

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 1, 2006 in Room 519-S of the Capitol.

All members were present except:
Representative Dillmore - excused

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:
Secretary Joan Wagnon, KDOR

Others attending:
See attached list.

The Chairman asked for bill introductions.

Representative Goico made a motion to introduce a bill concerning fair fares in Wichita. Representative Huff seconded the motion. The motion carried.

Representative Goico moved for a bill introduction regarding maintaining reasonable distance from military funerals. Representative Treaster seconded. The motion carried.

Representative Dillmore made a motion to introduce a bill to modify the Homestead Exemption Act. Representative Thull seconded the motion. The motion carried.

The minutes from the January 10, 11, 2006 Taxation Committee Meetings were approved by consensus of the Committee.

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

Representative Siegfroid explained that on Tuesday, he had introduced what he called the "Slider" amendment, that developed a partnership between state and local governments. This amendment allows sharing of the tax burden of implementing this tax; and does this by creating a buy down of the costs over a period of five years. The "slider" considers tax revenues on a baseline date, and that date as considered in the bill is 2005. He used an example to show how the formula will work. The money will be sent from DOR to the County clerks and distributed based on the payment in lieu of tax. This assures that this money has its normal distribution to all taxing jurisdiction, within that local county. There will be a requirement for an annual review, in the House and Senate Tax Committees, to assure the formula is working as intended and make adjustments if necessary.

Representative Siegfroid made a motion that **HB 2619** be amended to include the "Slider" amendment. Representative Hill seconded the motion.

Chris Courtwright explained a data sheet that was distributed to the Committee (Attachment 1). It lists the 105 counties and the amount of tax dollars collected by all taxing sub-divisions within each county for tax year 2005. These figures would provide the baseline for the computation in the "Slider" amendment.

Conversation continued regarding: issues related to the unknown fiscal impact of the bill; the urgency to continue work on the bill to move it along in the legislative process; and possible other amendments and alternatives.

Secretary Wagnon explained a memo on the *Fiscal Impact Analysis of **HB 2619*** that was distributed (Attachment 2). She reviewed four Charts: 1) Historical and Projected Assessed

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 1, 2006 in Room 519-S of the Capitol.

Valuation of CIME; 2) Total Property Valuation, CIME Valuation Under Current Law and **HB 2619**; 3) Revenue Decline on 21.5 Mill Levy v.s. Decrease in CIME Credit; and 4) Net State Fiscal Impact.

Representative Goico spoke of other alternatives available to the Committee for their consideration of **HB 2619**.

Representative Thull made a Substitute motion that would establish the amount of \$40 million, demand transfer that will be sent to the Counties to mitigate the impact of **HB 2619** It would be administered through the Local Ad Valorem Tax Reduction Fund (LAVTRF) and would be a five year program with a 20% decrease each year. Representative Dillmore seconded the motion.

The Chairman explained the difference in the roles of the Tax Committee and Appropriations.

Representative Thull closed his substitute motion. The motion failed.

Conversation continued regarding: pros and cons of the various options; potential offsetting benefits of **HB 2619** for economic growth in Kansas; and clarification of specific details in the bill and amendments.

Two other memo's were distributed to the Committee (**Attachment 3**): 1) A chart reflecting a "Comparison of Year One Property Tax Expense on \$1,000 Investment in Machinery & Equipment", provided by Denise Walsh, Hill's Pet Nutrition, Inc. on January 25, 2006; 2) Testimony from Brad Hamilton, KS County Commissioners Association in opposition to **HB 2618** and **HB 2619**.

The Chairman advised the Committee that there would be an extra meeting on February 2, Thursday, at noon, to continue to work **HB 2619**.

The meeting was adjourned at 10:30 A.M. The next meeting is February 2, 2006.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: Feb 1, 2006

NAME	REPRESENTING
John Darley	Ks Lusk Assoc.
Mike Reecht	Gaches Braden
Deann Williams	KS Motor Carriers ASSOC.
Ken Stanton	Northern Natural Gas Co.
Linda Rindler	Rep. Owners
Ben Cleaves	DOB
Judy Moler	KAC
LARRY R BAER	LKM
John Federico	General Motors
Duane Simpson	KGFA-KARA
Mike Merroy	Sprint
Walter Beshears	Sprint/Nextel
Art Hall	KU School of Business
Steve Stotts	KDOR
Jacob Wood	Intun Rep. Seihart
Tony Folsom	KDOR
John Hughes	KDOR
Roger Hamm	KDOR
M. Burch	KDOR

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: Feb 1, 2006

NAME	REPRESENTING
Derck Hein	Hein Law Firm
MIKE Taylor	Unif. Gov/WycoKCK
T. O. ANDERSON	KSCPA
TONY A. SCOTT	KSCPA
Bernie Koch	Wichita Chamber of Commerce
Harriet Lang	KAB
Stuart Little	Little Govt. Relations
Marlee Carpenter	KS Chamber
Michelle Peterson	Capitol Strategies
Dana Fick	VZW
A. Inel Defries	Collman, Defries & Nother PA
Kathy Damron	Damm's Assoc.
David Cunningham	KS Assoc. of School Bds.
KEVIN GREGG	HOUSE MAT LEADER'S OFFICE
Jackie Clark	Hallmark Candy
Dan Murray	Federico Consulting
Patrick Hillier	KS Lockwood
Robt J. Fast	AT&T Services, Inc.
Andy Shaw	Kearney & Associates

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: 2/1/06

NAME	REPRESENTING
Richard Crum	KDOOR
Joan Wagner	KDOOR
Linda + Jim Essmiller	RFB
Rick Kready	Pioneer Group - Topeka

County Name	2005 CI/ME Tax
Logan	115,398
Lyon	2,542,487
Marion	497,152
Marshall	921,890
McPherson	4,082,335
Meade	97,803
Miami	1,104,786
Mitchell	470,942
Montgomery	4,196,971
Morris	244,699
Morton	171,587
Nemaha	688,862
Neosho	1,663,667
Ness	91,979
Norton	282,170
Osage	465,395
Osborne	231,065
Ottawa	169,708
Pawnee	207,664
Phillips	368,210
Pottawatomie	1,150,296
Pratt	720,319
Rawlins	79,793
Reno	5,757,564
Republic	223,570
Rice	608,783
Riley	1,984,898
Rooks	193,175
Rush	304,708
Russell	464,310
Saline	5,363,289
Scott	170,665
Sedgwick	41,596,428
Seward	1,451,093
Shawnee	17,488,053
Sheridan	80,316
Sherman	388,843
Smith	164,454
Stafford	140,154
Stanton	73,094
Stevens	214,327
Sumner	1,721,475
Thomas	622,783
Trego	128,958
Wabaunsee	373,308
Wallace	46,793
Washington	166,209
Wichita	198,335
Wilson	842,626
Woodson	126,734
Wyandotte	29,902,930
Totals	234,154,821

County Name	2005 CI/ME Tax
Allen	1,419,151
Anderson	189,248
Atchison	1,476,124
Barber	419,281
Barton	2,159,648
Bourbon	1,100,816
Brown	567,663
Butler	2,970,240
Chase	110,769
Chautauqua	132,872
Cherokee	1,184,202
Cheyenne	80,523
Clark	123,555
Clay	291,663
Cloud	480,107
Coffey	257,012
Comanche	72,142
Cowley	3,406,085
Crawford	2,989,964
Decatur	110,973
Dickinson	682,090
Doniphan	615,392
Douglas	6,690,150
Edwards	286,020
Elk	162,804
Ellis	1,448,812
Ellsworth	330,298
Finney	2,268,592
Ford	3,543,189
Franklin	1,102,294
Geary	1,487,908
Gove	142,004
Graham	86,147
Grant	307,362
Gray	216,780
Greeley	62,243
Greenwood	260,455
Hamilton	86,419
Harper	374,442
Harvey	1,848,530
Haskell	129,065
Hodgeman	65,852
Jackson	526,547
Jefferson	647,888
Jewell	73,952
Johnson	54,198,729
Kearny	128,360
Kingman	455,586
Kiowa	100,319
Labette	1,539,721
Lane	107,849
Leavenworth	2,758,104
Lincoln	193,108
Linn	322,719

Fiscal Impact Analysis of HB 2619

House Bill 2619, as introduced, would exempt all commercial industrial machinery and equipment (CIME) newly purchased or leased after January 1, 2007. The purpose of this bill is to stimulate new investments in commercial and industrial machinery and equipment, to contribute economic recovery, to enhance business opportunity and to promote employment opportunity in the state of Kansas. To prevent the misuse of this policy, the bill specifies that purchases of property must be arms-length bona fide sales not consummated solely to escape taxation.

The bill would also raise the de minimus exemption from the current \$400 to \$1000, for tax year 2007 and thereafter.

Our Fiscal Impact Analysis below is based on a few key assumptions:

Assumption A: Future growth in property valuation will grow at the historical growth rate. Our historical growth rates are calculated using data covering a period of at least 10 years, so that short term volatility will not affect our results.

Assumption B: The average CIME property depreciation rate is about 6 years. This assumption is based on our preliminary analysis of the *Kansas 2005 State Personal Property Valuation Guide*.

1). Impact on CIME property tax base:

The amount of assessed valuation for Commercial Industrial Machinery and Equipment is about \$1,844 million in tax year 2005. From tax year 1995 to tax year 2005, the average growth rate has been about 4.7%. This is the growth rate over a period that covers the recent business cycle. We have assumed that the future growth rate of the CIME assessed valuation, without the passage of HB2619, will be at the historical rate, or 4.7%.

Chart 1 below shows the historical as well as projected CIME assessed valuation up to tax year 2012. Under the existing law, the amount of CIME assessed valuation will continue to grow, reaching at about \$2,526 million in tax year 2012. With the passage of HB2619, the level of assessed valuation for CIME will decrease over time. The bill will start to show impact on the state property tax base in tax year 2007, when the de minimus exemption is increased from the current \$400 to \$1000. This is roughly equivalent to a decrease of \$5.88 million in property taxes at the average statewide mill levy.

Assessed valuation will decline more starting in tax year 2008. By tax year 2012, all existing CIME property will enter their residual economic life, where the property will be valued at 20% of their retail value. The machinery and equipment in this stage will continue to be replaced, and probably will be completely replaced by the year 2022.

(See Chart 1 in Attachment).

2). Fiscal Impact on State Total Property Valuation.

The amount of assessed valuation for CIME is only 6.83% of total assessed valuation in tax year 2005. The gradual decline in CIME assessed valuation, and the eventual elimination of such tax base, will impact the future total property tax base. This, however, does not imply that the future tax base will show a decline. As Chart 2 illustrates, the passage of HB 2619 will slightly slow the growth rate of the total property tax base.

(See Chart 2 in Attachment).

3). Impact on Statewide Revenue:

As the amount of assessed valuation for CIME declines, the businesses will pay less property tax and thus claim less CIME income tax credits. CIME income tax credits will decline, compared to the existing law. This drop in tax credits will roughly compensate the declining revenue from the 20 mills school finance levy and the 1.5 mill of state buildings fund. Chart 3 below compares the decline in property tax revenue associated with the 20 mills school finance levy and the 1.5 mill of state buildings fund levy to the increase in revenue associated with decline in the CIME income tax credits.

(See Chart 3 in Attachment).

The net effect offsetting the revenue decline against the revenue increase is shown in Chart 4 below: The bill shows a small positive fiscal impact of \$0.244million in fiscal year 2008, and a positive fiscal impact of \$0.401 in fiscal year 2009. The net fiscal impact will become negative-\$0.227 million in fiscal year 2011. The negative fiscal impact to the state will continue to increase, reaching -\$1.022 million in fiscal year 2012.

(See Chart 4 in Attachment).

Table 1 below shows the net fiscal impact of HB 2619 on statewide revenues for Fiscal Year 2008 through 2012. We also include the fiscal impact from changes in railroad personal property assessed valuation and changes in motor carrier personal property assessed valuation

Table 1: HB 2619 fiscal impact:

Fiscal Year	2008	2009	2010	2011	2012	2013
Net Fiscal Impact From Changes CIME Assessed Valuation	\$243,905	\$400,688	\$162,607	-\$227,081	-\$1,021,719	-\$1,610,030
Fiscal Impact From Changes in Railroad Personal Property Assessed Valuation	\$14,421	\$129,342	\$216,770	\$281,922	\$325,883	\$388,386
Fiscal Impact From Changes in Motor Carrier Personal Property Assessed Valuation	\$0	-\$273,996	-\$557,280	-\$849,852	-\$1,151,712	-\$1,462,860
Total State Fiscal Impact	\$258,326	\$256,034	-\$177,903	-\$795,011	-\$1,847,548	-\$2,684,504

Chart 1. Historical and Projected Assessed Valuation of CIME

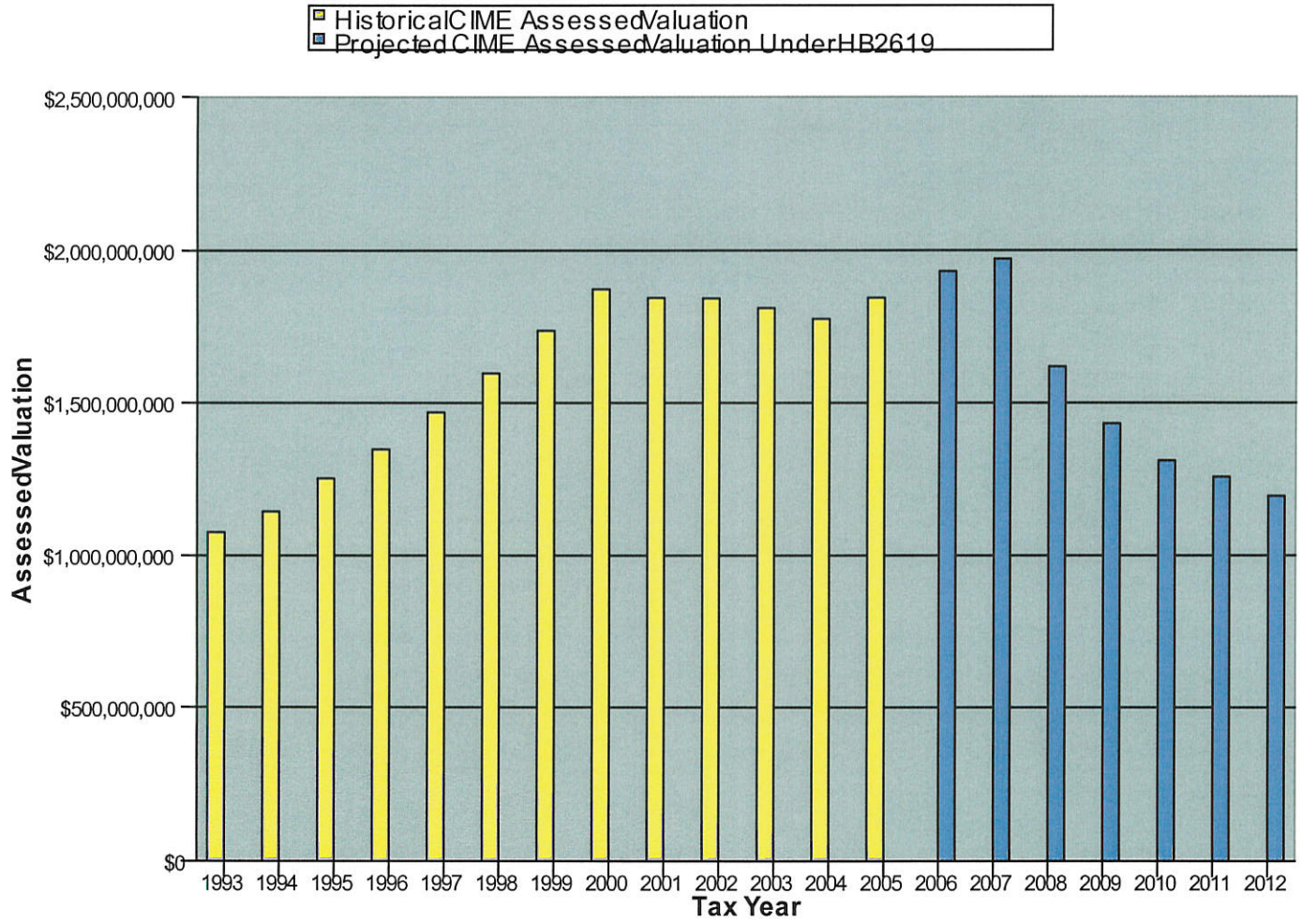


Chart 3. Revenue Decline on 21.5 Mill Levy v.s. Decrease in CIME Credit

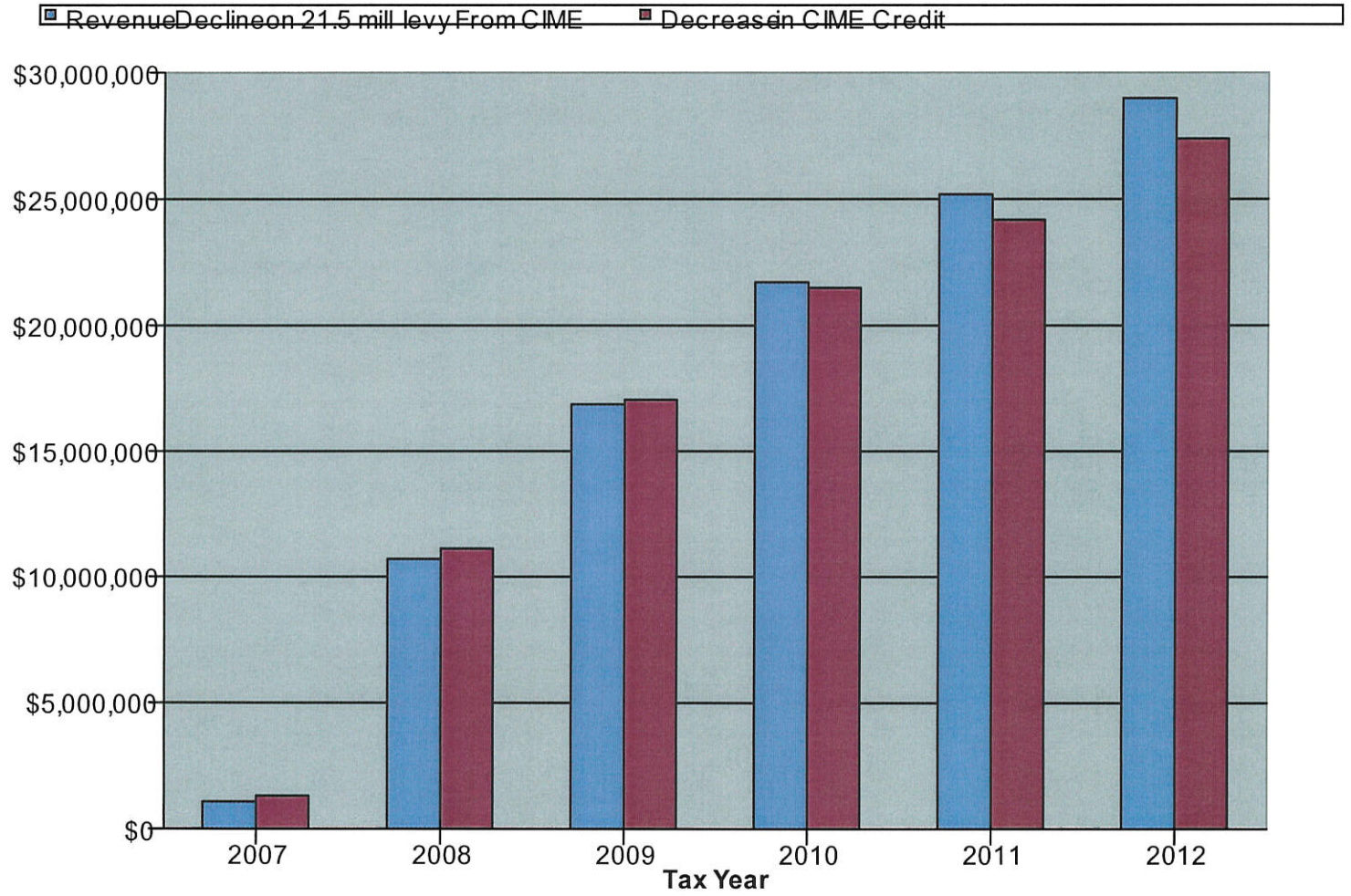
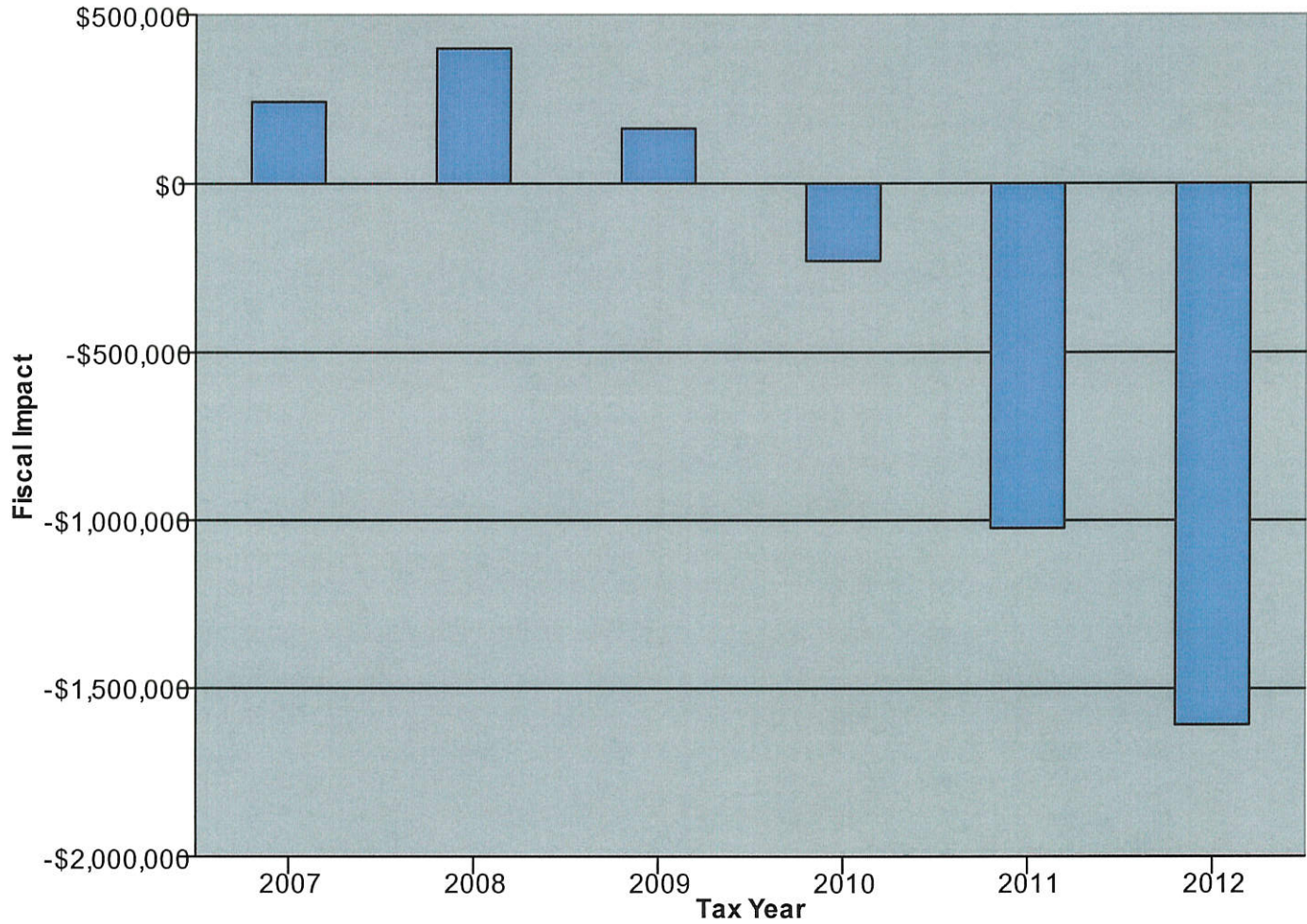


Chart 4: Net State Fiscal Impact



Comparison of Year 1 Property Tax Expense on \$1,000 Investment in Machinery & Equipment									
	Class	Install Year	Reported Cost	Depr Rate	Current Value	Ass'd %	Assessed Value	2005 Mill Levy	Tax Liability
Kansas								Per \$1000	
	Commercial & Industrial M & E	Yr 1	\$ 1,000	0.857	\$ 857	25%	\$ 214	\$ 143.729	\$ 31
								Per \$100	
Kentucky									
	Manufacturing Equipment	Yr 1	\$ 1,000	0.961	\$ 961	100%	\$ 961	\$ 0.150	\$ 1
								Per \$100	
California									
	Manufacturing Equipment	Yr 1	\$ 1,000	0.920	\$ 920	100%	\$ 920	\$ 1.090871	\$ 10
								Per \$100	
Indiana									
	Manufacturing Equipment	Yr 1	\$ 1,000	0.400	\$ 400	100%	\$ 400	\$ 3.3362	\$ 13
								(a)	
	(a) 2004 Actual Tax Rate								

2-1-06

This chart was used in testimony by Denise Walsh, Hill's Pet Nutrition, Inc. on January 25. She agreed to provide copies for the committee at the Chairman's request.

Denise Walsh
Hill's Pet Nutrition, Inc.

Rose Marie - Committee Secretary



Kansas County Commissioners Association

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785/272-2585 Fax 785/272-3585

January 30, 2006

Chairman Kenny Wilk
House Committee on Taxation
State Capitol
Topeka, Kansas 66612

Dear Chairman Wilk and Members of the Committee:


I am writing as the Chair of the Kansas County Commissioners Association in opposition to HB 2618 and 2619.

The Kansas County Commissioners Association is opposed to any further reduction in the property tax base, which provides the means for counties to provide services to their citizens. The proposed exemption for commercial and industrial machinery and equipment would further erode an already shrinking tax base for many small or agriculturally based counties. There is no proposal to provide any replacement funds to the affected counties. The very real effect of this proposal will be a shift in property tax to existing agricultural, commercial and residential taxpayers.

The suggested purpose of the exemption, economic development, is a laudable goal. However, the proposed exemption would have a disproportionate impact where the opportunities for economic growth are limited. Local governments are in a better position to weigh the costs and benefits of exemptions to new and expanding businesses in their communities. Kansas counties have a number of economic tools that may be applied if the locally elected officials feel they are appropriate, including property tax abatements. The proposed statewide blanket exemption of commercial and industrial machinery and equipment is too broad and will hurt our communities.

Should HB 2618 and 2619 move forward from your committee we respectfully request that replacement funds from the state be included so that all counties do not have to increase local property taxes for the benefit of business interests that do not contribute to our local communities.

Sincerely,


Brad Hamilton
Kansas County Commissioners Association Chair