entities, there are many self-supporting, self-contained, self-balancing sets of accounts called funds. In effect, the Wichita has many budgets. It is not only bad practice, but in most cases it is unlawful to indiscriminately use resources in one fund to offset the costs in another fund. The net total annual operating resources for all of the City's funds is $500 million, but the nearly $8 million impact of this legislation is isolated to only the two funds which receive a property tax – the General Fund and Debt Service Fund. Due to debt obligations, most likely, the entire impact of this legislation will be limited to the City's General Fund, which is for 2006 $177 million. Therefore, what is being discussed here is a 4.4% reduction in General Fund resources. That is a long way of saying, the City could not replace this lost revenue by raising water rates or increasing the transient guest tax. *Please do not assume this is a matter of absorbing the $7.8 million within a $500 million budget.*

The City is understandably proud of how well the General Fund has been managed in recent years. The mill levy rate has not been raised in 12 years, in spite of some very dramatic challenges. In real terms, that is, after adjusting for inflation, the City's General Fund expenditures are virtually the same as they were in 1990, even though the City itself is almost 30% larger geographically and the population is almost 15% larger. This frugality has not come without sacrifice, and frankly, a good deal of it can be attributed to necessity. Unfortunately, the current status provides very little, if any, margin for the challenge presented by the current legislation, HB 2619.

The Chart below identifies how other similar issues have had a dramatic impact on the City of Wichita's finances. This chart shows the estimated annual General Fund impact each year from 1991 to the present resulting from local sales tax exemptions (utilities used in manufacturing and labor used in construction and remodeling), the reduction of motor vehicle tax valuation (phased in from 1995 to 2000), and the loss of demand transfers (caps applied from1995 until completely eliminated in 2002 and 2003). The chart shows an estimated impact of almost $15 million in the General Fund (about 8.8%). Impacts to the Debt Service and other funds bring the total to almost $22 million. The General Fund impact is equivalent to 5.9 mills (roughly 18.5% of the City's current mill levy).

Chart 1. Estimated revenue loss for local sales, tax motor vehicle tax, and demand transfers.



Ostensibly, the City has been able to successfully absorb these reductions with no impact. On the contrary, there has been considerable impact, the most relevant being the current vulnerability and inability to absorb yet another major unilateral resource reduction.

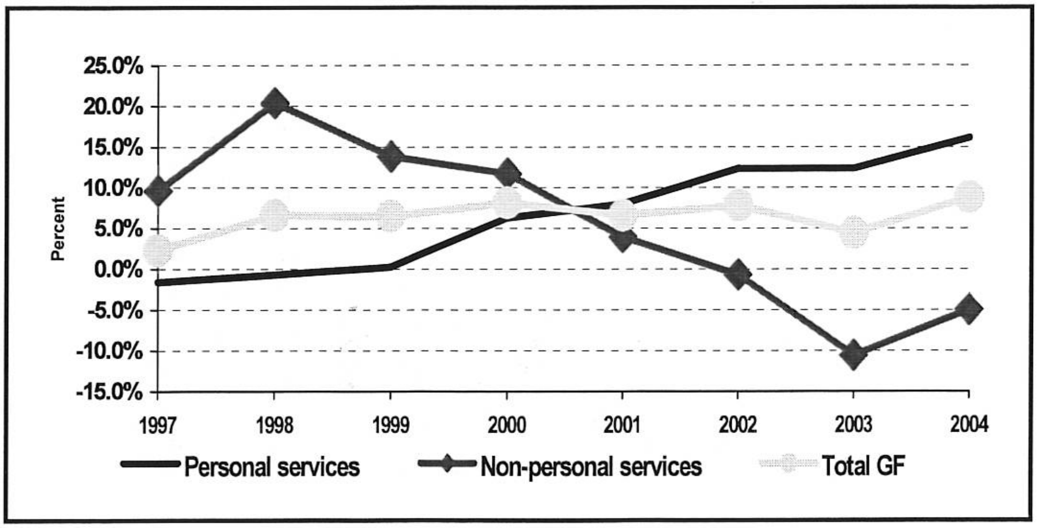
A number of service reductions have been implemented in the past to balance the budget. In making these decisions, every effort was given to avoid reducing public safety, not reducing the numbers of "in the field" front-line positions, and not having lay-offs. Early reductions focused on things more easily eliminated than others, including the usual suspects like research and development, employee training, utility budgets, etc. Other things, such as extending the use of vehicle and equipment assets were also applied. Later, as the cuts went deeper, it was necessary to reduce things like reforestation, street lighting, residential street sweeping, neighborhood clean-up initiatives, etc. Eventually, service reductions have extended into reducing appropriations for library materials and consolidating library branches, scaling back swimming pool hours, reducing Park and right of way mowing cycles (many of which are now on 21 day mowing cycles now), closing Police substations to the public on third shift, and drastically scaling back street maintenance and repair. As an example, the table below compares what the City allocated for street maintenance in 1995 to what was allocated in 2005, and compares that to the growth in lane miles over the same period.

Table 3. Street Maintenance Resources

	Lane Miles	Inflation Adjusted Street Maintenance Budget
1995	3409.4	$4,800,000
2005	4213.3	$4,433,342
Difference	803.9	($366,658)
% Difference	19.1%	(7.6%)

Apply this illustration to multiple other areas and one begins to see the compound impact of continually reducing non-personal services portions of the budget over time. A two-year old study of the City's vehicle and equipment fleet reported that the City was more than $11 million behind in the replacement of vehicles – 20% to 25% of the total value of the fleet. To look at this another way, Chart 2 shows the real (inflation adjusted), cumulative percent change in total expenditures in the General Fund over time. This chart reveals the impact of priorities which protect positions. The personal services line measures the cumulative, real change in the cost of all personal services, including new positions added in Fire and Police, changes in wages, health insurance costs, increased employer pension contributions, etc. The non-personal services line measures cumulative changes in all other expenditures, and the Total GF line measured the two combined.

Chart 2. Real, cumulative changes in General Fund Expenditures.



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Real General Fund expenditures are about 8% more than in the 1996 base year, but personal services expenditures are more than 15% higher. This means that spending for all non-personal services items has actually decreased on a real (inflation adjusted) basis over time. As reductions have been made, to avoid loss of jobs and because the City's public safety services are highly personnel driven, the City has targeted non-personal services to satisfy resource reductions.

In addition to service reductions, there have also been many revenue enhancements in recent years to offset diminishing resources. Included among these are increases to alarm fees, park and recreation admission fees, engineering fees, court fines and fees, street cut permits to utilities, Storm Water ERU (Equivalent Residential Unit) fees, Planning materials and services fees, and diversion program fees. It was also necessary to institute a public safety fee to the City's various enterprises – a sort of "payment-in-lieu-of property tax" but for only that portion of the property tax directly related to public safety services. The City has increased efforts in all areas to more aggressively collect delinquencies, including even for overdue library books. And finally, administrative fees have been imposed on all capital projects, as allowed by law. In short, the City of Wichita has been extremely aggressive with regard to revenue options in order to avoid further service reductions.

And that isn't all. The City has also been highly successful in applying innovation and technology to achieve greater efficiencies, including: automated call distribution; field units for direct data entry; Internet processing for payment transactions, job applications, vendor registration, information retrieval, accident report access; just-in-time inventory for less manual tracking, handling, and storing of materiel; privatization of stationery stores; reverse auctions for health insurance savings; automated bid openings; and on and on.

In short, the City of Wichita has been aggressive and successful in coping with resource reductions, but is at a breaking point. With personal services now claiming approximately 70% of the General Fund (when it was only 60% a few short years ago), it seems unlikely that another significant revenue reduction can be absorbed without lay-offs, reductions to public safety, and/or a tax increase that would effectively shift the tax burden from businesses to individuals.

As identified in this final table (Table 4), if the governing bodies of Sedgwick County and the U.S.D. 259 are similarly circumstanced as the City of Wichita, and would likewise require a mill levy increase to accommodate HB 2619, the total mill levy impact to a typical Wichita resident would be 9.114 mills. This is equivalent to an increase of $105 to someone owning a $100,000 home.

Table 4. Mill levy equivalent.

	City of Wichita	Sedgwick County	U.S.D. 259
CIME valuation	244,305,447	369,253,228	238,881,456
Current mill levy	31.898	28.758	31.300
CIME tax revenue	7,792,855	10,618,984	7,476,990
Value of one mill	2,668,036	3,583,857	2,314,711
Mill levy equivalent	2.92	2.96	3.23

For these reasons, the City of Wichita respectfully requests the Legislature to enact House Bill 2619. We appreciate the opportunity to be heard this very important legislation.

MATT SHA TO
presente.
Michael Boehm
testimony

TESTIMONY IN OPPOSITION TO HB 2619

To: House Taxation Committee

From: Michael Boehm, Mayor, City of Lenexa, Kansas

Date: January 24, 2006

Thank you for the opportunity to present testimony regarding HB 2619. The City understands and recognizes that this bill was introduced in an effort to encourage new investment in commercial and industrial machinery and equipment. Although the City of Lenexa certainly appreciates this effort to encourage economic growth in Kansas, HB 2619 will place a significant financial burden on the City. If this legislation is passed, the first year financial impact on the City is anticipated to be greater than $900,000. The eventual annual financial impact on Lenexa would be in excess of $3.5 million, which represents approximately 4 mills of property tax.

If this loss in revenue is not offset by an increase in the mill levy, equivalent operational cuts would be necessary. The anticipated annual loss of $3.5 million represents approximately 8% of our general fund budget; therefore any operational cuts will be significant. For example, if this loss in revenue was offset by a reduction in the police patrol budget, one of the City's larger budget items, this line item would be reduced from $6.1 million to $2.6 million, a reduction of more than 55%.

Moreover, the impact of this legislation on the residents of Lenexa cannot be measured only by the impact this legislation has on the City. The total impact to the residents of Lenexa can only be understood when one takes into account the overall impact to the entire local government sector including the County, local school districts, community colleges, etc. All of these jurisdictions will likely be faced with reductions in revenue, and thus may also be forced to consider an increase in the mill levy, equivalent operational cuts and/or other mitigation strategies. While the true impact of this legislation cannot be quantified without knowing how the local jurisdictions will respond to such a loss of revenue, it is likely that the residents of Lenexa will see a combination of an increased mill levy and reduced service levels. To gain a full appreciation for the possible impact on Lenexa residents, a spreadsheet is attached indicating the anticipated impact this bill will have on other local jurisdictions.

If the committee believes this type of legislation is needed, we encourage the committee to consider providing an income tax credit for the amount of property taxes paid on commercial and industrial machinery and equipment. This alternative would encourage economic growth in Kansas without harming local government entities. If no changes are made to the bill, we ask the committee to consider mitigation strategies to replace this anticipated loss of revenue for local governments across the State. Possible mitigation strategies could be 1) the removal of the current sales tax caps on local sales tax rates or 2) the reinstatement of demand transfers to local governments.

For the aforementioned reasons, the City of Lenexa is opposed to HB 2619 and any other statewide legislation that would reduce our general fund revenue. Please do not hesitate to contact me should you have any further questions or if the City of Lenexa can provide you with additional information. Thank you for your consideration.

Mr. Chairman, Members of the Committee good morning. My name is Matt Shatto and I am the Assistant City Administrator for the City of Lenexa. I have brought with me written testimony from our Mayor Mike Boehm and would be happy to stand for questions related to his statements.

As you can imagine, we are opposed to HB 2619. I will not go into great detail as much of what we believe has already been stated.

The bottom line for our municipality is that we stand to lose more than $900,000 in the first year -- if this bill is passed. The eventual annual impact on our City will be in excess of $3.5 million, 8% of our general fund, or 4 mills of property tax.

This loss to the City of Lenexa is significant, and is something that our residents will likely notice in one way or another. Many suggest that much of this loss will be recouped by the increased investment by the private sector through Sales and Use Tax revenue. While we hope that is the case, our optimism is reduced by the fact that we would have to experience new sales greater than $350 million more than normal to make up for this loss. Basically our new sales would have to increase by 23% when compared to prior years.

Others suggest that this loss of revenue would easily be absorbed into the City's operational expenses. The anticipated annual loss of $3.5 million represents approximately 8% of our general fund budget; therefore any operational cuts will be significant.

The final option that exists for our City to manage this loss is the consideration of a property tax increase. If the City had to raise its property tax in order to cover this loss in revenue, the average home owner in Lenexa would pay an additional $104 per year.

The City of Lenexa certainly appreciates this effort to encourage economic growth in Kansas, however without some pretty significant mitigation the burden on our community will be great. Thus, we ask that you oppose HB 2619.

Thank you all for your time, I would be happy to answer any questions you may have.

Lenexa

Estimated Loss of Property Tax Revenue from HB 2619
(Exemption of New Commercial and Industrial Machinery and Equipment)

Entity	First Year Impact (based on 2005 purchases)	Eventual Annual Impact (when all existing M&E is replaced)
Johnson County Community College	$0.9 million	$3.7 million
Johnson County	$1.7 million	$7.3 million
Johnson County Park District	$0.2 million	$0.9 million
Johnson County Library District	$0.2 million	$1.0 million
City of Lenexa	$0.9 million	$3.5 million
DeSoto School District (#232)	$0.2 million	$1.2 million
Olathe School District (#233)	$2.2 million	$8.8 million
Shawnee Mission School District (#512)	$1.8 million	$7.7 million

The amounts provided in the chart above are estimated based on historical information and current mill levies. The actual future dollar impact for each taxing jurisdiction will depend on future economic activity and actual mill levies.

KANSAS
Association of REALTORS®
SOLD on Service

TO: HOUSE TAXATION COMMITTEE

FROM: BILL YANEK, KAR DIRECTOR OF GOVERNMENTAL RELATIONS

DATE: January 25, 2006

SUBJECT: House Bill 2619

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS®, I appear today to express concerns that the Kansas Association of REALTORS® has with the current version of House Bill 2619.

KAR supports the efforts of the Kansas Chamber and other Chambers of Commerce to grow the Kansas economy. We do not oppose tax relief that would spur investment in new machinery and equipment. However, HB 2619, as currently drafted, poses the real potential of shifting the tax burden onto real estate intensive businesses and homeowners.

The testimony of the past two days shows that there is uncertainty as to the ultimate fiscal note for HB 2619. Just how large (or small) that fiscal impact becomes ultimately will determine how large (or small) a shift of tax burden will occur.

KAR asks this committee to take a risk-averse path by considering an income tax credit in an amount equal to the amount of property tax levied instead of an outright exemption. House Bill 2679, which is attached, is one such proposal.

Proponents of HB 2619 repeatedly state that the economic growth created by HB 2619 will make the effort revenue neutral (or better). What if these assertions are wrong? HB 2679 provides a way to mitigate that risk.

It is the Legislative Policy of the Kansas Association of REALTORS® to urge the state to work for the restructuring of taxes to relieve the inequitable real property tax burden, but also not to unfairly shift the tax burden to any tax paying entity. KAR believes that a proposal such as House Bill 2679 is an equitable way to support that policy.

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House Taxation
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Attachment 20

Session of 2006

HOUSE BILL No. 2679

By Representatives Goico, Brunk and Siegfreid

1-20

AN ACT ~~concerning~~ income taxation; relating to credits; commercial and industrial machinery and equipment; amending K.S.A. 2005 Supp. 79-32,206 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2005 Supp. 79-32,206 is hereby amended to read as follows: 79-32,206. *Except as otherwise provided,* for all taxable years commencing after December 31, 2001, there shall be allowed as a credit against the tax liability of a taxpayer imposed under the Kansas income tax act, the premiums tax upon insurance companies imposed pursuant to K.S.A. 40-252, and amendments thereto, and the privilege tax as measured by net income of financial institutions imposed pursuant to article 11 of chapter 79 of the Kansas Statutes Annotated, an amount equal to 15% of the property tax levied for property tax years 2002, 2003 and 2004, 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax year 2007, and all such years thereafter, actually and timely paid during an income or privilege taxable year upon commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas constitution in subclass (5) or (6) of class 2, machinery and equipment classified for such purposes in subclass (2) of class 2. For all taxable years commencing after December 31, 2004, there shall be allowed as a credit against the tax liability of a taxpayer imposed under the Kansas income tax act an amount equal to 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax year 2007 and all such years thereafter, actually and timely paid during an income taxable year upon railroad machinery and equipment classified for property tax purposes pursuant to section 1 of article 11 of the Kansas constitution in subclass (3) of class 2. *For all taxable years commencing after December 31, 2006, there shall be allowed as a credit against the tax liability of a taxpayer imposed under the Kansas income tax act, the premiums tax upon insurance companies imposed pursuant to K.S.A. 40-252, and amendments thereto, and the privilege tax as measured by net income of financial institutions imposed pursuant to article 11 of chapter 79 of the Kansas Statutes Annotated, an amount equal*

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to 100% of the property tax levied for property tax year 2007, and all such years thereafter, actually and timely paid during an income or privilege taxable year upon commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the constitution of the state of Kansas in subclass (5) of class 2 and railroad machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the constitution of the state of Kansas in subclass (3) of class 2, acquired by purchase or lease made or entered into after January 1, 2006, or transported into this state after January 1, 2006. If the amount of such tax credit exceeds the taxpayer's income tax liability for the taxable year, the amount thereof which exceeds such tax liability shall be refunded to the taxpayer. If the taxpayer is a corporation having an election in effect under subchapter S of the federal internal revenue code, a partnership or a limited liability company, the credit provided by this section shall be claimed by the shareholders of such corporation, the partners of such partnership or the members of such limited liability company in the same manner as such shareholders, partners or members account for their proportionate shares of the income or loss of the corporation, partnership or limited liability company. The secretary of revenue shall adopt rules and regulations regarding the filing of documents that support the amount of credit claimed pursuant to this section.

Sec. 2. K.S.A. 2005 Supp. 79-32,206 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

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KANSAS LEGISLATIVE POLICY GROUP
P.O. Box 555 • Topeka, Kansas 66601 • 785-235-6245 • Fax 785-235-8676

TESTIMONY
BEFORE THE HOUSE COMMITTEE ON TAXATION
REGARDING
HOUSE BILL NO. 2619
KANSAS LEGISLATIVE POLICY GROUP
By: Duane Mathes, President

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to provide written remarks to your Committee on behalf of Kansas Legislative Policy Group (KLPG). KLPG represents the interests of more than 30 counties located in western Kansas. I am Duane Mathes, an Edwards County Commissioner and currently I serve as KLPG President.

KLPG encourages you to reject House Bill 2619. This is an issue of keen interest to many of our members.

Our members do support the public policy statement contained in Section 1 of the bill. We know that businesses face stiff competition and need to be able to provide the best services and the best price available. However, we believe that the burdens of this tax policy strategy and the impacts of the associated tax shift will be unfairly placed on the local units of government.

Although attitudes and opinions can vary with respect to the cost/benefit of this measure, there are still too many unknowns. While our communities may see the benefits of an increase in sales and compensating use taxes as business upgrade their equipment, they are just one time injections to our local economies.

The million dollar question is how quickly will our existing equipment tax base remain once these upgrades are made by business? How long will existing equipment remain "in service", will it be slow decline or a rapid free fall? How do we react to those declines and where do we find the revenues to make up the losses? Our only solution is a shift to real property.

Some communities currently grant tax abatements in order to induce new business. We are trying to recruit and attract new businesses. But the needs of our business are different then those in other areas of the State. Our leading businesses need more than tax incentives; they need resources, like wide expanses of land, access to water, energy and labor.

Thank you for your time and consideration of this matter.