Approved: March 15, 2006
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:30 A.M. on March 13, 2006 in Room 519-S of the Capitol.

All members were present.

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

Conferees appearing before the committee:
Pat Hubbell, Kansas Railroads
Kenneth Daniel, Midway Wholesale
Erik Sartorius, City of Overland Park
Paul Welcome, Johnson County Appraiser
Randall Allen, Kansas Association of Counties
David Cunningham, Kansas Assn. Of School Boards

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**

Pat Hubbell, Kansas Railroads, testified as a proponent. (Attachment 1) He said under Federal law rail transportation may not be assessed at a higher ratio to its value than other commercial and industrial property in the same jurisdiction.

Ken Daniel, Midway Wholesale, testified local governments need to join the state government in supporting this bill. (Attachment 2) He said eliminating the CI/ME tax would have the most value of anything that could be done for business in Kansas. Senator Donovan complimented Mr. Daniel on his thorough testimony.

Erik Sartorius opposed the bills. (Attachment 3) He said if this policy change is made, then the State should share a more proportional risk in lost revenue.

Paul Welcome, Johnson County Appraiser, provided a chart showing the shift of the tax base for the State and Johnson County, and also a chart showing the tax impact in Johnson County. (Attachment 4) He said the slider amendment does not address the loss in revenue for raising the de minimus "paper clip" exemption from $400 to $1000. For Johnson County, this change alone amounts to approximately $500,000 in annual lost revenue for the county government.

Randall Allen, Kansas Association of Counties, testified the total exemption of new machinery and equipment would have an adverse impact on those communities least able to afford it. (Attachment 5) He urged the Committee to kill the bills. Senator Apple requested staff to find out what it would cost to reinstate the demand transfer (LAVTR). Senator Lee said she thought it would cost $126 million to reinstate demand transfers.

David Cunningham, Kansas Association of School Boards, opposed the bills because of the loss of revenue they represent. (Attachment 6)

Sandy Jacquot, League of Kansas Municipalities, testified in opposition to the bills. (Attachment 7) It is the League's understanding that mill levies in some counties could increase by as much as 27 mills over time, with the statewide average being a 7 mill increase.

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on March 13, 2006 in Room 519-S of the Capitol.

Written testimony was submitted by the following: (Attachment 8)

April Holman, Fiscal Focus (Opponent)

Harriet Lang, Kansas Association of Broadcasters (Proponent)

Michael Boehm, Mayor of City of Lenexa (Opponent)

City of Wichita (Opponent)

Hearing on **Sub HB 2525** and **HB 2619** was closed.

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

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 03-13-06

| NAME | REPRESENTING |
|---|---|
| Judith Bann | Sprint |
| Sandy Jacquot | LKM |
| Larry R Baer | LKM |
| Dick Carter | Manhattan Chamber |
| Stuart Little | Johnson County |
| Erik Sartorius | City of Overland Park |
| Brad Harrelson | KFB |
| Jennifer Lyon | Pinegar, Smith, + Associates |
| Bernie Koch | Wichita Metro Chamber |
| Ken Daniel | Midway Whlse/KSSMALLBIZ.COM |
| Bud Burke | City of Olathe |
| [illegible] | KS. Railroads |
| David Cunningham | KASB |
| Natalie Haag | Security Benefit |
| Bill Thompson | KS Dept of Commerce |
| Bill Brady | Capitol Strategies |
| | |
| | |

*KANSAS RAILROADS*

PATRICK R. HUBBELL 800 SW JACKSON (785) 235-6237
TOPEKA, KS 66612

**Support of Substitute HB 2525**
**Personal Property Tax Exemption for Railroads**

Madam Chair and members of the Senate Assessment and Taxation Committee, my name is Pat Hubbell. Thank you for allowing me to testify today on behalf of Burlington Northern Santa Fe Railway, Union Pacific Railroads, Kansas City Southern Railroad and Watco.

- **What HB 2525 Will Do**: HB 2525 will exempt railroad and telecommunications machinery and equipment purchased or leased or brought into the estate after June 30, 2006. This bill is similar to HB 2619 relating to property taxes for commercial and industrial machinery and equipment.

  - **What Machinery and Equipment Qualifies**?
    - HB 2525 includes public utility tangible personal property for railroads and telecommunications found in subclass (3) of class 2 of section 1 of article 11 of the Kansas constitution.
    - HB 2619 includes commercial and industrial machinery and equipment within subclass (5) of class 2 of section 1 of article 11 of the Kansas constitution.

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

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

- **The Federal 4-R Act**: Section 306 of the 4-R Act lists four taxing practices that "unreasonably burden and discriminate against railroads in interstate commerce." The 4-R Act provides:

  - Rail transportation property may not be assessed at a higher ratio to its value than other commercial and industrial property in the same jurisdiction;
  - A tax may not be levied or collected based on this unlawful assessment;
  - Railroads are protected from paying property taxes at a higher rate than the rate applicable to other commercial and industrial property;

hub@cjnetworks.com

and

- States are forbidden from imposing any other tax that results in discriminatory treatment of railroads.

I encourage the Committee to vote favorably on HB 2525.

## Ken Daniel

**From:** "Ken Daniel" <kdaniel@midwaywholesale.com>
**To:** "Joan Wagnon" <Joan_Wagnon@kdor.state.ks.us>
**Sent:** Wednesday, November 16, 2005 3:22 PM
**Subject:** Business Tax Change Proposals

Joan:

After giving this a lot of thought, I think eliminating the business machinery and equipment property tax would have by far the greatest bang for the buck of anything you could do. I say this even though most of the tax break would go to the big guys.

It will send a strong message to manufacturers and other capital-intensive businesses, and it will impact a huge number of businesses.

Although small businesses won't save that many bucks, and most don't even claim the credit, I can't understate the positives of eliminating the red tape paperwork and the confrontations with appraisers. We're talking tens of thousands of small businesses that won't have to file "paper clip tax" reports with appraisers. (We would need to make sure that is clear in the law -- no filings required.)

And, it will save a bunch of income tax paperwork for the small businesses that claim it. They will like that. With seven partners in my firm, this is a lot of paperwork. My share last year was about $800 -- too much to ignore, but a pain in the rear to get.

You need to avoid killing the taxes on new purchases while continuing taxes on previous ones, because we will hand a competitive advantage to new businesses over old ones, and we will have a cat fight between business interestsk, and someone will probably sue over it.

If the elimination is done all at once, the $400 de minimus exemption doesn't matter. If it isn't done all at once, you need to raise the de minimus a bunch immediately, otherwise there will be no immediate benefit for the small guys.

The other two big impact things for the future would be to eliminate or phase out the franchise tax and to eliminate estate taxes, maybe not in that order. Again, I'm speaking from a Kansas perpective and not a pure small business perspective. I have a lot of thoughts about those two, and will be happy to share them with you when you are interested.

Ken Daniel
232-4590 x205

Assessment & Taxation
Date 2-13-06
Attachment # 2

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

**Testimony**
**Presentation to the Senate Assessment and Taxation Committee**
**March 9, 2006**

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

Madam Chairwoman and Members of the Committee:

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

The property taxes on business machinery and equipment, along with corporate franchise taxes and estate taxes, are huge impediments to us getting businesses to invest here, headquarter here, and encourage owners to live and retire here.

- We have one of the very highest BM&E property taxes in the nation at a time when a dozen states have eliminated theirs entirely.
- We are one of nineteen states with a franchise or net worth tax, and others are eliminating them.
- We are one of about fifteen states that will have an estate tax in 2011 unless we act.

A few months ago, Secretary Wagnon asked me to take off my small business hat and give her an unbiased opinion as to the most important move Kansas could make from a tax standpoint to bolster business in this state. My answer was that we needed to fix the property tax on business machinery and equipment. That is still my answer.

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

P.O. Box 1246 · 218 SE Branner Street · Topeka, KS 66601-1246 · (785) 232-4572 · Fax (785) 357-7794
www.midwaywholesale.com

This bill contains the best strategy I've seen for fixing this problem. If you pass this bill, I will get to stop updating seven separate appraiser's listings in 2007.

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

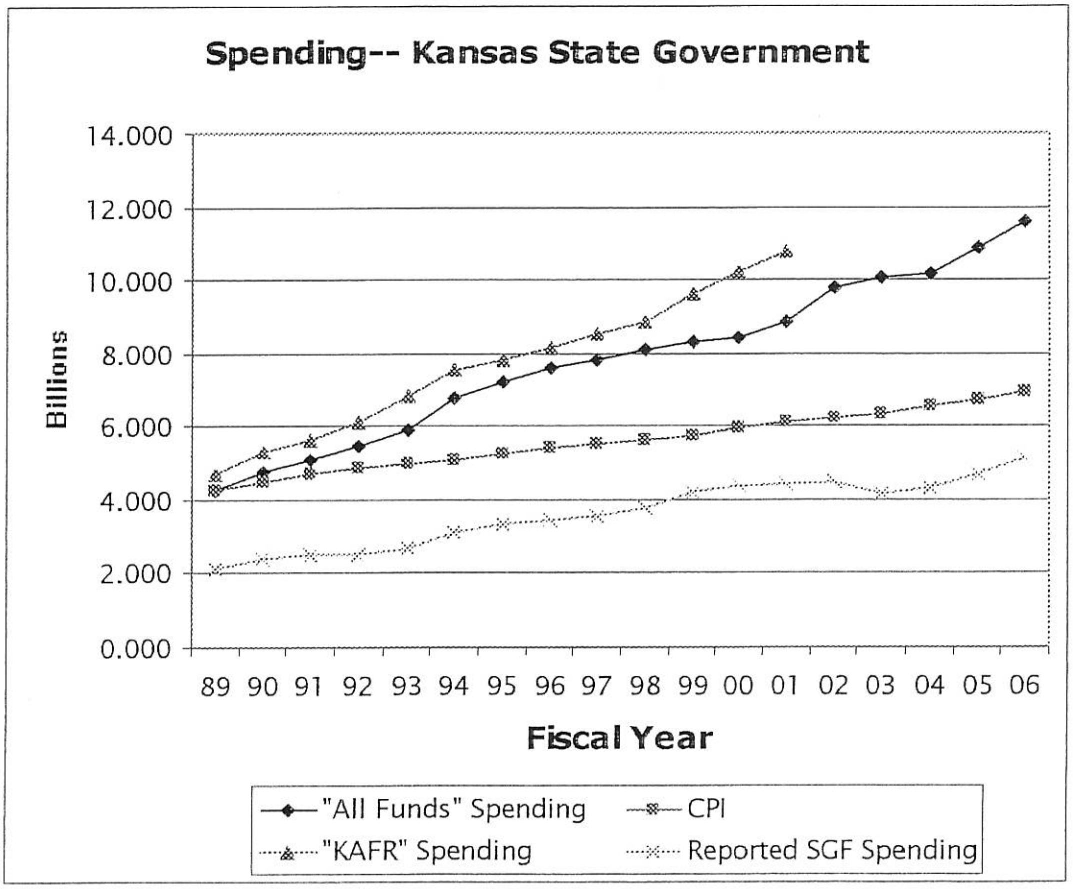
**LOCALS NEED TO PARTICIPATE**

Kingston Trio Song:

(The old prospector was dying of thirst in the desert when he saw a water pump and a note and a small jar of water.)

"Now there's just enough to prime it with so dontcha go drinkin' first."
"You just pour it in and pump like mad and, buddy, you'll quench your thirst."

"You've got to prime the pump, you must have faith and believe."
"You've got to give of yourself 'fore you're worthy to receive."
"Drink all the water you can hold, wash your face, cool your feet."
"Leave the bottle full for others, thank you kindly, Desert Pete."

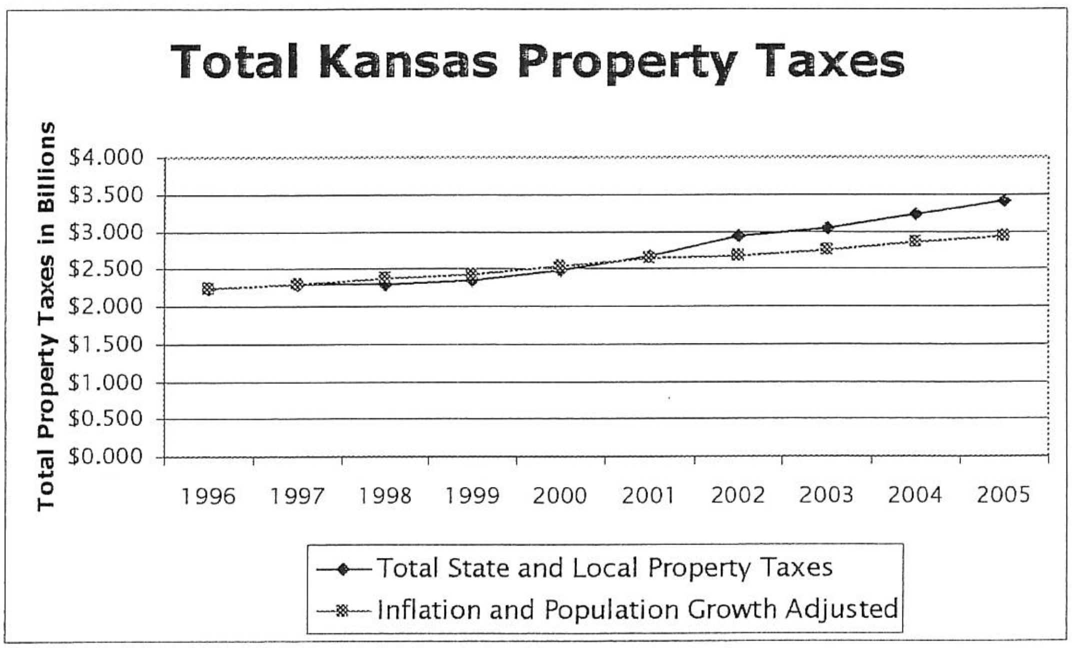


For years, and even now, we have been hearing that the huge tax cuts in the middle 1990s "nearly bankrupted the state". If you will look at the ALL-FUNDS SPENDING in the following chart, you will not find a billion-dollar dip, or any dip, anywhere. In fact, the slope of the line in the middle and late 1990s stayed very constant except for 1994. The rate of increase dropped slightly in 2000, but then went up sharply again.

The point is that somehow we had enough tax revenues to continue to grow spending. A huge part of the reason is that the tax cuts stimulated the economy, which grew tax revenues. We had our cake and ate it, too.

(I will concede that it would be better to have "all-funds revenue" charts, but I simply couldn't find them in time to prepare this testimony.)

Another way to document the stimulus to the economy is with property taxes. This chart is REVENUES. Most of the $1 billion in "cuts" was vehicle and school property taxes. As you can see, the revenue growth took only a short vacation then came back with a vengeance, far outstripping inflation. The cut in taxes stimulated investment. It stimulated the real estate market and drove prices up much faster than inflation. Again we had our cake and ate it, too.




Here is my point: I strongly encourage you to adopt the original bill without watering down the methods contained in it.

Overwhelmingly, the opponents of HB2619 are local officials, especially cities, counties, and schools.

The federal government has provided virtually all of our economic stimuli in the past several years. The state, while doing little to help, has at least not hurt much. But there has been no restraint on the part of our locals. In fact, it has been exactly the opposite.

- In the five years from FY 2000 to FY 2005, local government tax revenue increased from $3.019 billion to $4.123 billion[1]. THIS IS ONLY THE PORTION THAT THE STATE TRACKS, BUT DOES NOT INCLUDE ALL LOCAL TAXES.

- In the five years from FY 2000 to FY 2005, the amount local governments received from the state increased from $2.744 billion to $2.799 billion[2]. This is a very small increase, but it is an increase.

- In the five years from FY 1999 to FY 2004 (latest available), the bonded indebtedness of local governments increased from $12.4 billion to $17.4 billion[3].

Local governments need to join the state government in supporting this bill. They have not yet participated in the last recession, and it is time for them to join the team.

"If you want less of something, tax it. If you want more of something, untax it."

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

Some Additional Information:

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

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

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

- The property tax depreciation methods on business machinery and equipment overstate the value, so the effective tax rate is even higher.

- For the most part, small businesses don't file for the income tax credit because it is complicated and in many cases, the credit is less than the cost to file for it.

- Compliance with property tax on low-cost items is poor.

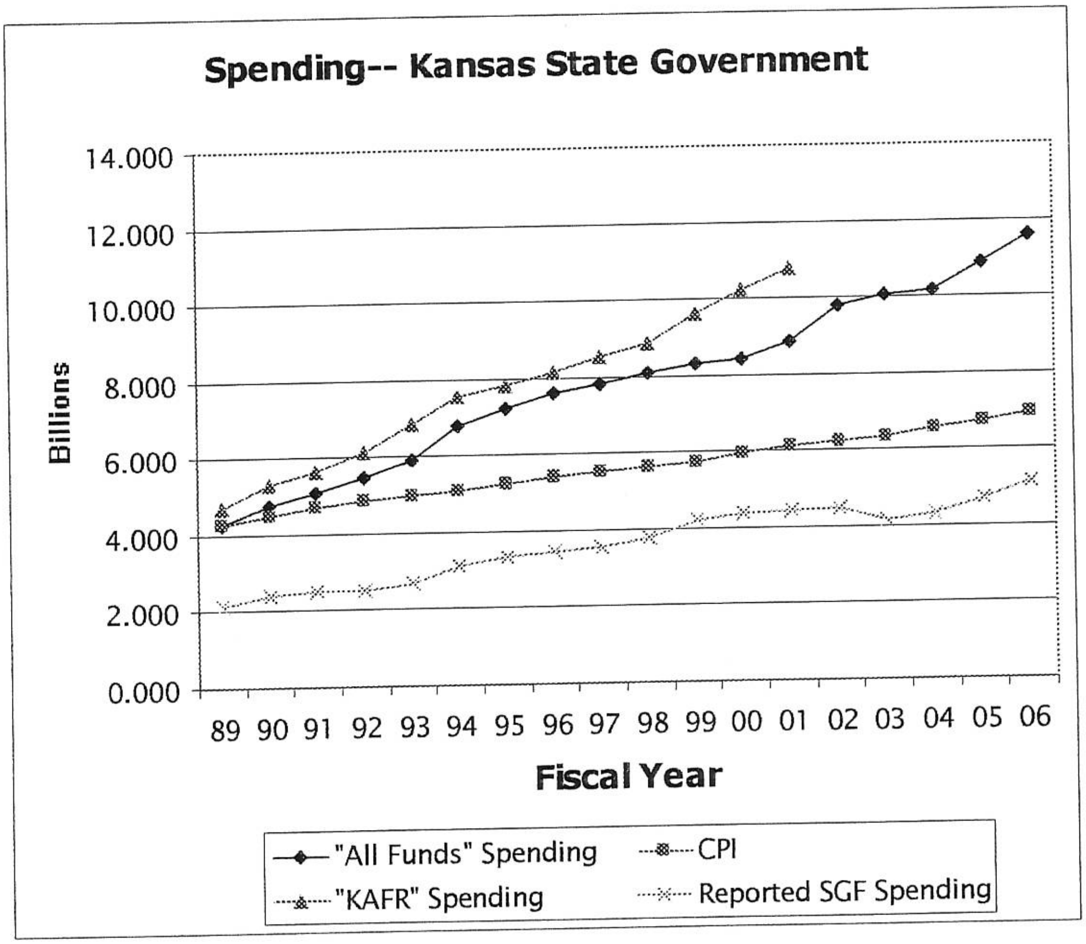
[1] "Tax Facts", 2005 Supplement.
[2] "Tax Facts", 2000 Edition.
[3] State Treasurer's website, bonded indebtedness statewide.

## GROWTH OF STATE SPENDING IN KANSAS

March 9, 2006

On the Kansas Department of Revenue Website there is a spreadsheet entitled "Estimated Effect of Tax Reductions and Increases Enacted since 1995[1]." This information is used constantly by tax increase proponents in attempts to kill tax reduction bills or justify tax increases. A Kansas legislator was quoted two weeks ago as saying "the billion dollars a year in tax cuts nearly bankrupted the state."

In the following state spending chart[2], one will not find a billion-dollar dip, or any dip, anywhere. In fact, the slope of the line in the middle and late 1990s stayed very constant except for 1994.




Kansas had enough tax revenues to continue to grow spending mainly because the tax RATE cuts stimulated the economy, which in turn ballooned tax revenues. <u>We had our cake and ate it, too.</u>

1 "Estimated Effect of Tax Reductions and Increases Enacted since 1995", KDOR website, http://www.ksrevenue.org/pdf/EstEffect.pdf.

2 Spending figures are easily available, and they portray accurately that no actual overall spending cuts ever occurred. To offer a more complete picture, KsSmallBiz.com will soon publish a similar chart based on state revenues.

2-6

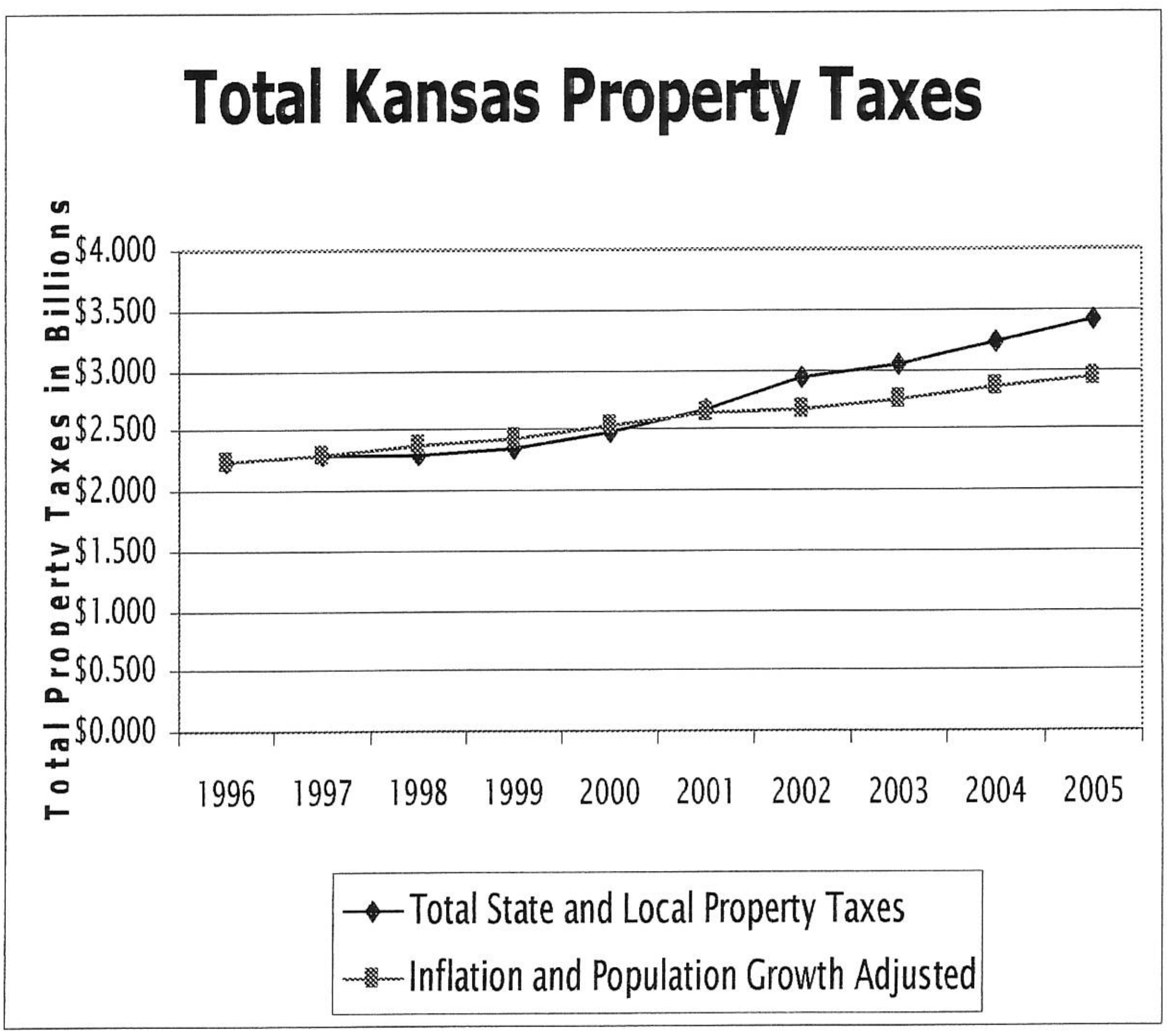
**KANSAS PROPERTY TAX REVENUES**

March 9, 2006

For years, an often-heard sound byte from tax-increase proponents has been "The billions in tax cuts made during the Graves administration were just too much. Those cuts are now costing one billion dollars per year. We need to take some of that money back."

Of the tax rate reductions made in the nineties, two-thirds were property taxes. Let's take a look at the huge revenue hit state and local governments (overwhelmingly local) took from these draconian cuts.

The following chart is combined state and local property tax revenues. As one can see, the revenue growth took only a short vacation then came back with a vengeance, far outstripping inflation. The cut in taxes stimulated investment. It stimulated the real estate market and drove prices up much faster than inflation, which drove valuations up. <u>We had our cake and ate it, too.</u>

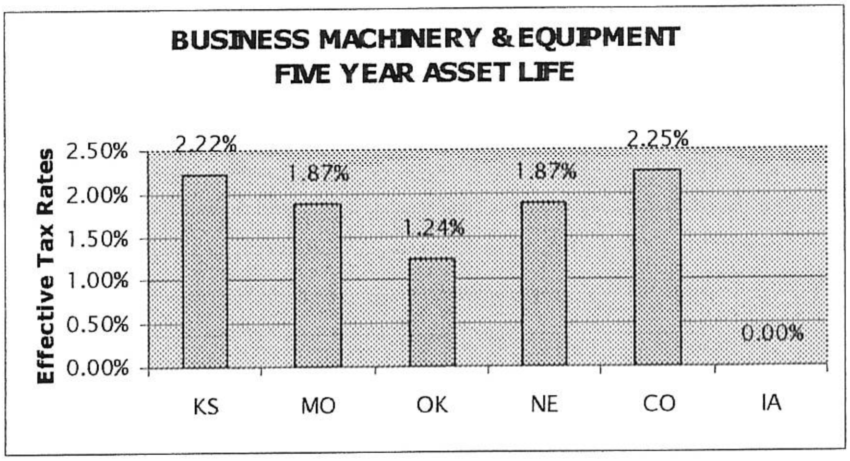


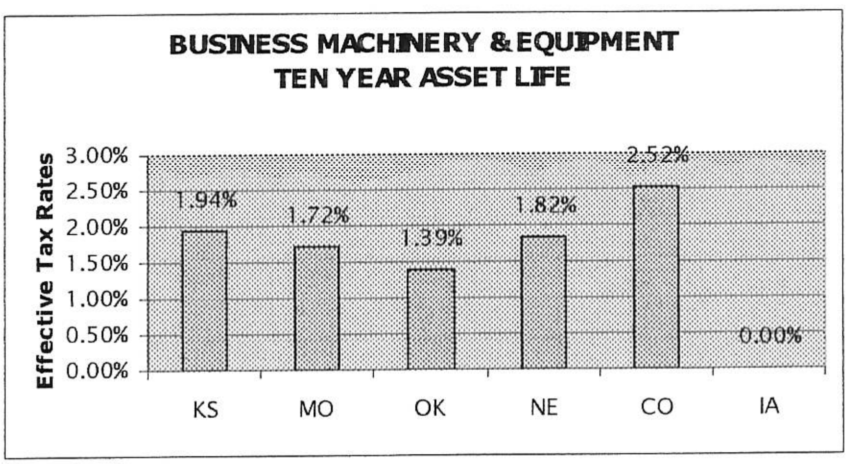

2-7

## BM&E PROPERTY TAX COMPARISON[3]

March 9, 2006

For Kansas, the 15% income tax credit has been subtracted to reach the following figures. Many small businesses do not take advantage of that credit.




3 "Business Taxes and Costs: A Cross State Comparison, 2003 Update", Kansas Inc., February 2004, Pages 72-73.

The City of
Overland Park
KANSAS

8500 Santa Fe Drive
Overland Park, Kansas 66212
• Fax: 913-895-5003
www.opkansas.org

Testimony Before The
Senate Assessment & Taxation Committee
Regarding
House Bill 2619

March 13, 2006

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

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

The City was pleased to see the work done by the House recognizing how this change in policy will affect cities. The mitigation mechanism approved by the House committee, providing cities full compensation for any loss of machinery & equipment property tax revenue the first two years and gradually reducing the state aid, seemed like a good-faith attempt to create a partnership between the State and local governments.

We were disheartened, however, to see that the second year of full compensation to cities for the loss of machinery & equipment property tax revenue was removed on the House floor, in order to reduce the bill's fiscal note. That a large number of Representatives were apparently concerned about the cost to the State for this mitigation program highlights – and, we think, validates – our apprehension that this policy change has the potential to come at a high price to local units of government.

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

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

Assessment & Taxation
Date 3-13-06
Attachment # 3

The bottom line is that our tax base is being shrunken underneath our feet. In this case of machinery & equipment property taxes, revenues will eventually be permanently lost as machinery is replaced. For the City of Overland Park, this loss will be $1.9 million annually. Citizens are not asking us for fewer services, but we may be left with a choice of cutting services or increasing our mill levy, which puts a greater burden on homeowners and office building owners. We hope that this policy change being contemplated will spur the economic growth envisioned by proponents. At the same time, we recognize that tremendous growth will be required to make this so.

With this in mind, we ask that the legislature give careful consideration to restoring the sixth year of the mitigation mechanism, as passed by the House Taxation Committee. If you believe this policy is the best way to encourage growth in businesses in Kansas, the City of Overland Park asks that the State partner with cities, counties, schools, libraries, and all other entities with a reliance on property taxes in assuming some of the risk involved. If the reasoning behind House Bill 2619 spurs economic activity as predicted, then the legislature should feel confident that aid to cities will not be required.

**MEMORANDUM** Office of the County Appraiser Johnson County, KS

***Named "Distinguished Assessment Jurisdiction" for 2000***

**TO:** Senate Assessment and Taxation Committee

**FROM:** Paul Welcome, CAE, ASA, & RMA Johnson County Appraiser PW

**RE:** **HB 2619 as amended**

**DATE:** March 13, 2006

Good Morning, my name is Paul Welcome, Johnson County Appraiser and I am here to express the Johnson County Board of County Commissioner's legislative position for this proposed legislation.

The first attachment shows the shifting of the tax base as major changes have occurred since the 1989 reappraisal in a pie chart for the state and Johnson County only. The specific years were chosen due to significant legislative or constitutional changes in tax policy since 1988. Of course, 1989 was the first significant change with reclassification and reappraisal. The next major tax policy shift was the 1992 constitutional amendment passed by the citizens and implemented in 1993. This constitutional amendment changed the residential classification from 12% to 11.5% and the commercial classification from 30% to 25%. The 2004 data is the last set of data available at this time from the state.

Another major change enacted by the legislature for 2004 was the change in the agricultural use capitalization rate. With the higher fixed rate, this shifted the base from agricultural use values to the other remaining property owners, real and personal property owners.

Another major shift that has occurred in counties with larger oil and gas property owners was the tax exemption for low producing wells with less than 5 barrels per day. This was enacted when the price of oil was in the $10.00 to $18.00 rate. Those properties still remain exempt even though the price of oil is over $60.00 per barrel.

## State wide Perspective

| Type | 1988 | 1989 | 1993 | 2004 |
|---|---|---|---|---|
| **Residential** | 25.1 | 33.8 | 34.2 | 45.1 |
| **Commercial** | 11.0 | 22.9 | 18.1 | 20.7 |
| **Agricultural** | 14.7 | 10.6 | 9.7 | 7.0 |
| **Other** | 0.4 | 1.1 | 1.2 | 0. |
| **Individual Personal** | 0.8 | 9.5 | 10.5 | 6.8 |
| **Commercial Personal** | 17.4 | 5.6 | 8.1 | 7.5 |
| **Oil & Gas** | 10.0 | 8.5 | 9.4 | 5.7 |
| **Utilities** | 20.6 | 16.4 | 18.3 | 12.0 |
| | | | | |

Assessment & Taxation
Date 3-13-06
Attachment # 4

## Johnson County Perspective

| Type | 1988 | 1989 | 1993 | 2004 |
|---|---|---|---|---|
| Residential | 46.9 | 53.6 | 53.2 | 59.1 |
| Commercial | 20.4 | 32.9 | 29.5 | 28.1 |
| Agricultural | 1.0 | 0.3 | 0.2 | 0.2 |
| Other | 0.7 | 2.6 | 2.5 | 0.6 |
| Individual Personal | 0.0 | 0.7 | 0.7 | 0.6 |
| Commercial Personal | 22.7 | 5.2 | 8.5 | 7.0 |
| Oil & Gas | 0.0 | 0.0 | 0.0 | 0.0 |
| Utilities | 8.3 | 4.7 | 5.4 | 4.1 |

For Johnson County the shift continues to real property, especially to the residential and commercial property owners. Real property made up 69 percent in 1988 and now the tax base is about 88 percent in 2004.

The slider amendment does not address the loss in revenue from $400 to $1,000. For Johnson County this amounts to approximately $500,000 for the county government only. The county would like the Senate to consider additional state revenue for this loss.

Beginning with 2008, the amount of state support will continue to erode and the county would like to have the percentages increased for 2008 and beyond.

If new personal property is exempted, then the associated payment in lieu payments would no longer be collected from the Industrial revenue bonds. The city would not longer offer this incentive.

The county's position would be for the state to consider the following options:

1. Increase the income tax credit from its current levels:

**From the Department of Revenue's website**

**CREDIT AMOUNT**
The credit is 15% of the personal property tax levied for property tax years 2002, 2003, and 2004, 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax year 2007 and all such years thereafter, actually and timely paid on specific commercial and industrial machinery and equipment.

For all taxable years commencing after December 31, 2004, a taxpayer shall receive a credit of 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax year 2007 and such years thereafter, actually and timely paid upon railroad machinery and equipment.

**MACHINERY AND EQUIPMENT REFUND**
The amount of credit which exceeds the tax liability for a taxable year is refunded to the taxpayer.

2. If the legislature exempts personal property, the county and other taxing jurisdictions would receive additional state revenue to off set the loss in value. The current bill addresses some of the loss but not all of the taxable amount.

3. Expand the ability for jurisdictions to have payment in lieu provisions and make it easier for smaller companies to quality.

4. The state could do nothing on this issue and leave the property as taxable.

Thank you for the opportunity to discuss this bill.

P:\PAW\2006\Legislation\HB2619 Senate testimony.doc

4-4

**HB 2619 revenue loss and distribursement**
**Amongst types of property owners**
**Year**

| Type | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **400 to 1000 Minimun Cost Exemption loss** | | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | |
| **Reimbursement** | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **County loss in Revenue** | | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | 502,424 | |
| **New equipment loss in revenue** | | 2,160,793 | 2,160,793 | 2,160,793 | 2,160,793 | 2,160,793 | 2,160,793 | 2,160,793 | |
| **State Reimbursement** | | 2,160,793 | 1,600,000 | 1,200,000 | 800,000 | 400,000 | 0 | 0 | |
| **County loss in Revenue** | | 0 | 400,000 | 800,000 | 1,200,000 | 1,600,000 | | | |
| **Total County Loss in Revenue** | | 502,424 | 902,424 | 1,302,424 | 1,702,424 | 2,102,424 | 2,500,000 | 2,500,000 | |
| **State Reimbursement Percentage** | | 100% | 80% | 60% | 40% | 20% | 0% | | |
| **Effective millage loss** | | **0.06999** | **0.125712** | **0.181434** | **0.237156** | **0.292878** | **0.348263** | **0.348263** | **1.603696** |
| **Current one mill =** **$7,178,491** | | | | | | | | | |

2005 tax year % for the base

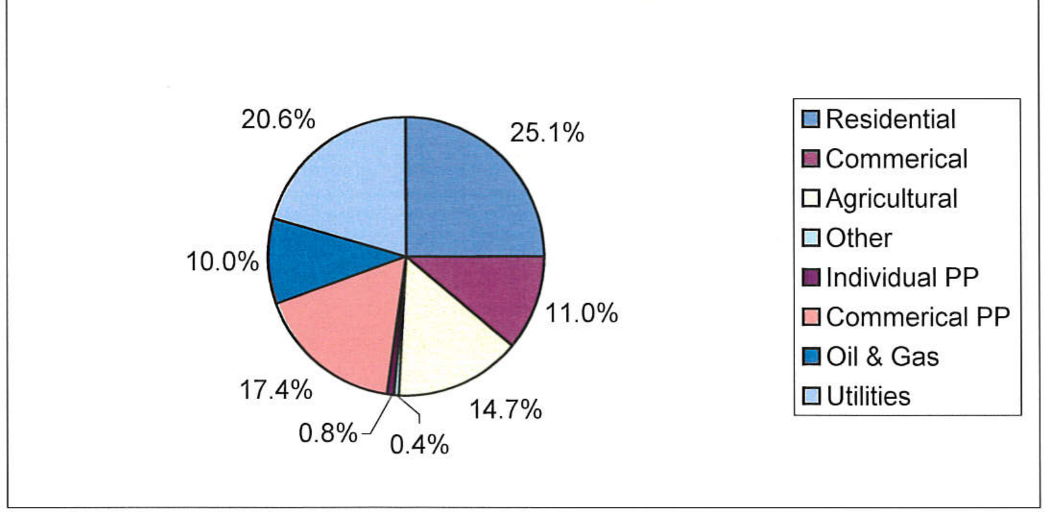
| **Property Type** | **Assessed Value** | **%** | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Real Property** | $ 6,426,527,762 | 89.5% | 0.062659 | 0.112544 | 0.162429 | 0.212314 | 0.262199 | 0.311781 | 0.311781 | 1.435706 |
| **Personal Property** | $ 522,165,861 | 7.3% | 0.005091 | 0.009144 | 0.013198 | 0.017251 | 0.021304 | 0.025333 | 0.025333 | 0.116653 |
| **Utilities** | $ 229,797,418 | 3.2% | 0.002241 | 0.004024 | 0.005808 | 0.007592 | 0.009376 | 0.011149 | 0.011149 | 0.051337 |
| | $ 7,178,491,041 | | 0.06999 | 0.125712 | 0.181434 | 0.237156 | 0.292878 | 0.348263 | 0.348263 | 1.603696 |

**Breakdown of the real property impact**

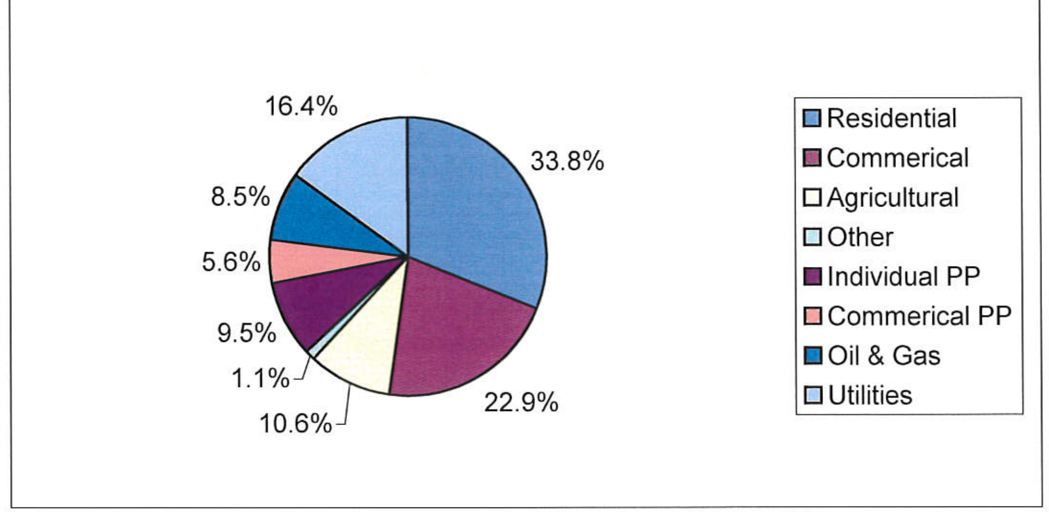
| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Residential(Non con** | $ 4,398,289,394 | 68.44% | 0.042883 | 0.077024 | 0.111165 | 0.145307 | 0.179448 | 0.213382 | 0.213382 | 0.982591 |
| **Commercial** | 2,028,238,368 | 31.56% | 0.019775 | 0.035519 | 0.051263 | 0.067007 | 0.082751 | 0.098399 | 0.098399 | 0.453115 |
| **Personal Property** | $ 522,165,861 | 7.3% | 0.005091 | 0.009144 | 0.013198 | 0.017251 | 0.021304 | 0.025333 | 0.025333 | 0.116653 |
| **Utilities** | $ 229,797,418 | 3.2% | 0.002241 | 0.004024 | 0.005808 | 0.007592 | 0.009376 | 0.011149 | 0.011149 | 0.051337 |
| | $ 7,178,491,041 | | 0.06999 | 0.125712 | 0.181434 | 0.237156 | 0.292878 | 0.348263 | 0.348263 | 1.603696 |

4

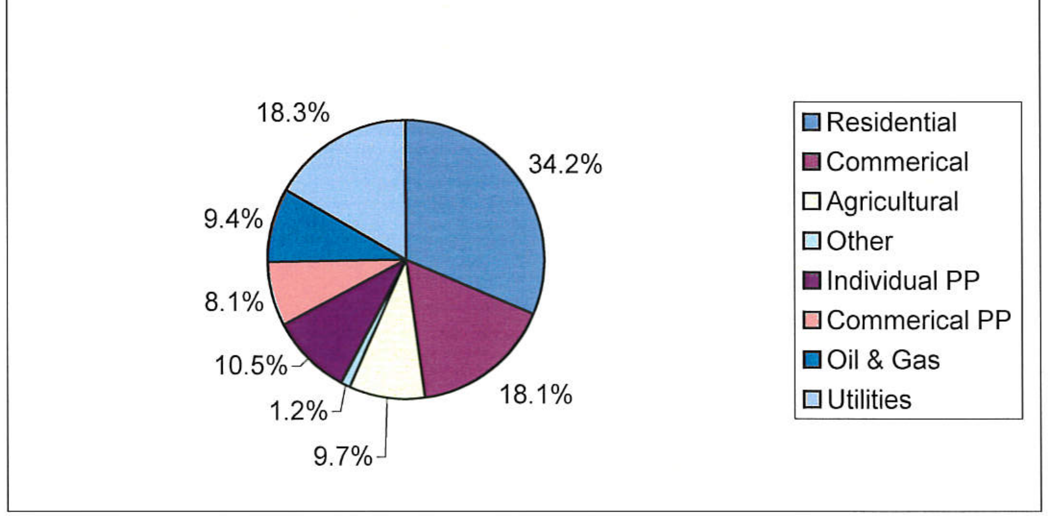
**1988 State Assessed Value Base**



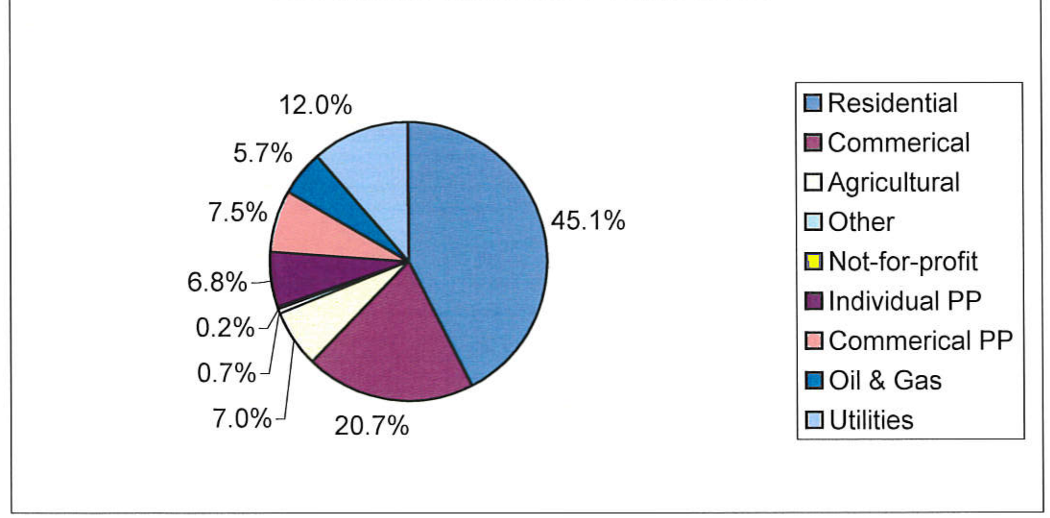

**1989 State Assessed Value Base**

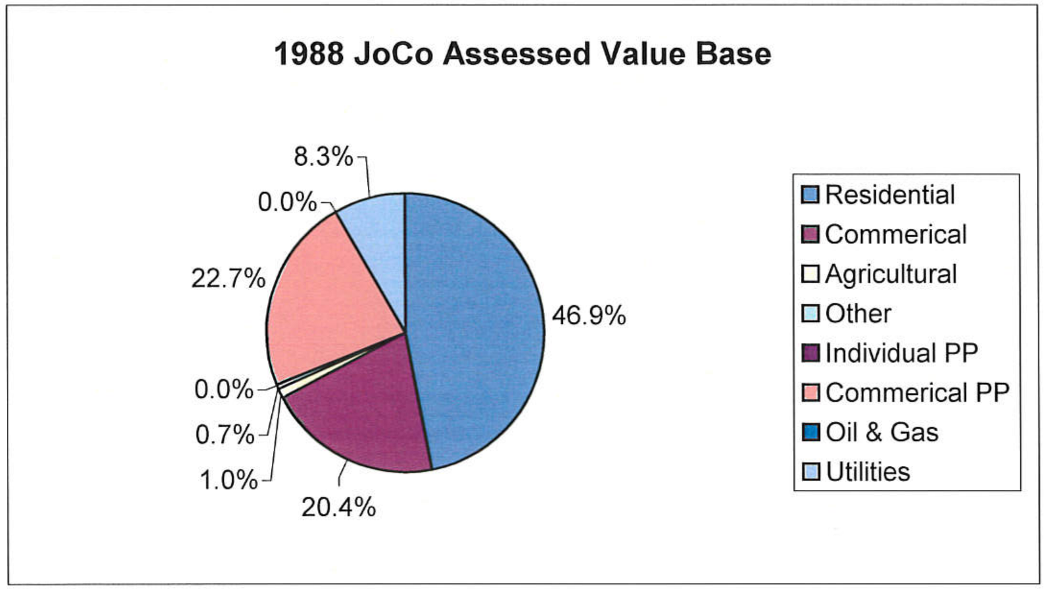


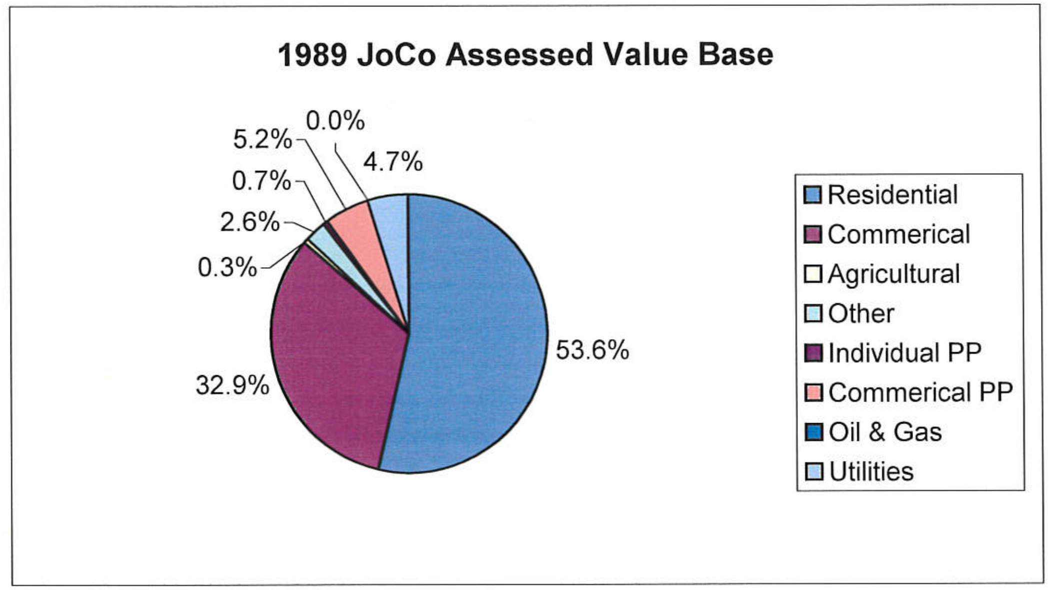

**1993 State Assessed Value Base**

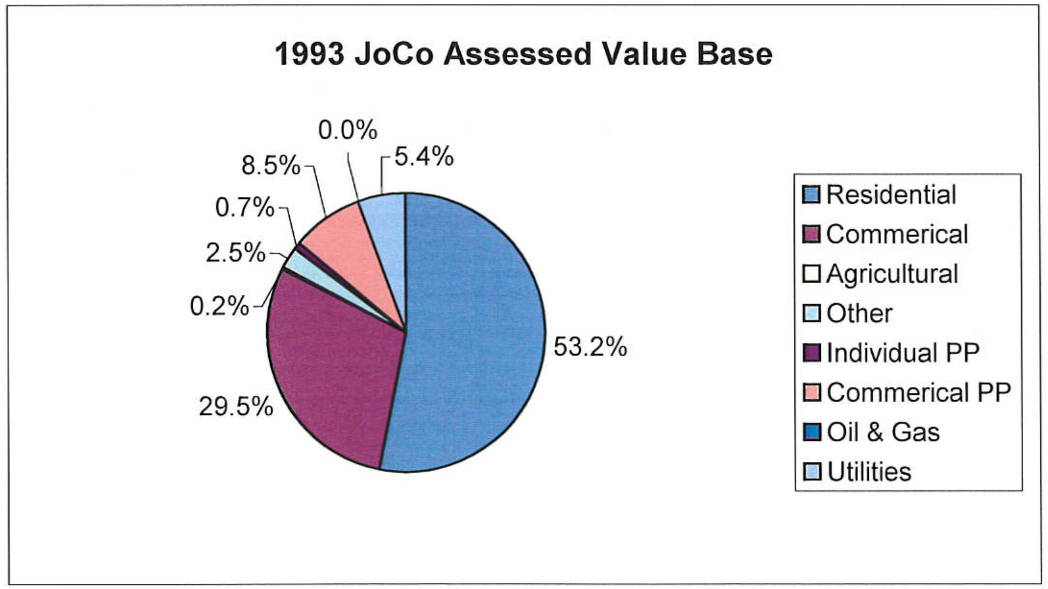


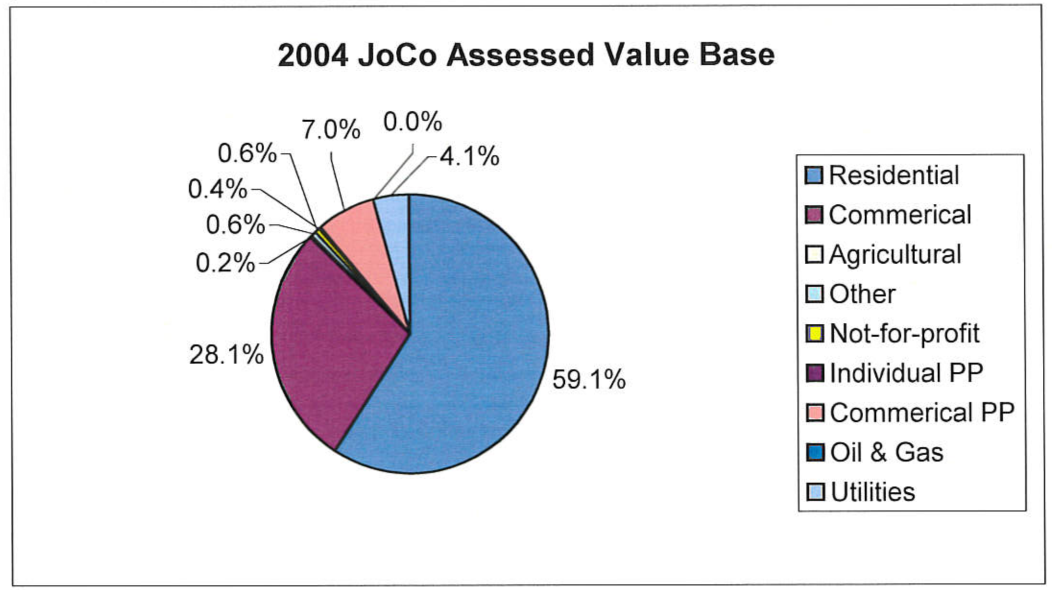

**2004 State Assessed Value Base**




1988 JoCo Assessed Value Base
8.3%
0.0%
22.7%
46.9%
0.0%
0.7%
1.0%
20.4%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

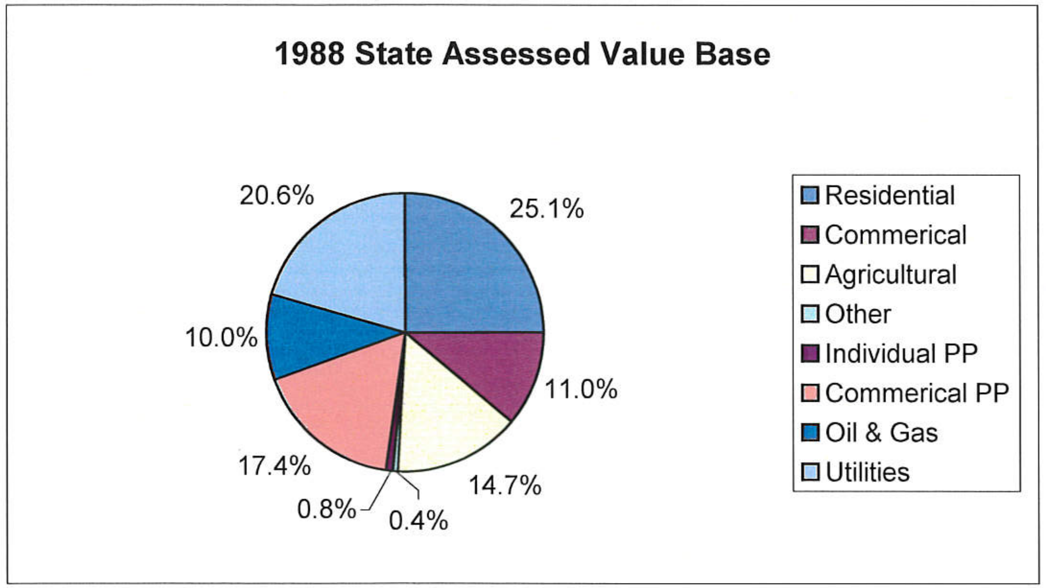

1989 JoCo Assessed Value Base
0.0%
5.2%
4.7%
0.7%
2.6%
0.3%
53.6%
32.9%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

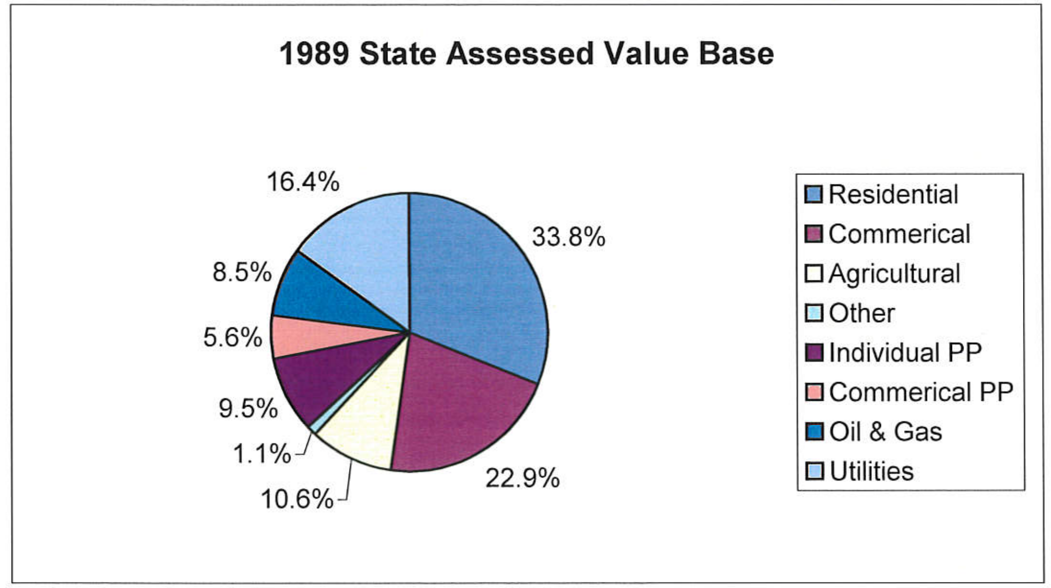

1993 JoCo Assessed Value Base
0.0%
8.5%
5.4%
0.7%
2.5%
0.2%
53.2%
29.5%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

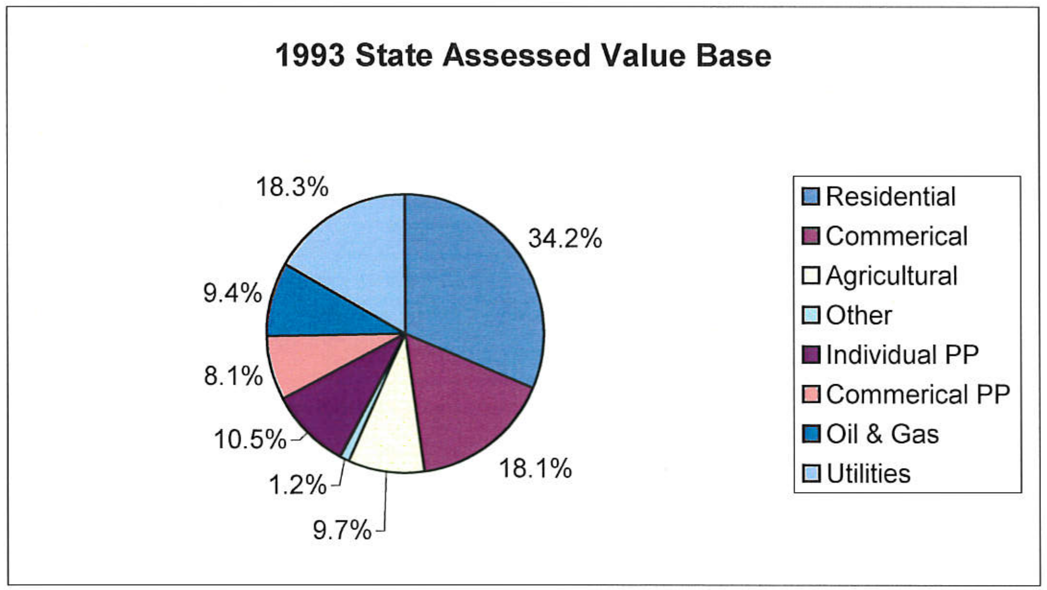

2004 JoCo Assessed Value Base
7.0%
0.0%
0.6%
4.1%
0.4%
0.6%
0.2%
28.1%
59.1%
Residential
Commerical
Agricultural
Other
Not-for-profit
Individual PP
Commerical PP
Oil & Gas
Utilities

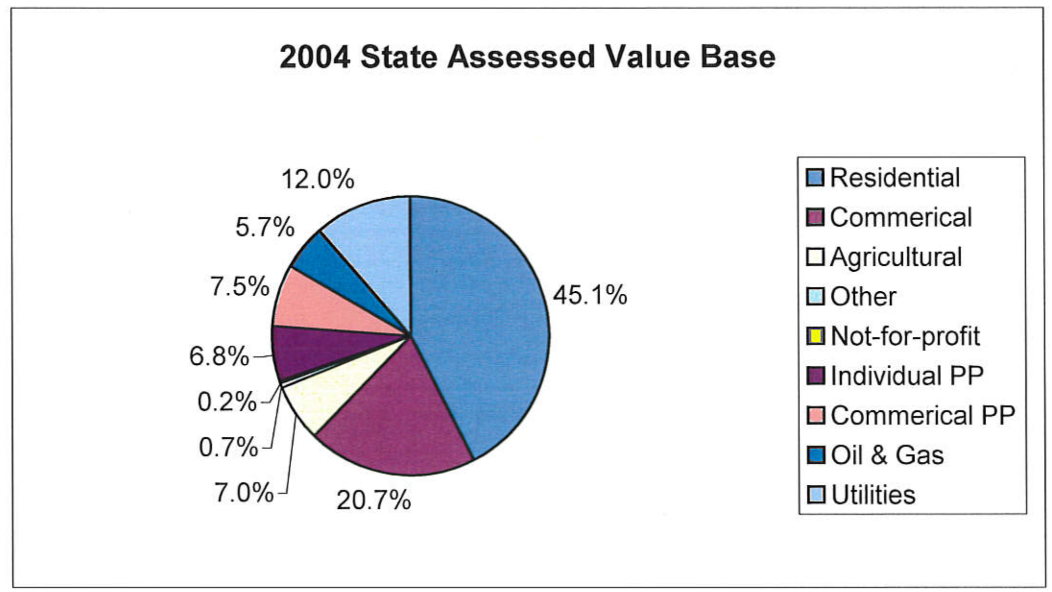
7-4

7-#

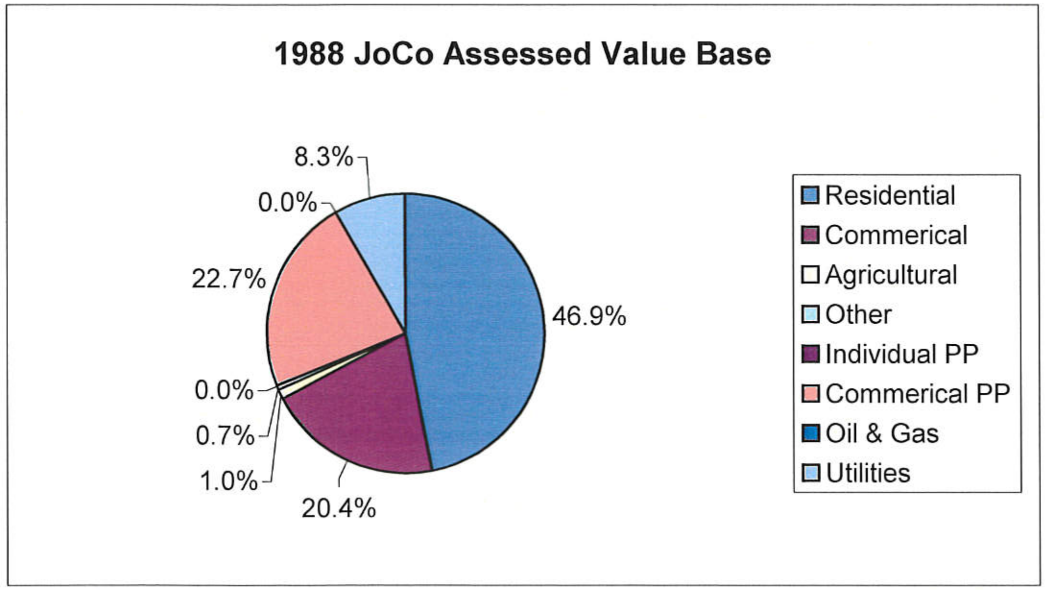

1988 State Assessed Value Base
20.6%
25.1%
10.0%
11.0%
17.4%
14.7%
0.8%
0.4%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

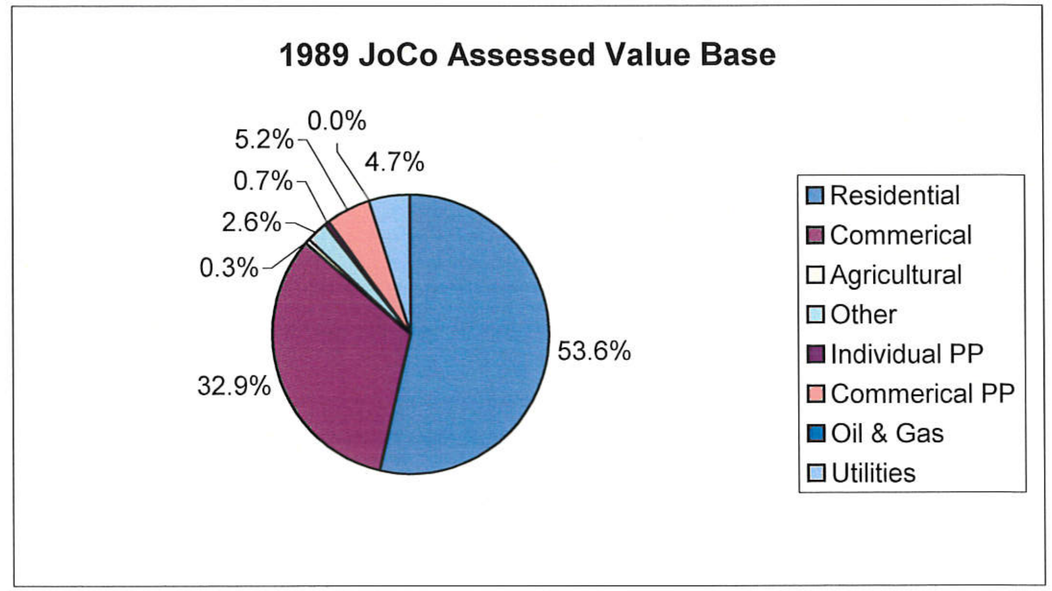

1989 State Assessed Value Base
16.4%
33.8%
8.5%
5.6%
9.5%
1.1%
10.6%
22.9%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

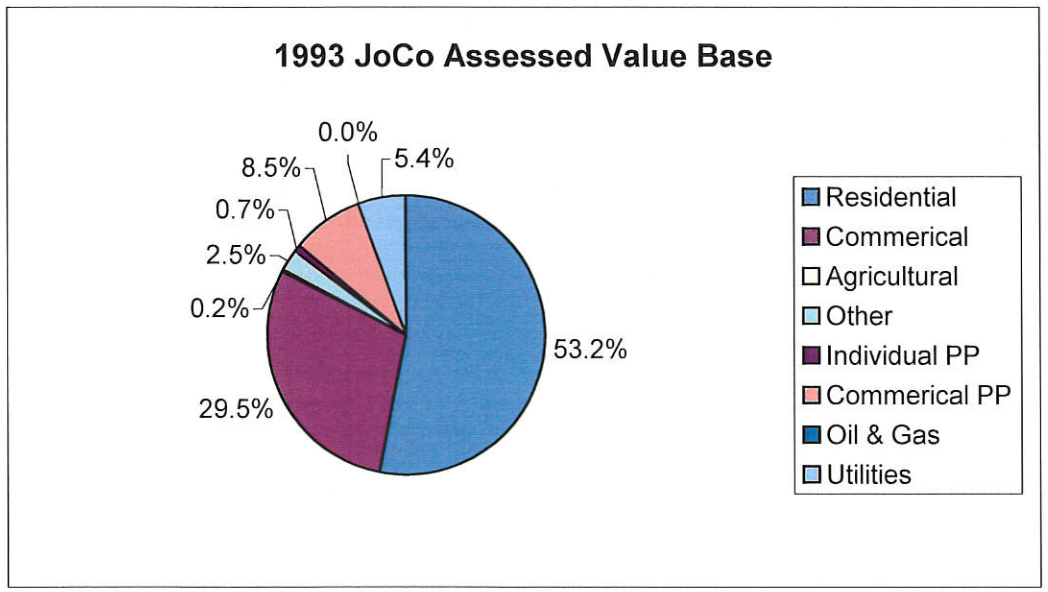

1993 State Assessed Value Base
18.3%
34.2%
9.4%
8.1%
10.5%
1.2%
9.7%
18.1%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities

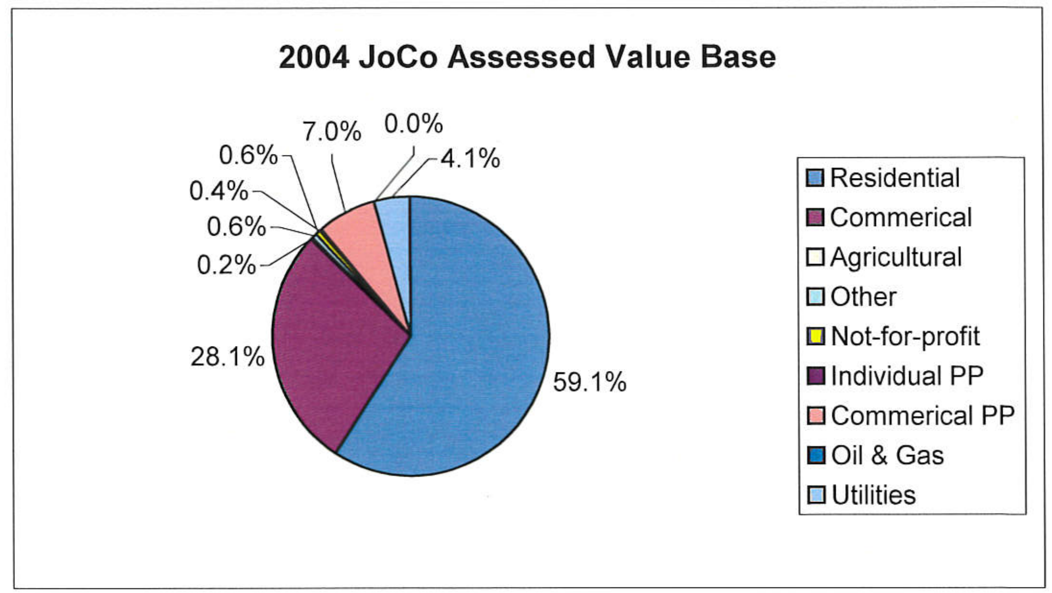

2004 State Assessed Value Base
12.0%
5.7%
7.5%
45.1%
6.8%
0.2%
0.7%
7.0%
20.7%
Residential
Commerical
Agricultural
Other
Not-for-profit
Individual PP
Commerical PP
Oil & Gas
Utilities

7-4


1988 JoCo Assessed Value Base
8.3%
0.0%
22.7%
46.9%
0.0%
0.7%
1.0%
20.4%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities


1989 JoCo Assessed Value Base
0.0%
5.2%
4.7%
0.7%
2.6%
0.3%
53.6%
32.9%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities


1993 JoCo Assessed Value Base
0.0%
8.5%
5.4%
0.7%
2.5%
0.2%
53.2%
29.5%
Residential
Commerical
Agricultural
Other
Individual PP
Commerical PP
Oil & Gas
Utilities


2004 JoCo Assessed Value Base
7.0%
0.0%
0.6%
4.1%
0.4%
0.6%
0.2%
28.1%
59.1%
Residential
Commerical
Agricultural
Other
Not-for-profit
Individual PP
Commerical PP
Oil & Gas
Utilities

8-47

8-17

KANSAS
ASSOCIATION OF
COUNTIES

**TESTIMONY**
**concerning HB 2619 and Substitute for HB 2525**
**Machinery and Equipment, Telecom, and Railroads**
**Property Tax Exemption**
**Presented by Randall Allen**
**House Taxation Committee**
**March 13, 2006**

Chairman Allen and members of the committee, my name is Randall Allen, Executive Director of the Kansas Association of Counties. I appreciate the opportunity to testify on behalf of our member counties **in opposition to** HB 2619 and Substitute for HB 2525, which exempt certain machinery and equipment purchased after July 1, 2006 from property taxation.

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

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

We totally agree with Secretary Wagnon's comments in September, because they are consistent with the Golden Rule of Tax Equity, i.e. "to apply the lowest possible rates on the widest possible tax base." Shrinking the tax base, as is proposed in HB 2619 and Substitute for HB 2525, moves Kansas even farther away from tax equity, and only shifts the tax burden to the residual of the property tax base, including residential, commercial, and agricultural real property. We have already experienced the impacts of many well-intentioned exemptions from the property and sales tax bases. There is always a compelling reason to "fix" a perceived or real problem with state-to-state competitiveness by granting an exemption. The downward spiral means that fewer individuals and companies shoulder the burden of providing necessary services to Kansans. Where does it end? And, can we ever have the collective discipline to say no?

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

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3rd Floor
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the House Taxation Committee deliberations, legislators added the "slider" to the bill as an attempt to mitigate the impact on the loss of property tax revenues to local governments and the shift of property tax burden to the residual property tax base. The amendment was a good faith effort to mitigate the burden and we appreciate the House members' good intentions. However, it is a short-term strategy to deal with a long-term impact and when the "slider" payments cease, the impact will be there with no revenues to compensate. As such, at a minimum, we would request that this committee ask legislative staff to calculate how the same dollars that would be paid through the slider could *instead* be directed through a more permanent demand transfer. Arguably, the ongoing transfer payment could be made through the Local Ad Valorem Tax Reduction Fund (LAVTR) mechanism which is already in statute. Some might argue that (as we well know) demand transfers could be suspended or taken away by the Legislature at any time. This is true. However, slider payments could be suspended or dropped at any time over the five-year period, as well. There seems to be no simple way to guarantee anything over a long-term period. However, reinstatement of a demand transfer would go a long way toward re-establishing the state/local partnership which was so damaged when the demand transfers were dropped beginning in 2001.

The full assessed valuation of commercial and industrial machinery and equipment ($1.8 billion, or 6.83% of the total property tax base) will be forever lost to the property tax base if HB 2619 is passed. Substitute for HB 2525 only narrows the tax base even further. **As such, we urge the committee to kill these bills**. Should they move forward, however, we strongly urge the committee to provide a permanent way to share state revenue with the local governments, who are the big risk-takers in this legislation and whose tax base is most affected by these bills. Thank you for the opportunity to explain our position on HB 2619 and Substitute for HB 2525.

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

KANSAS ASSOCIATION OF SCHOOL BOARDS
1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on **HB 2619**
and
**Substitute for HB 2525**
before the
**Senate Assessment and Taxation Committee**

by

**David Cunningham, Attorney**
Kansas Association of School Boards

**March 13, 2006**

Madame Chair, Members of the Committee:

Thank you for the opportunity to appear before you today on behalf of the Kansas Association of School Boards. Our concerns about **HB 2619** and **Substitute for HB 2525** cause us to stand in opposition to this bill. School board members understand the importance of economic development. We believe schools play a critical role in building and sustaining the state economy. The commercial and industrial machinery and equipment exemption proposed by the Governor offers the possibility of economic stimulation. But it promises the certainty that revenue from this tax source will be reduced and eventually eliminated.

Two ways to address concerns about taxing CI/ME have been proposed. The first, represented by this bill, would tend to cause a shift in the tax burden to other property taxpayers. For school districts, this would occur in funds such as the local option budget and capital improvement bonds. It would also tend to reduce revenue from the statewide 20 mill levy, which means state aid for school district general funds would have to be increased to compensate. The current "slider" provisions will bring some of the lost revenue back to the state, but the overall financial impact over time will cause a drain on state and local resources.

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

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

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Attachment # 6

Many school board members remember the experience of the 1990s, when the Legislature approved significant reductions in the statewide mill levy in order to cut property taxes. These reductions required increased state aid to replace property tax revenue. Because of this cost, base state aid per pupil was increased very little. In order to meet rising costs, school districts had to increase local option budgets, which meant that as the statewide levy was reduced, local tax levies increased. This contributed to the funding situation that has placed school finance in the hands of the Supreme Court.

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

The total net state impact of **HB 2619** through FY 2013 is $316,837,000 and the net impact of **Substitute for HB 2525** is $3,636,000. This does not reflect the ultimate loss of all CI/ME tax dollars. If the entire CI/ME tax base is lost, schools would lose over $37 million in revenue.

The schools of Kansas are providing for the state's human capital – an investment that should not be put at risk because of fiscal pressures. Today's students are the taxpayers of tomorrow and the more educated worker contributes more taxes. This bill addresses physical capital that, while important, should not be placed above our human capital. The amount of revenue lost pursuant to this policy change is significant and the shift in the tax burden may well cause taxpayers to seek further property tax relief that will further exacerbate the school funding issue facing the legislature.

Given the fiscal needs of school districts based on the LPA study, any loss in revenue causes school districts concern. Because of this concern, we oppose **HB 2619** and **Substitute for HB 2525**.

Thank you for your consideration.

LKM
League of Kansas Municipalities
300 SW 8th Avenue, STE 100
Topeka, Kansas 66603-3951
Phone: (785) 354-9565
Fax: (785) 354-4186

**To:** Senate Assessment and Taxation Committee

**From:** Sandy Jacquot, Director of Law/General Counsel

**Re:** Opposition to HB 2619 and Sub. HB 2525

**Date:** March 14, 2006

First I would like to thank the Committee for allowing the League to testify today in strong opposition to HB 2619 and Sub. HB 2525. At the League Governing Body meeting held on December 15, 2005, the League Governing Body considered this proposal, which had recently been made public, and voted unanimously to oppose it. **The League bases our opposition on a number of factors, perhaps the most significant being that this is not a tax cut, but rather a tax shift.**

Let me explain. It is a tax shift because it removes the tax from one area of the local property tax, that being machinery and equipment, and transfers the burden onto the backs of homeowners, small businesses, and agriculture. It is hard to get a handle on the exact numbers, as this is proposed as a phase in, but as far as we can tell, this proposal could cost homeowners, small businesses, and farmers and ranchers well in excess of $200 million per year when fully implemented. As a result, this $200+ million, which is saved by those businesses purchasing significant pieces of machinery and equipment, would simply be passed to those individuals paying property taxes on single family homes, small businesses which do not utilize large pieces of machinery, and farmers and ranchers. We further oppose this piece of legislation as the burden, almost exclusively, is borne by local governments and our taxpayers. While it is all well and good to suggest that this will help stimulate business and economic development in Kansas, we would suggest that if, in fact, the state believes that to be the case, then the state should bear the burden which is being imposed by the removal of this tax.

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

While the League, and our member cities, believe in economic development and in helping businesses be successful within our fine state, we also believe that this should be a partnership and not a burden which is placed by the State on local governments. As a result, we urge the committee to refuse to endorse this concept as it does not constitute a tax cut, but merely a tax shift, and places a huge burden on backs of homeowners, small businesses, and the farmers and ranchers of the State of Kansas. Thank you very much for allowing the League to appear before you today in opposition to HB 2619 and Sub. HB 2525.



Assessment & Taxation
Date 3-13-06
Attachment # 7

## *Commercial and Industrial /Machinery and Equipment Exemption*

### *Local Mill Levy Analysis*

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



21.5 Mills Not Included

## *Commercial and Industrial /Machinery and Equipment Exemption*

***Local Mill Levy Analysis***

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

7-3

21.5 Mills Not Included

# FISCAL FOCUS

Budget and Tax Policy in Perspective

April Holman
Legislative Testimony
House Bill 2619
Senate Committee on Assessment and Taxation
March 13, 2005

Good morning Madam Chair and members of the Committee. On behalf of Kansas Action for Children, I would like to thank you for this opportunity to testify on House Bill 2619.

In 2003, Kansas Action for Children began a new initiative called Fiscal Focus. The purpose of Fiscal Focus is to improve the economic security of Kansas children and their families and ensure a balanced and fair tax system and budget process that protects the well-being of children and families as well as a stable system of state revenues.

As child advocates, we have two main concerns about the potential impact of House Bill 2619. The first concern is that the fiscal note to the state of the current version of the bill would result in less money available for vital programs and services impacting children and their families. With a cumulative reduction of over $316 million between FY 2008 and FY 2013, this bill represents a significant loss of state revenues.

The second concern is that once the state assistance to local governments is fully phased out in 2012, the resulting loss in local government revenues will create tax shifts to residential property tax and sales tax. Local governments in Kansas have very few revenue options. By removing all new business machinery and equipment from the tax roles the inevitable tax shifts would be harmful to working families and their children.

While we acknowledge the importance of job creation and a healthy business climate in Kansas, we are concerned that the revenue loss to the state and later to local governments as a result of House Bill 2619 has not been fully addressed. For this reason we respectfully oppose the passage of this bill.

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*An initiative of Kansas Action for Children*

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

Written Testimony
HB 2619
Submitted to Senate Committee on Assessment and Taxation
March 9, 2006
Harriet Lange, President

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

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

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

Thank you for your consideration.

Lenexa
KANSAS

**TESTIMONY IN OPPOSITION TO HB 2619**

To: Senate Tax Committee

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

Date: March 13, 2006

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

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

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

If the committee believes this type of legislation is needed, we encourage the committee to consider providing an income tax credit for the amount of property taxes paid on commercial and industrial machinery and equipment. This alternative would encourage economic growth in Kansas without harming local government entities.

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

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

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

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

WICHITA

# TESTIMONY

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Jeanne Goodvin
Government Relations Director

## Kansas State Senate
## Assessment and Taxation Committee

**House Bill 2619**
**Business Machinery and Equipment Tax Exemption**

**March 13, 2006**

The City of Wichita whole-heartedly supports any effort to stimulate business in Kansas, and particularly in Wichita. The City has been aggressive in this area:

- The City of Wichita has aggressively offered incentives, often times with the State as our partner, for businesses seeking to locate and expand in Wichita.
- For the past 12 years, the City of Wichita's mill levy rate has been effectively held constant. The City of Wichita's property tax rate remains among the lowest of the State's first class cities. Wichita is one of only three first class cities in Kansas which does not have both a countywide and a citywide local sales tax. In real terms, adjusting for inflation, the City's taxes levied are very nearly the same as they were in 1990, even though the City is geographicall y almost a third again larger and the population is approximately 15% greater. The City's status as a "low tax" City has been affirmed and validated in studies by the Cato Institute, the CNN Money website, and David Osborne's and Peter Hutchinson's recent book "*The Price of Government*." A study by Forbes magazine identified Wichita as "*The Most Affordable City*."
- And in addition to low property tax rates, the City of Wichita has aggressively pursued lower airfares, lower electric rates, and very nearly the lowest water and sewer rates in the Midwest.

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

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

In Wichita, Commercial and Industrial Machinery and Equipment (CIME) account for 9.2% of the 2005 assessed valuation tax base, or $244,305,447 (which supports the 2006 Budget). At the City's current mill levy rate of 31.898, which has been virtually unchanged for the past 12 years, property tax revenue from CIME is approximately $7.8 million. Loss of this revenue is to be phased in over time, but eventually the City of Wichita will have to reduce services or raise taxes to offset $7.8 million in lost revenue. The fact that 48% of the current CIME has reached the 20% residual value is not of great consequence because the oldest equipment is likely to be the first equipment replaced. These facts only delay but do not discount or eliminate the ultimate loss of revenue.

The House Committee partially recognized this very real and substantial impact on local government by including an amendment to further phase-in the full implementation impact of the Bill. The following table provides an estimate of the projected financial impact of HB 2619 on the City of Wichita, including the mitigating influence of the "slider amendment":

| Tax Year | Wichita CIME (Projected) | Est. Tax from CIME | Projected New CIME | Projected CIME Tax | State Offset from Slider | Net Tax Loss to Wichita |
|---|---|---|---|---|---|---|
| 2006 | 249,215,986 | 7,972,170 | 249,215,986 | 7,972,170 | 0 | 0 |
| 2007 | 254,225,228 | 8,132,411 | 194,388,469 | 6,218,293 | 1,753,877 | (160,241) |
| 2008 | 259,335,155 | 8,295,872 | 149,529, 592 | 4,783,302 | 2,551,094 | (961,476) |
| 2009 | 264,547,792 | 8,462,619 | 114,639,354 | 3,667,198 | 2,582,983 | (2,212,438) |
| 2010 | 269,865,202 | 8,632,718 | 89,717,7 55 | 2,869,981 | 2,040,876 | (3,721,861) |
| 2011 | 275,289,493 | 8,806,236 | 64,796,156 | 2,072,764 | 1,179,881 | (5,553,590) |
| 2012 | 280,822,811 | 8,983,241 | 39,874, 558 | 1,275,547 | 0 | (7,707,694) |

Column three shows what the City might expect to collect from CIME property taxes over the next seven years (budget years 2007 to 2013). The growth in CIME tax collections (and all revenue sources) is essential to offset the inflation of expenses for delivery public services. The fourth column shows the decline in revenue from CIME as old equipment is replaced and all new equipment is exempted from the property tax. Assumptions are based on a review of equipment purchases in 2005, and what would have happened had this bill been enacted earlier to exempt new equipment for 2005. Assuming the same mill levy rate, column five shows the unmitigated impact of HB 2619. Column six factors in the State's "slider amendment" mitiga tion strategy, and column seven represents the estimated net impact.

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

The City is understandabl y proud of how well the General Fund has been managed in recent years. This frugality has not come without sacrifice. A few short years ago, personal services expenses accounted for 61% of total General Fund expenses. As cuts have been made and economies forced, while labor intensive public safety services have been maintained, personal services now account for 71% of GF expenses. Unfortunately, the current financial status provides very little, if any, margin for the challenge presented by the current legislation, HB 2619. It is worth noting that the governing bodies of Sedgwick County and the surrounding local school districts are similarly circumstanced. An equivalent cumulative mill levy increase to accommodate the impacts of HB 2619 for Wichita, Sedgwick County and Wichita Public Schools would be 9.114 mills. This is equivalent to an increase of $105 to someone owning a $100,000 home.

The City of Wichita respectfully requests the Legislature to consider more and more permanent impact mitigation measures as part of House Bill 2619. We appreciate the opportunity to be heard on this very important legislation.