Approved: March 14, 2006
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on March 9, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:
Chris Courtwright, Legislative Research
Gordon Self, Revisor of Statutes Office
Judy Swanson, Secretary

Conferees appearing before the committee:
Mayor Joe Reardon, Kansas City, KS
Charles Gregor, Leavenworth-Lansing Area Chamber of Commerce
Ross Markle, Harris Bros Cleaners
Mark Beshears, Sprint & Nextel
Hal Hudson, NFIB
Don Beatty, Hills Pet Nutrition
Jim Showalter, PTMW, Inc.
Jeff Berke, CJS Industries
Bernie Koch, Wichita Area Chamber of comerce
Bob Fasl, AT&T
Marlee Carpenter, Kansas Chamber

Others attending:
See attached list.

Hearing was opened on:
HB 2619--Property tax exemption for certain commercial and industrial machinery and equipment, materials and supplies
Sub HB 2525--Property tax exemption for certain telecommunications machinery and equipment and railroad machinery and equipment.

Mayor Joe Reardon, Kansas City, Kansas, testified on the property tax exemptions. (Attachment 1) He opposed the bills in their current form, and requested the income shortfall to local units of government be added into the bill. He said Kansas City could lose up to $11 million annually.

Charles Gregor, Leavenworth-Lansing Area Chamber of Commerce, testified in favor of **HB2619**. (Attachment 2) He said the bill would release capital for reinvestment, level the playing field with other states, and be an investment in the future.

Ross Markle, President of Harris Bros. Cleaners, provided background on this tax from a business perspective. (Attachment 3)

Mark Beshears, Sprint Nextel, requested the telecommunications industry be included in the tax exemptions. (Attachment 4)

Hal Hudson, NFIB, said the passage of these bills would not cause any city or county to lose any tax revenue they are now receiving. (Attachment 5)

Don Beatty, Hill's Pet Nutrition, testified in support of **HB 2619.** (Attachment 6) He felt it would have a long term positive effect on potential expansions and investments into Hill's manufacturing facility in Topeka.

Jim Showalter, PTMW, Inc., testified the new equipment exemption will foster economic growth within Kansas and within PTMW. (Attachment 7)

Jeff Berke, CJS Industries, said **HB2619** will encourage the continued expansion of existing capital intensive businesses and relocation of new business in Kansas. (Attachment 8)

MINUTES OF THE Senate Assessment and Taxation Committee at 10:40 A.M. on March 9, 2006 in Room 519-S of the Capitol.

Bernie Koch, Wichita Metro Chamber of Commerce, testified **HB 2619** would help close the gap in personal income growth between Kansas and the rest of the country. (Attachment 9) He said in Sedgwick County business personal property is about ten percent of the property tax base.

Robert Fasl, AT&T, testified as a result of shifts in telecom metrics, the Legislature should continue to ensure companies competing to sell the same services to the same customers should be taxed at the same level. (Attachment 10)

Marlee Carpenter, Kansas Chamber, supported HB 2619. (Attachment 11) She said the repeal of this tax will help businesses of all sizes and businesses in all industries. She said the income loss will not be as substantial as many report, since nothing is being removed from the current tax base, only future purchases will be exempt from the property tax.

Written testimony was received from the following in support of **HB 2619** and **Sub HB 2525**:

Christy Caldwell, Greater Topeka Chamber of Commerce (Attachment 12)
General Motors (Attachment 13)
Wes Ashton, Overland Park Chamber of Commerce (Attachment 14)

Mark Beck, PVD, provided an updated chart showing percentages on the amount of new CI/ME tax received annually by select counties. (Attachment 15)

Being no further business, the Committee adjourned at 11:45 a.m.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 3-9-06

NAME	REPRESENTING
Harriet Lange	Ks Assn of Broadcasters
Marlee Carpenter	Kansas Chamber
Lew Ebert	Kansas Chamber
Christy Caldwell	Topeka Chamber of Com.
Jeff Berke	CJS Industries, Inc.
Jim Showalter	PTMW, Inc.
Larry R. Baer	LKM
Don Beatty	Hill's Pet Nutrition
Bernie Koch	Wichita Metro Chamber
Michael Smith	Kansas Assn of Counties
Mike Murray	Sprint
Mark Beshears	Sprint
Jackie Clark	Hallmark Cards
[illegible]	KSRK
Ross Markle	Small Bus.
Charlie Gregor	Leavenworth-Lansing Area Chamber of Commerce
Estelle Montgomery	Hein Law Firm
Lucky DeFries	Coffman, DeFries & Nothern P.A.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 3-9-06

NAME	REPRESENTING
Leonore Rowe	self
Robt J. Ford	AT&T Services, Inc.
Ann Spiess	KTIA
David R. Corbin	KDOR
KEN DANIEL	KsSMALLBIZ.COM
JEANNE Goodwin	City of Wichita
Hal Hudson	NFIB
MIKE TAYLOR	Unified Gov
Sheila Frahm	KACCT
Jim Rose	KACCT
JOHN J JURCYK JR	UG of KCK/WYCO
Jerri Pennington	self
Bill Thompson	KS Dept of Commerce
Don Korber	Kansas, Inc
Kiel Brunner	intern
John Frederick	Boeing
Richard Cram	KDOR
Bill Brady	Capitol Strategies

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 03-09-06

NAME	REPRESENTING
Joan Wagnon	KDOR
Kay Calvert	LWV
Jim Calvert	LWV
Mark Beck	KDOR
Roger Hamm	KDOR
Mark Lowe	Meade County
Charles Nicolay	Capitol City Oil Co.
Tom Palace	PMCA of KS
David Cunningham	KASB
Alan Roop	Finney Co
Dina Fisk	VZW
Bryan Fisk	Citizen
Bob Vancrum	JCCC

Unified Government of
Wyandotte County/Kansas City, Kansas
Joseph F. Reardon, Mayor/CEO

701 North 7th Street, Suite 926
Kansas City, Kansas 66101
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OPPOSITION POSITION OF THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY KANSAS CITY, KASAS TO

HB 2619 AND HB 2525

MARCH 2006

Assessment & Taxation
Date 3-09-06
Attachment # 1

Opposition Remarks from Joe Reardon Mayor/CEO Unified Government of Wyandotte County to the Kansas Senate Tax Committee on 03-09-06:

Re: HBS 2619 & 2525

Madam Chair and Members of the Senate Assessment and Taxation Committee, thank you for the opportunity to address you today on House Bill 2619and House Bill 2525. These bills propose to eliminate personal property tax on machinery and equipment in Kansas.

I'm proud of the productive working relationship our Unified Government has with Wyandotte County businesses. We are committed to providing reasonable support to help existing and new business prosper. While I believe the intent of the bills to help business and new commerce is worthwhile, the bills in their current form do not adequately compensate local government for lost revenue.

Currently 16% of the Unified Government budget is funded by taxes on machinery and equipment -the highest collected anywhere in the State of Kansas. This percentage figure does not include exemption under HB 2525. Without adequate compensation, Wyandotte County could lose up to $ 11 million in annual revenue and ultimately would have to look to real estate property tax on our homeowners to help make up the difference. It is a course of action our government cannot willingly accept and one that we estimate could ultimately result in a 12.5% tax increase.

Great things are happening in Wyandotte County and our future certainly looks positive. It is a wonderful change in dynamics and the State of Kansas has been great partner in this progress. I can truly say that we are seeing a light at the end of the tunnel with respect to our long-term financial condition. Our future can be one where we will be able to address the social needs and issues of our unique county. A large reduction in revenue will harm our prospects for improving the condition of many of our citizens.

The current slider reimbursement language in the bills is a start and an acknowledgement that local government revenue losses should be addressed to avoid having a tax reduction become a tax shift. It, however, does not adequately address the revenue shortfalls faced by local government. Further, it does not acknowledge that counties that heavily rely on this revenue, like Wyandotte County and many others, have a higher hill to climb to grow new revenue to supplant the loss and should be afforded more time to do so.

We oppose the bill in its current form and ask that you consider measures to adequately address the revenue shortfall that local government would incur with the elimination of this tax. This request is not unique. Several states that have eliminated this tax have enacted revenue reimbursement plans to help local government. Some that come to mind are Iowa, Maine, and Illinois.

Maine's revenue reimbursement proposal includes a formula that enhances the reimbursement for those counties most gravely affected, acknowledging that such counties have a higher hill to climb. We support that concept and believe that extending the period of time and revenue reimbursement to those highly affected Kansas Counties makes sense. We will submit details of this concept to the committee.

Illinois' approach was to create a personal property replacement tax that is a corporate tax directed to local governments. We think this concept may have merit as it allows the state and local government to share the risk and reward. If income tax increases in the state due to increased business activity, which we all hope will happen, local government will share in that positive dynamic along with the State. We are confident that there may be other solutions that would adequately address revenues shortfalls at the local level. We want to work in partnership with you to explore those opportunities.

I want to make my testimony as clear as possible today: we oppose this bill in its current form. Not because we are opposed to making this state more competitive for businesses. We are proud of our support of business and manufacturing in Wyandotte County and we support State efforts in this area, too. We oppose the bill in its current form because it is clear to us that without further modification, the bill's laudable goal of helping business flourish in Kansas could rest on the backs of our homeowners. Thus a tax cut becomes a tax shift. As I said before this is a course of action that our local government cannot willingly accept.

Madam Chair and Members of the Committee I thank you for this opportunity to present the views of the Unified Government of Wyandotte County, Kansas City, Kansas. We hope to work in partnership with you to make Kansas competitive for business, while ensuring our homeowners are not faced with tax increases. We also incorporate the attached exhibits.

EXHIBITS OF UNIFIED GOVERNMENT
IN OPPOSITION TO
HB 2619 AND HB 2525

EXHIBIT	1	UG Finance Department analysis 2-11-06
EXHIBIT	2	Mayor Reardon Letter 2-13-06
EXHIBIT	3	General Analysis
EXHIBIT	4	UG Analysis with original slider and with alternative
EXHIBIT	5	UG Analysis of 2619, 2525 with UG Proposed Amendments

Finance Departme... - Research Division
Unified Government of Wyandotte Co./Kansas City, KS
701 N. 7th Street, Room 330
Kansas City, KS 66101

Phone (913) 573-5186
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February 11, 2006

Machinery and Equipment Key Points

1. Machinery and equipment personal property assessed valuation ($174 million) is a critical part of the Wyandotte County tax base accounting for nearly 16% of total valuation and generating approximately $11.6 million in property tax revenues.

2. The assessed valuation of personal property for state assessed telecommunication and railroad utilities ($30.8 million) is also an important piece of the Wyandotte County tax base accounting for nearly 3% of total valuation and generating approximately $2 million in property tax revenues.

3. For utilities in Wyandotte County, the personal property of telecommunications and railroads is 50% of the total valuation of all state-assessed utilities within the county.

4. For the 2003-2005, Wyandotte County added an annual average of $47 million assessed valuation in new machinery and equipment that in the future would be exempt from taxation, based on the proposed legislation.

5. The loss of this valuation, as proposed in HB 2525 and HB2619 will have severe consequences for the Unified Government. It is projected that within seven years, with depreciation and the replacement of existing machinery and equipment, the Unified Government will incur an annual revenue loss exceeding $13 million, based on current tax rates.

6. The "slider" contained in the legislation minimizes the impact of the valuation loss in the initial year; however, by year 2013 local governments will only receive 20% of the manufacturing and equipment revenues received in 2005.

7. It is projected that a tax levy increase of 9.2 mills would be required in year 2012 for the Unified Government to remain revenue neutral, with HB 2525. For a home valued at $100,000, this increase would be equivalent to $106 or a 12.5% increase.

8. The Unified Government Commission has shown a commitment to lowering the government's tax rate. This legislation will constrain future growth in overall property valuation and will limit the government's ability to lower future tax levies.

EXHIBIT 1

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Unified Government of Wyandotte County/Kansas City, Kansas

Joe Reardon, Mayor/CEO

701 North 7th Street, Suite 926
Kansas City, Kansas 66101
Phone: (913) 573-5010
Fax: (913) 573-5020

February 13, 2006

Dear Wyandotte County Legislators:

The Unified Government is proud of its productive working relationship with Wyandotte County businesses and is committed to provide reasonable support to help existing and new businesses prosper.

With that in mind, the Unified Government Board of Commissioners and I have concerns about HB 2619 and HB 2525 which provide property tax exemption for commercial and industrial machinery and equipment. Initially, we took a neutral position on HB 2619. We believe the bills could help existing businesses and attract new commerce to our community. However, we believe the bills in their current form do not adequately compensate local government for lost revenue.

Currently, 16% of the Unified Government's budget is funded by taxes on machinery and equipment – the highest collected anywhere in the State of Kansas. Without adequate compensation, Wyandotte County could **lose up to $11 million** in annual revenue and would have to look to our homeowners to make up the difference through real property tax. It is a course of action that our government cannot willingly accept.

The current reimbursement language in HB 2619 and HB 2525, we firmly believe, does not adequately address our situation. To offset the loss of revenue, we anticipate **a mill levy increase of 9.2 mills would be required at the conclusion of the revenue enhancement, meaning an increase of approximately $106 in real property tax on a $100,000 home – a 12.5% increase.**

Therefore, we are opposed to HB 2619 and HB 2525 as they come to the floor of the House. The reimbursement provision added to the bills by the committee is a good start to address the revenue shortfalls we would be faced with as a local government.

It is our hope that the legislature and the State of Kansas will consider other measures to address the revenue shortfall that local municipalities across the state would experience as a result of this bill in its current form. Without adequately addressing the shortfall, citizens throughout Kansas, particularly homeowners, could be harmed significantly by this measure.

Sincerely,

Joe Reardon
Mayor/CEO

EXHIBIT 2

HB 2619 & HB 2525

Goal: Find a way to hold harmless counties that have an above average concentration of machinery/equipment/railroad in the county. It is envisioned the proposal would commence after the first two years of the current "slider" amendment.

Counties reimbursed annually: Commencing in the year 2010 the Legislature shall annually reimburse each county for all taxing subdivisions in the county from state tax sources for not less than 50% of the property tax revenue loss suffered by that county during the previous calendar year because of the statutory property tax exemptions or credits enacted after June 30, 2006, except that if the Legislature exempts a type or classification of property from taxation that for any individual county constitutes more than 10% of the county's taxable value if the type or classification were entirely subject to taxation, the Legislature shall annually reimburse that county for not less than 50% of the property tax revenue loss plus one-half of the percentage that the type or classification of property subject to exemption constitutes of the county's total value. The Legislature shall enact appropriate legislation to carry out the intent of this section.

- Example: assume 10% of Sedgwick County's tax base is made up of tax exempt personal property. For any year in which that is the case, Sedgwick County's reimbursement would be 50% + 5% = 55% of lost tax revenue.

EXHIBIT 3

- Example: assume 18% of Wyandotte County's tax base is made up of personal property. Wyandotte County's reimbursement rate would be 50% + 9% = 59% of lost tax revenue.

- Example: assume 5% of Smith County's tax base is made up of personal property. Since the 10% threshold is not reached, Smith County's reimbursement rate would be 50%.

(Note: The intended disproportionate formula would have as numerator the total value of the classification of property within the County and the denominator would be the total taxable value of the County plus the total exempt value of that classification of property within the County.)

	Tax Rate	M/E Value	
Wyandotte County	31.279	173,970,000	5,049,812
Kansas City, Kansas	42.742	165,027,942	6,535,188
			11,585,000

House Bill 2619 & 2525 With Slider (As Approved)

Tax Year	Budget Year	Assessed Value M/E w/Utilities	M/E Assessed Value Change (ESTIMATE)	Machinery Equipment Property Tax Revenue	WYCO Addtl.Annual Revenue Loss Due to M/E Change	KCK Addtl.Annual Revenue Loss Due to M/E Change	Net Annual Revenue Loss Due to M/E Change	Slider	Mill Impact	$100,000 Home
2005	2006	204,770,000	Not Applicable	13,585,000	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0
2006	2007	204,770,000	0	13,585,000	0	0	0	0	0	0
2007	2008	173,300,000	-31,470,000	11,507,186	-915,446	-1,162,368	-2,077,814	100%	0	$0.00
2008	2009	128,000,000	-45,300,000	8,516,243	-1,317,753	-1,673,190	-5,068,757	80%	0.89	$10.26
2009	2010	82,700,000	-45,300,000	5,525,301	-1,317,753	-1,673,190	-8,059,699	60%	2.85	$32.78
2010	2011	37,400,000	-45,300,000	2,534,358	-1,317,753	-1,673,190	-11,050,642	40%	5.88	$67.67
2011	2012	12,400,000	-25,000,000	883,727	-727,237	-923,394	-12,701,273	20%	8.93	$102.70
2012	2013	0	-12,400,000	0	-325,723	-558,004	-13,585,000	0%	11.55	$132.83

Exhibit 4

House Bill 2619 & 2525 With MAYOR/ Alternate Slider

Tax Year	Budget Year	Assessed Value M/E	M/E Assessed Value Change (ESTIMATE)	Machinery Equipment Property Tax Revenue	WYCO Addtl.Annual Revenue Loss Due to M/E Change	KCK Addtl.Annual Revenue Loss Due to M/E Change	Net Annual Revenue Loss Due to M/E Change	Slider	Mill Impact	$100,000 Home
2005	2006	204,770,000	Not Applicable	13,585,000	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0
2006	2007	204,770,000	0	13,585,000	0	0	0	0	0	0
2007	2008	173,300,000	-31,470,000	11,507,186	-915,446	-1,162,368	-2,077,814	100%	0	$0.00
2008	2009	128,000,000	-45,300,000	8,516,243	-1,317,753	-1,673,190	-5,068,757	80%	0.89	$10.26
2009	2010	82,700,000	-45,300,000	5,525,301	-1,317,753	-1,673,190	-8,059,699	60%	2.85	$32.78
2010	2011	37,400,000	-45,300,000	2,534,358	-1,317,753	-1,673,190	-11,050,642	59.35%	3.99	$45.85
2011	2012	12,400,000	-25,000,000	883,727	-727,237	-923,394	-12,701,273	59.35%	4.54	$52.19
2012	2013	0	-12,400,000	0	-325,723	-558,004	-13,585,000	59.35%	4.70	$54.00

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3/7/2006

1-10

I. HB ..19 Exempts Business Equipment and Mach...ery
HB 2525 Exempts Equipment for Telecommunications Plants and Railroads
The Slider Amendment is found in both bills

HB 2619 has a "slider" amendment which provides for State payment to each county of an amount equal to the difference in total ad valorem tax receipts for the year 2005 as compared to the taxes levied for 2007, 2008, 2009, 2010, and 2111.

The State rate of payment of the difference is on a sliding scale, hence the term "slider amendment".

Tax Year	Budget Year	Reimbursement % of difference
2007	2008	100%
2008	2009	80%
2009	2010	60%
2010	2011	40%
2011	2012	20%

No State payments after February 1, 2012. The slider originally called for two years at 100% reimbursement but was changed on the house floor on February 13, 2006

Even with the above reimbursement schedule real estate taxes will increase. For example 100,000 Wyandotte County House in 2011 will have additional tax of $103. The foregoing increase does not include any other taxing district, such as the community college or school districts.

The following preliminary UG tax schedule of increases does not include community college, or school district or any other local taxing entity. UG taxes would raise the amounts on homeowners?

Tax Year	Additional tax
2008	$ 10.26
2009	$ 32.78
2010	$ 67.67
2011	$102.70
2012	$132.83

In 2005 a 100,000 house in Wyandotte County was taxed about $1800.00 Assuming valuations continue to go up, as well as increased taxes from other taxing units, the same house in 2012 could be paying over $2000 in Real estate property taxes.

The original slider does not take in account the loss after 2005 of increased valuations in equipment, machinery and utilities and it does not consider counties having the most industrial tax base.

EXHIBIT 5

[\/]

II. UG Proposed Amendments: A modified slider

Wyandotte County is the County impacted the most by these twin bills. Almost 20% of Wyandotte County tax base is attributable to machinery, and equipment associated with personal property, utilities and railroads.

The UG Amendments call for additional state help for those counties impacted the hardest by the tax shifts with these twin bills. The UG Amendment softens the blow of the twin bills to those counties whose base in Machinery and Equipment is 8% of the total tax dollars of the county.

Here is how the modified slider works:

Year		% of Reimbursement
2007		100%
2008		80%
2009		60%
2010	counties over 8%	50% + ½ of M/E exempt value
2011	counties over 8%	50% + ½ of M/E exempt value
2012	counties over 8%	50% + ½ of M/E exempt value
2013	counties over 8%	50% + ½ of M/E exempt value

All counties would receive 50% reimbursement for year 2010 thru 2013.

Example: Assume 10% of Coffey County's tax base is made up of tax exempt personal property. For any year after 2010 Coffey County's reimbursement would be 50% + 5% = 55% of lost tax revenues.

Example: Assume 5% of Smith County's revenue is made up of exempt personal property. The 8% threshold is not met. Therefore Smith County's reimbursement rate would be 50%.

The year 2013 is the last year for reimbursement.

Under the UG modified slider the tax shift of the twin bills is soften by taking into account the counties with the largest industrial base who are hit the hardest by the tax shift of the twin bills. However, it is clear that Wyandotte County will ultimately lose $204,770,000 in assessed valuations consisting of $173,970,000 in business and machinery valuation and $30,860,000 in utilities and railroad valuations.

Leavenworth-Lansing Area Chamber of Commerce

TESTIMONY OF CHARLES H. GREGOR, JR.
EXECUTIVE VICE PRESIDENT
LEAVENWORTH-LANSING AREA CHAMBER OF COMMERCE
SENATE ASSESSMENT AND TAXATION COMMITTEE
HOUSE BILL NUMBER 2619
March 9, 2006

Madam Chair, members of the Committee, on behalf of the Board of Directors and approximately 500 members of the Leavenworth-Lansing Area Chamber of Commerce, I thank you for the opportunity to come before you to speak on behalf of House Bill 2619.

As we are all aware, the economy of Kansas is slowly recovering and growing from the recent recession. Obviously, this is good and Kansas is poised to continue its current growth. We have a lot going for us. The problem is we are growing at a slower rate than most other states in the Midwest and the nation as a whole. A Wichita State University study found that Kansas businesses are expanding at a slower rate, creating jobs at a slower rate and increasing profits at a slower rate. This has the obvious implication that we are creating state revenue to improve our highways, infrastructure, education system and other public services at a slower rate than most of the states we compete with.

The Tax Foundation, a national organization that measures the relative tax load on businesses, finds that Kansas businesses have been subjected to a growing tax burden over the past several years, slipping from 31st in the nation three years ago, to 32nd two years ago, to 34th last year. I have attached to my testimony a copy of a pertinent article published in the financial section of the *Kansas City Star* a few days ago.

House Bill 2619 goes a long way to fix that. It does so at least three ways. First, it releases capital for reinvestment that our Kansas businesses will use to purchase new machinery and equipment that will increase the efficiency and productivity of businesses, promoting business expansions, creating new jobs and increasing profits. This is not hyperbole or exaggeration. Currently almost half of taxed machinery and equipment in Kansas is fully depreciated and taxed at the minimum 20% level. Today we have Kansas businesses surviving using old, worn, outdated and inefficient "low tech" machinery and equipment that require constant repair and for which it is difficult to find parts but won't be replaced because of the cost of new equipment. A major part of that cost is the current Kansas tax on machinery and equipment.

Second, this bill goes a long way to level the playing field when our Department of Commerce and other economic development organizations promote Kansas for new industries and businesses that are looking to expand or relocate. The bottom line is almost always the deciding factor in the decision making process and that bottom line takes a heavy hit because of our current taxes on machinery and equipment. Kansas Inc., in a November 1999 study, "*Business Taxes and Costs; A Cross-State Comparison*" found that 80% of responding manufacturers said "the property tax on machinery and

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Assessment & Taxation
Date 3-9-06
Attachment # 2

equipment in Kansas had a negative effect on their investment and expansion decisions." This is true whether we are focusing on a snow plow blade manufacturer or a high tech life science industry. It is also a major consideration for a Kansas business that is considering expansion and possible relocation. We must retain these Kansas businesses in Kansas. To do so we must create an economic environment that makes such a decision for a Kansas business a virtual "no brainer".

Third, we are losing our future. We invest an amazing amount of our wealth in education. We do a great job, by virtually any measure, turning out well educated, motivated Kansans ready to go to work as productive citizens. Our problem is that we are providing a tremendous work force for other states. We are a work force exporter. The slow growth of our businesses and industries is such that many educated young Kansans seeking jobs must look elsewhere for worthwhile employment. This condition will not change until we do all that is possible to encourage and promote the kind of business growth that produces a steady increase in good jobs for Kansans in Kansas. This bill will grow Kansas jobs.

We are aware of the cry of alarm from some quarters of tax base loss. I would argue that no revenue loss will be experienced. On the contrary, tax revenue will increase. First, all business machinery and equipment on the tax roles today will continue to be taxed at the current full rate until replaced. Only machinery and equipment purchased or leased on and after January 1, 2007, will not be taxed. The capital investments in machinery and equipment after January 1, 2007 will produce additional revenue in business and corporate taxes as profits increase; in income taxes as new Kansas jobs are created; and in property and sales taxes as a growing Kansas work force spends earned income. In the event such economic growth lags as the result of a gap between capital reinvestment and commensurate growth in revenue and jobs, the so-called "slider" provision safeguards against loss of tax revenue by local governments on a sliding scale for five years.

This bill will also help our small businesses, the source of 80% of Kansas jobs, in another way. It will increase the de minimus level on personal business property taxes from the current $400 to $1,000. The Leavenworth-Lansing Area Chamber of Commerce is familiar with this issue. We worked hard with the NFIB and other allies to put the first de minimus of $250 in place ten years ago. The bill was written and introduced by then Representative Clyde Graeber of the 41st District. We have continued, virtually every legislative session since, to fight for a de minimus increase. The de minimus was raised to $400 two years ago. The Fiscal Note on the increased de minimus was described as "negligible". I suggest to you that is an apt description for the de minimus increase included in this bill. Yet in administrative cost savings alone, it will have a profoundly positive impact on our small businesses. It is also worth noting that many county appraisers' offices also reported considerable cost savings as a result of the reduced administrative burden.

I urge your approval of HB 2619. I will stand for any questions from the Committee.

KC STAR FEB. 28, 2006

Business tax load rises in Kansas

Missouri stays about the same, rankings indicate

By MARK DAVIS
The Kansas City Star

Business tax burdens have inched higher in Kansas while staying about the same in Missouri, a national ranking of states shows.

The ranking came from the **Tax Foundation**, which is known for its annual calculation of Tax Freedom Day, illustrating when the average worker has earned enough to cover his federal, state and local taxes for the year.

Kansas ranked 34th among the 50 states based on the tax burden businesses face this year. The Sunflower State had been 32nd in the previous ranking and 31st before that.

A lower ranking represents a greater burden on business.

Missouri's business tax burden ranked 20th. It had been 19th and 20th in the prior years.

The Tax Foundation looked at several factors in each of five areas: corporate income taxes, individual income taxes, sales taxes, unemployment insurance taxes and taxes on assets. Its 2006 rankings were based on tax laws and collections at July 1, 2005, the start of most states' most recent fiscal year.

Neither Missouri nor Kansas ranked among the top or bottom 10 states in the foundation's Small Business Tax Climate Index.

New York fared worst in the rankings, followed by New Jersey, Rhode Island, Ohio, Vermont, Maine, Kentucky, Nebraska, Iowa and Arkansas.

Wyoming's tax climate was the best for business, followed by South Dakota, Alaska, Florida, Nevada, New Hampshire, Texas, Delaware, Montana and Oregon.

A 56-page report ranked Missouri among those five best for business income taxes, among those that directly tax business income. By contrast, Kansas was among the five worst business income tax states.

Missouri fared less well on individual income taxes in part because it has 11 tax brackets, the most of any state. But it got credit for keeping those brackets narrow. The report said narrow brackets mean most taxpayers end up in the highest bracket.

Neither Missouri nor Kansas index individual income taxes, which hurt their rankings.

Missouri took a hit as one of five states with local option sales taxes that allow multiple sales tax bases.

The report is available at *www.taxfoundation.org*.

To reach Mark Davis, call (816) 234-4372 or send e-mail to mdavis@kcstar.com.

8-3

8-3

Harris Bros. Cleaners, Inc.
501 South Fifth Street • Leavenworth, Kansas 66048 • (913) 682-3535

TESTIMONY OF ROSS E. MARKLE
PRESIDENT, HARRIS BROS. CLEANERS
Before the
SENATE ASSESSMENT AND TAXATION COMMITTEE
March 9, 2006

Mr. Chairman, and members of the Committee, my name is Ross Markle. My family and I own a small business in Leavenworth County. I am also the Chairman of the Leavenworth/Lansing Area Chamber of Commerce Government Affairs Council and a long-standing member of the National Federation of Independent Business (NFIB) leadership council.

This is the fourth time in the past ten or so years that I have had the opportunity to testify on this subject before the Legislature. I am not here to bore you with details about the personal property tax on machinery and equipment in Kansas, however, I would like to provide you with some background on this tax from a business prospective. The problem with the business personal property tax started with the 1986 property tax amendment, however the impact of that law did not hit Leavenworth County until about 1994 when an independent contractor (tax ferret) was hired by our County Commission. That contractor was hired to conduct property tax audits on our local businesses. Up to that point in time most of us were unaware of the amendment and few, if any, understood it. The County made no effort to educate the business community or to assist them in gaining compliance. They simply sent out their hired auditor to conduct audits that reached back four years and included everything under our roof to include paper clips (office supplies) and a racing outhouse that I stored for my local Lions Club. The penalty assessed included any taxes owed and a 100% fine for each of the previous four years. The auditor, in addition to his fees, received a 10% finder's bonus on everything he found out of compliance. He was very aggressive. The first few small businesses audited were faced with devastating tax bills and those of us in line were overwhelmed with the clerical burden of trying to come into compliance.

Assessment & Taxation
Date 3-9-06
Attachment # 3

In an effort to address the problem in Leavenworth County, I and four other local business owners formed the "Blue Collar Coalition" with the goal of stopping the audits and to give our State Legislature time to address the problem. Understanding that this was a State wide problem, NFIB also formed a coalition of small business organizations including the Kansas Chamber to lobby at the State level for changes to the law. This resulted in the Legislative adopting exemptions for property that cost $250.00 or less when new and was later increased to $400.00.

In my testimony in February 2001, I cited the results of my research into business personal property taxes for four local businesses. The results from my research showed that at the $500.00 exemption level, the line items reported by businesses fell by 47%, while the tax consequence was only a minus 5.2% of the 3% attributed to county tax revenue. At the $1,000.00 exemption level, the reported items were reduced by 63.7% and the tax consequence was a minus 9.3% of the 3% attributed to county tax revenue. I was wrong. The county realized increases in business personal property taxes when the limits were imposed. Businesses were simply better informed and did a better job of reporting equipment they were liable to pay taxes on and were reasonably accountable for.

Raising the exemption level to $1,000.00 as proposed by this bill for equipment purchased prior to January 1, 2007 would be a step forward in reducing the administrative burden placed on Kansas small businesses with again an insignificant impact on government income. Remember, the remaining major equipment costing significantly more than $1,000.00 will stay on the books forever or at least until it is replaced.

As an existing business that has been a part of the Kansas economy for over 25 years, I have been appreciative of the incentives that local governments offer to new employers coming to our State which we all benefit from, but I am also amazed at the lack of attention paid to those of us who are in small business that are here now. As a group, we are the largest employers of workers in our State. Raising the exemption level to $1,000.00 would be a positive step in recognizing and accommodating existing small businesses that contribute to the economy of Kansas.

The second aspect of this bill that eliminates any tax liability on business equipment purchased after January 1, 2007 will have an even more significant impact on business both existing and potential. Those of us already here will have more incentives to grow, and those who are considering moving here will be looking at a more business friendly State.

Property taxes are the worst kind of taxation. They are based on what I own, not on my ability to pay. If my business has a bad year or two, I am forced to go further in debt solely because of the property I own, not the income I have derived from owning it. House Bill 2619 is a step in the right direction to fix that problem. I strongly urge you to give this bill your favorable consideration.

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

March 9, 2006

Senator Barbara Allen, Chairman
Senate Assessment and Taxation Committee

RE: House Bill 2619 - Property Tax Exemption for Commercial and Industrial Machinery and Equipment
Substitute for House Bill 2525 – Property Tax Exemption for Telecommunications Machinery and Equipment
Testimony on Behalf of Sprint-Nextel Corporation
Topeka, Kansas – March 9, 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 for HB 2619 and Substitute for HB 2525 which exempts certain new commercial and industrial machinery, equipment and telecommunications equipment from personal property tax. Sprint Nextel supports any initiative that reduces or eliminates the property tax on machinery, equipment and telecommunications equipment from personal property tax. It has been common knowledge for years that the personal property tax on machinery and equipment has been identified by the business community as one of the major disincentives to invest in Kansas.

Of particular concern to us is the fact that many of our competitors are not state assessed and therefore will enjoy all of the benefits associated with HB 2619. The Governor is to be commended for trying to stimulate investment in this state, but a significant portion of the investment will be linked to investments the state assessed telecommunications industry will be making. As a consequence, we believe it is essential that all of the telecommunications industry be included by passing substitute for HB 2525.

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.

Assessment & Taxation
Date 3-9-06
Attachment # 4

As indicated above, traditional land line telecommunications providers such as Sprint Nextel face new competition from cable companies, resellers, as well as wireless and paging companies. Without HB 2525 these competitors will be able to enjoy the benefits of the HB 2619 while state assessed telecommunications companies 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 known as Embarq. There are approximately 5,000 Kansas jobs associated with the Local Telephone Company. Within the next several years this company will be looking for a new headquarters location. A formal search for a headquarters location has not been initiated. The final selection will balance a number of factors such as the interests of employees, shareholders, our community and a favorable tax environment.

Substitute for HB 2525 which would exempt personal property taxes on certain new telecommunications machinery and equipment 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 passage of both HB 2619 and HB2525. If you have any questions, I would be happy to address them at this time.

LEGISLATIVE **NFIB** **TESTIMONY**

The Voice of Small Business®

KANSAS

Statement by
Hal Hudson, State Director
National Federation of Independent Business
Before the Senate Committee on Assessment & Taxation
On House Bill 2619
March 9, 2006

Madam Chair and members of the Senate Assessment & 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 July1, 2006. HB 2619 is a bill built on "hope." Hope for the future. Hope for growth and prosperity for our State. This is a good move to spur the Kansas economy through encouraging 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 part of HB 2619 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 land and buildings added to the tax rolls by expanded businesses, and from homes of employees these growing businesses hire. We hope such expansion and growth might also generate additional local sales tax revenue.

The second part of this bill 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 taxes paid. Then, they must keep in their files proof of the purchase price, as long as the property is in use.

Assessment & Taxation
Date 3-9-06
Attachment # 5

Next is the fact that payment of personal property tax bears no relationship to the ability of a business to pay. If it is having a good year, a business 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.

Conversely, 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 the tax 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.

The following example should demonstrate why small business owners and county appraisers alike don't like keeping track of low-cost, low-revenue producing items.

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. Assume a local levy of 150 mills. I believe the amount of tax in this calculation would be 75 cents. For the $400 item, the tax would be 30 cents a year. I submit to you that neither of these small amounts of tax can justify the time and effort of the property owner or the county appraiser in maintaining records and collecting the tax.

Madam Chair and members of the committee, I hope you have not lost hope in the future of Kansas and will report HB 2619 favorably and will 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

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

March 8, 2006

Chairwoman Allen and members of the Committee:

My name is Don Beatty. I am the Corporate Controller 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 (exhibit attached).

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.

Assessment & Taxation
Date 3-9-06
Attachment # 6

Comparison of Year 1 Property Tax Expense on $1,000 Investment in Machinery & Equipment

At Our U.S. Manufacturing Facilities Based On 2005 Actual Tax Bills

	Property Class	Install Year	Reported Cost	Depr Rate	Current Value	Ass'd %	Assessed Value	Mill Levy	Tax Liability
Kansas								Per $1000	
	Commercial & Industrial M & E	Yr 1	$ 1,000	0.857	$ 857	25%	$ 214	$ 143.729	$ 31
Kentucky								Per $100	
	Manufacturing Equipment	Yr 1	$ 1,000	0.961	$ 961	100%	$ 961	$ 0.150	$ 1
California								Per $100	
	Manufacturing Equipment	Yr 1	$ 1,000	0.920	$ 920	100%	$ 920	$ 1.090871	$ 10
Indiana								Per $100	
	Manufacturing Equipment	Yr 1	$ 1,000	0.400	$ 400	100%	$ 400	$ 3.3362	$ 13

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 & HB 2525
Before the Senate Assessment & Taxation Committee
March 9, 2006
By James R. Showalter, Vice President of Finance
PTMW, Inc., Topeka, Kansas

The Honorable Barbara Allen 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 Bills 2619 and 2525.

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 building 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.

Assessment & Taxation
Date 3-9-06
Attachment # 7

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.

Another frustration relates to the limited property tax exemptions. We are most appreciative to receive some benefit from these exceptions. 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 allowing me to 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.

PTMW, INC.
James R. Showalter
Vice President of Finance

CJS Industries, Inc.
PRECISION METAL FABRICATION
Quality Parts ~ On Time

3801 NW 14TH STREET
TOPEKA, KANSAS 66618
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Testimony: HB 2619
Before the Senate Assessment and Taxation Committee
March 9, 2006

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

Chairwoman Barbara Allen 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

Assessment & Taxation
Date 3-9-06
Attachment # 8

WICHITA METRO
CHAMBER OF COMMERCE

Testimony to Senate Asses ent & Taxation Committee
March 9, 2006
Bernie Koch, VP/Government Relations
Wichita Metro Chamber of Commerce
350 W. Douglas, Wichita, Kansas 67202

Thank you for the opportunity to testify today in support of House Bill 2619.

Good morning, I'm Bernie Koch with the Wichita Metro Chamber of Commerce. Our Chamber has 2,140 members. Our members employ about 60 percent of the workforce in the Wichita Metropolitan Statistical Area of Sedgwick, Harvey, Butler, and Sumner Counties.

As a manufacturing center for the state and the country, we have a lot of experience understanding the importance of machinery and equipment investment.

I believe this is an idea that's time has come. Technology has become increasingly important in business, and increasingly expensive. As the cost of that technology increases, so does the business personal property tax on that technology.

Lately, our economic development professionals are hearing from professional site selectors that our high business personal property taxes are keeping us from consideration by many prospective companies.

That seems to dovetail with special legislation passed in 2002 and 2003 that was needed to keep jobs at two major manufacturers in Kansas. Both the Goodyear Facility in Topeka and the Bombardier Aerospace plant in Wichita were in danger of closing. Management from both companies testified to legislative committees that their costs in Kansas were the highest of any of the plants in their companies. As manufacturers, the business personal property tax on machinery and equipment was one of the major culprits. The Goodyear and Bombardier situations are symptoms of a problem.

Recently, another major company involved in technology in our area told us the same thing. Their parent corporation was unwilling to expand by investing in new equipment and new jobs because the Wichita facility has the highest costs of any of their seven major centers in the United States.

You have also been hearing this session about the long-term decline in productivity in Kansas which has been coupled with a troubling decline in personal income growth. Our personal income growth is below the national average, both statewide and in the four-county Wichita Metropolitan Statistical Area. How do you bring up personal income? Higher productivity goes hand in hand with personal income growth. How do you increase productivity? By encouraging investment in machinery and equipment. This is the only action I know of that attacks the personal income decline in Kansas.

Assessment & Taxation
Date 3-9-06
Attachment # 9

The most far-reaching study of equipment and investment and economic growth was done by J. Bradford De Long and Lawrence Summers of Harvard and MIT. They took a look at economic growth over 25 years in over 70 countries around the world.

Their study concluded the following:

- Accumulation of machinery is a prime determinant of national rates of productivity growth.
- There is a clear, strong and robust relationship between national rates of machinery and equipment investment and productivity growth.
- High rates of equipment investment can account for nearly all of Japan's extraordinary growth performance after WWII.
- "The gains from raising equipment investment through tax or other incentives dwarf losses from any non-neutralities that would result."
- The social return to equipment investment in well-functioning market economies is on the order of 30 percent per year. Social Return is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. The notion of a social return is one that you don't hear about often.

In Sedgwick County, business personal property is about 10 percent of the property tax base.

There is some basis to judge what will happen in Kansas when you provide an incentive to invest in equipment. Three state actions took place in 1989 that had an affect: the sales tax was removed from manufacturing machinery and equipment, the assessment rate for business personal property dropped from 30 percent to 20 percent, and the inventory tax was eliminated.

In Sedgwick County, these actions encouraged strong investment in machinery and equipment. Within two years, the lost valuation had been regained.

Between 1989 and 1992, the assessed valuation of business personal property in Sedgwick County grew by over 21 percent.

During that same period, the assessed valuation of commercial and industrial real property (buildings and land) grew by only about four percent. It appears clear that lowering the tax created a strong incentive to invest.

You must decide the best public policy. I believe your choice is to do something, which admittedly may be difficult, or to do nothing and continue the gap in personal income growth between Kansas and the rest of the country. I urge you to take action.

Thank you again for the opportunity to appear before you today. I look forward to your questions.

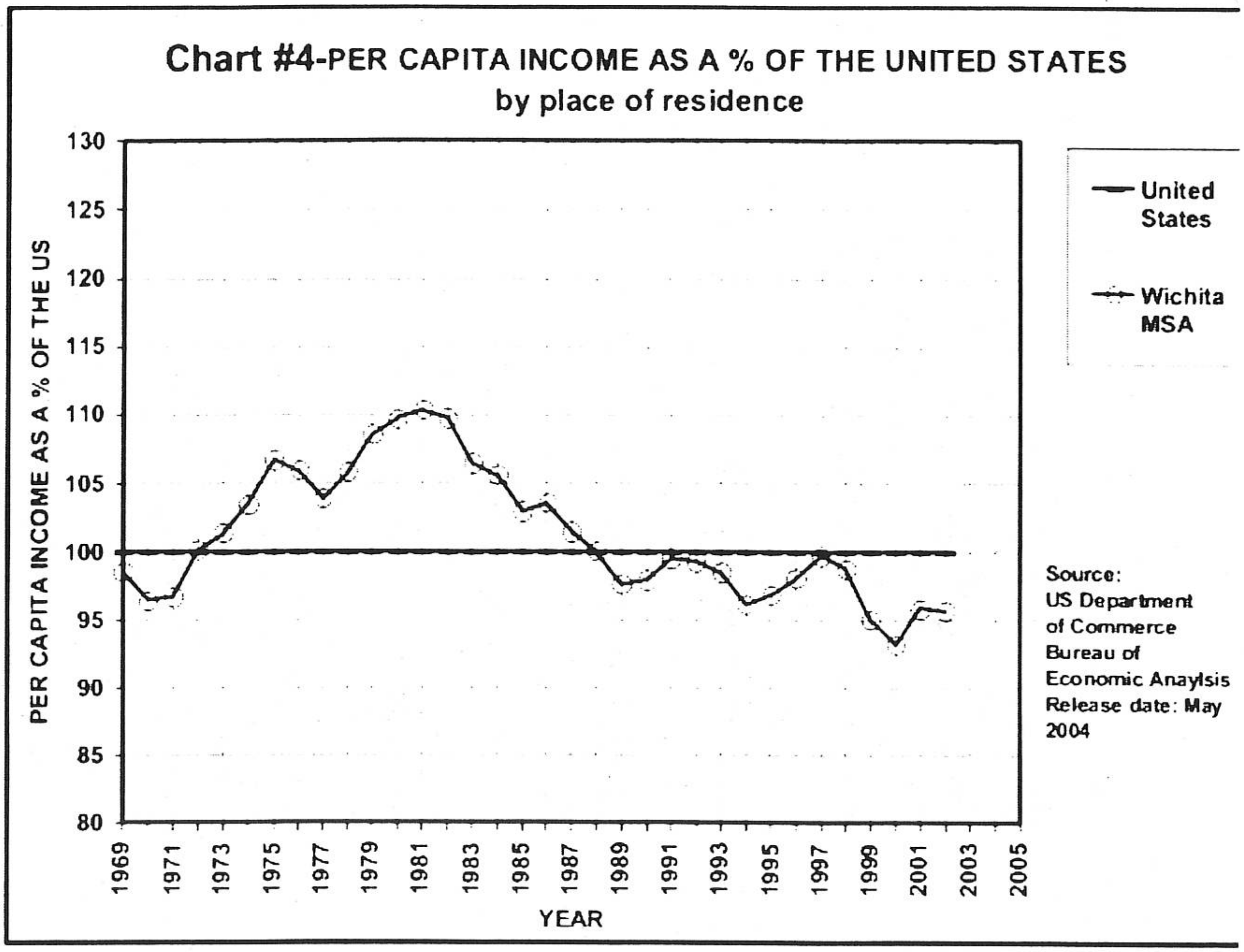


Chart #4-PER CAPITA INCOME AS A % OF THE UNITED STATES
by place of residence
PER CAPITA INCOME AS A % OF THE US
130
125
120
115
110
105
100
95
90
85
80
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
YEAR
United States
Wichita MSA
Source:
US Department of Commerce
Bureau of Economic Anaylsis
Release date: May 2004

9-3

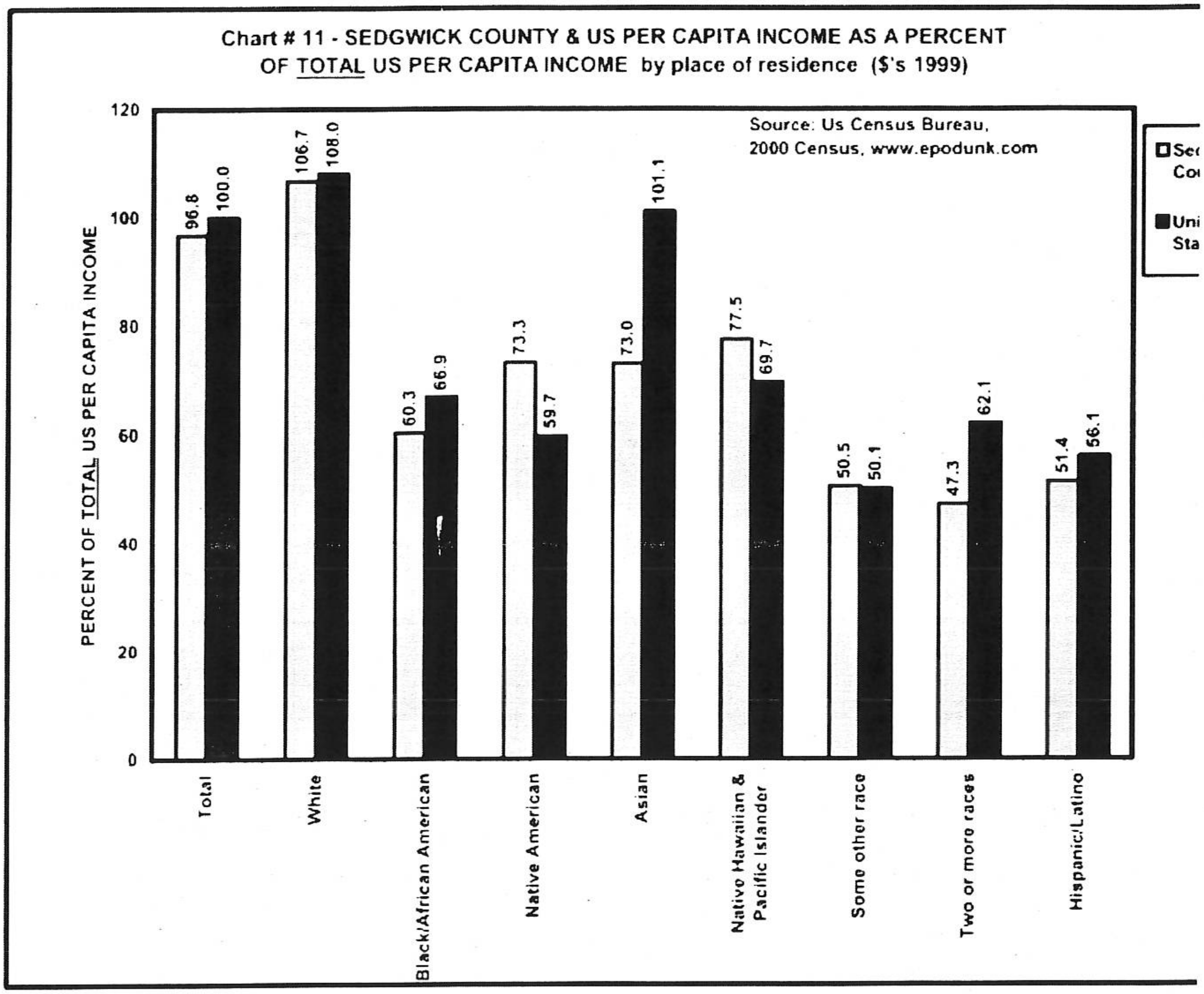
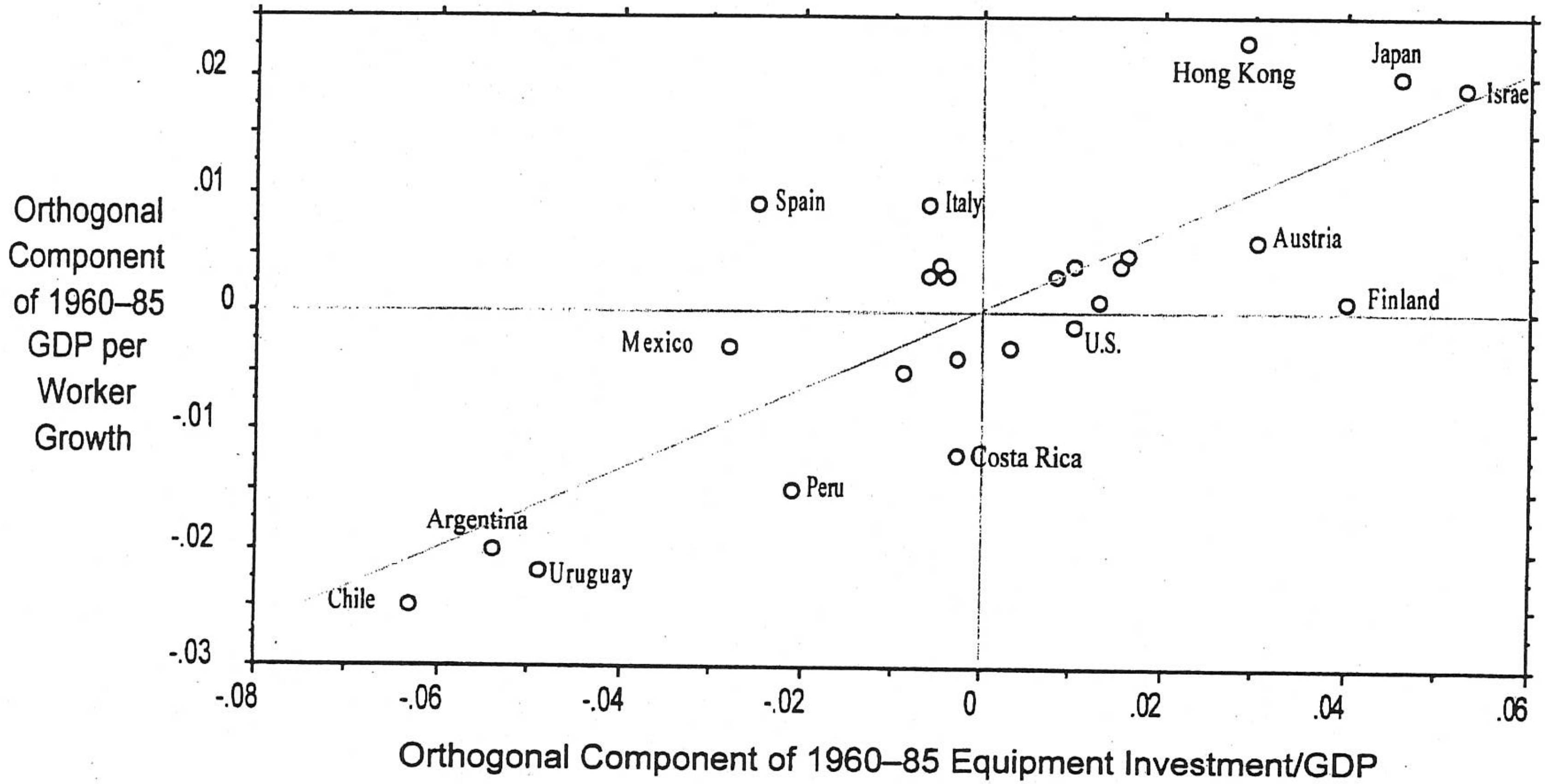


Chart # 11 - SEDGWICK COUNTY & US PER CAPITA INCOME AS A PERCENT
OF TOTAL US PER CAPITA INCOME by place of residence ($'s 1999)
Source: Us Census Bureau,
2000 Census, www.epodunk.com
PERCENT OF TOTAL US PER CAPITA INCOME
120
100
80
60
40
20
0
96.8
100.0
106.7
108.0
60.3
66.9
73.3
59.7
73.0
101.1
77.5
69.7
50.5
50.1
47.3
62.1
51.4
56.1
Total
White
Black/African American
Native American
Asian
Native Hawaiian &
Pacific Islander
Some other race
Two or more races
Hispanic/Latino

9-4

Figure 5
Partial Scatter of Growth and Equipment Investment, 1960–85



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

		COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT		COMMERCIAL & INDUSTRIAL REAL PROPERTY		TOTAL COMMERCIAL & INDUSTRIAL PROPERTY	
	TOTAL PROPERTY TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE
1984	$1,339,610,776	$183,930,207	13.73%	$220,623,496	16.47%	$404,553,703	30.20%
1985	$1,394,266,112	$187,085,820	13.42%	$227,298,750	16.30%	$414,384,570	29.72%
1986	$1,448,022,385	$185,445,528	12.81%	$250,987,830	17.33%	$436,433,358	30.14%
1987	$1,494,160,620	$195,126,906	13.06%	$261,418,256	17.50%	$456,545,162	30.56%
1988	$1,537,513,579	$211,576,704	13.76%	$266,438,350	17.33%	$478,015,054	31.09%
(1989 was the first year after reappraisal and reclassification. Mach/equip from 30% to 20%. Comm/indust real property remained 30%.)							
1989	$1,867,511,789	$180,826,219	9.68%	$613,043,418	32.83%	$793,869,637	42.51%
1990	$1,912,253,139	$177,862,882	9.30%	$622,574,204	32.56%	$800,437,086	41.86%
1991	$1,962,204,160	$212,948,990	10.85%	$625,921,336	31.90%	$838,870,326	42.75%
1992	$2,017,833,007	$220,016,005	10.90%	$638,151,101	31.63%	$858,167,106	42.53%
(1993 was the first year during which both comm/indust machinery & equipment and comm/indust real property were assessed at 25%)							
1993	$2,007,037,441	$281,394,061	14.02%	$469,597,688	23.40%	$750,991,749	37.42%
1994	$2,060,281,521	$282,127,156	13.69%	$535,365,114	25.99%	$817,492,270	39.68%
1995	$2,118,312,007	$295,632,718	13.96%	$523,594,346	24.72%	$819,227,064	38.67%
1996	$2,204,320,563	$309,179,886	14.03%	$557,505,466	25.29%	$866,685,352	39.32%
1997	$2,335,445,803	$326,055,773	13.96%	$609,002,374	26.08%	$935,058,147	40.04%
1998	$2,453,805,137	$355,717,918	14.50%	$635,027,905	25.88%	$990,745,823	40.38%
1999	$2,596,920,364	$360,099,087	13.87%	$671,695,039	25.87%	$1,031,794,126	39.73%
2000	$2,793,561,274	$373,823,471	13.38%	$729,440,214	26.11%	$1,103,263,685	39.49%
2001	$2,936,049,479	$339,430,675	11.56%	$783,474,306	26.68%	$1,122,904,981	38.25%
2002	$3,048,850,929	$344,206,950	11.29%	$853,894,122	28.01%	$1,198,101,072	39.30%
2003	$3,292,453,456	$342,905,188	10.41%	$960,007,708	29.16%	$1,302,912,896	39.57%
2004	$3,433,068,013	$349,660,903	10.19%	$993,632,126	28.94%	$1,343,293,029	39.13%
2005	$3,608,117,774	$367,524,139	10.19%	$1,047,101,408	29.02%	$1,414,625,547	39.21%

I&C-%.XLS

Source: Sedgwick County Clerk (2005 figures final -- released 11/01/05)

1/17/06

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Testimony on behalf of AT&T Kansas
Before the Senate Assessment and Taxation Committee

Presented by Robert J. Fasl
March 9, 2006

Madame Chair, 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 Madame Chair and each member of the Committee for this opportunity to present my testimony. I respectfully request each of you support Substitute for House Bill 2525 which will 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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Date 3-9-06
Attachment # 10

Legislative Testimony

HB 2619

March 9, 2006

Testimony before the Kansas Senate Assessment and Taxation Committee
By Marlee Carpenter, Vice President of Government Affairs

THE KANSAS CHAMBER

The Force for Business

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Chairman Allen 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 businesses 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, and 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 operations 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.

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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.

I will be happy to answer any questions.

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.

GREATER TOPEKA CHAMBER

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Written Testimony – HB 2619 and HB 2525
Senate Assessment and Taxation Committee
March 9, 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 and HB 2525, which exempts business machinery and equipment purchased or leased after July 1, 2006 from personal property tax; and exempts machinery and equipment with a value under \$1000, after the same date. Both bills also provide assistance to local governments that should lose tax revenues at the beginning of the phase out.

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 markets while competing nationally and internationally. They are companies that have grown over the years; their success generates additional tax dollars for government beyond the property taxes they pay. Our community wants to see these companies and many others continue to grow and thrive in our state. Additionally, HB 2525 provides the same tax relief to the telecommunications industry and railroads, both important industries in our community and the state. Driving down costs by encouraging businesses to invest in machinery and equipment without years after year of tax payments will go a long way in helping businesses prosper. 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 3 of this bill which increases the personal property tax exemption for property valued 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 includes tax relief for these businesses as well

Other states have instituted similar tax policy; we are competing for business investment with these states. Your support for HB 2619 and HB 2525 will help Kansas businesses, prospective Kansas businesses, Kansas workers and the state by creating a stronger, growing economy for all of us. We ask for your positive vote on these two bills.

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Attachment # 12

Kansas Senate Assessment and Taxation Committee

General Motors Testimony on the proposed M & E Property Tax Legislation

March 9, 2006

General Motors thanks 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 Initial Quality Survey, and the all new Saturn Aura mid-size sedan, which will begin production this summer.

The products and investment just mentioned come about through a great deal of joint, hard work. Joint means both General Motors management and Fairfax's auto assembly partners, United Auto Workers Local 31. The Fairfax Plant has to compete against other General Motors assembly plants for these products.

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 the GM Fairfax 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.

The plant is also one of only two or three plants that has consistently paid over $10 million a year in real and personal property taxes. The 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 the cost is 2 to 3 times the average. This has been a difficult challenge to overcome as the plant fights for product allocation.

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.

GM estimates, 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.

General Motors is currently reviewing yet another product proposal for the Fairfax 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 the Fairfax plant more cost competitive as we go forward on proposals such as this.

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 the State, and General Motors wholeheartedly supports your efforts to remove this burden.

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.

OVERLAND PARK
CHAMBER OF COMMERCE

LEGISLATIVE TESTIMONY

March 9, 2006

TO: Senator Barbara Allen, Chair
Members, Senate Assessment & Taxation Committee

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

RE: Support of HB 2619 and Sub HB 2525

Thank you for the opportunity to offer written testimony in support of HB 2619 and Substitute for HB 2525, dealing with the tax status of machinery and equipment in Kansas. The Overland Park Chamber of Commerce has approximately 1000 member businesses, and supports these bills as a needed component to business expansion.

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 details of Sub for HB 2525 will have an extremely positive effect for several of our member businesses.

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.

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

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Commercial & Industrial Machinery & Equipment New Investment

	Assessed Value				
	2004	2005	Change	Assessed Value of New Purchased in 2004	% of 2005 Value
Cowley	20,155,784	22,949,708	2,793,924	4,802,305	20.9%
Douglas	56,243,155	60,909,205	4,666,050	13,566,404	22.3%
Ellis	12,055,602	12,971,587	915,985	4,072,264	31.4%
Johnson	459,641,270	476,361,443	16,720,173	94,706,926	19.9%
McPherson	34,111,437	35,708,175	1,596,738	2,135,091	6.0%
Miami	10,828,352	9,341,510	-1,486,842	1,403,127	15.0%
Montgomery	35,142,596	29,195,391	-5,947,205	2,998,538	10.3%
Reno	38,254,547	38,567,727	313,180	7,043,708	18.3%
Russell	2,748,871	2,563,072	-185,799	280,954	11.0%
Saline	49,210,630	51,926,310	2,715,680	10,683,355	20.6%
Sedgwick	349,660,903	367,524,139	17,863,236	102,474,008	27.9%
Shawnee	115,754,027	128,512,317	12,758,290	30,649,904	23.8%
Smith	766,980	778,510	11,530	142,155	18.3%
Sumner	9,985,869	10,207,979	222,110	1,625,186	15.9%
Wyandotte	176,984,376	181,113,621	4,129,245	38,207,615	21.1%

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