

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Les Donovan at 10:30 a.m. on March 18, 2009, in Room 535-N of the Capitol.

All members were present except:

Senator Jeff Colyer – excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Corey Carnahan, Kansas Legislative Research Department
Chris Courtwright, Kansas Legislative Research Department
Virginia Fett, Office Assistant

Conferees appearing before the Committee:

Don L. McNeely, Kansas Automobile Dealers Association President
Representative Pat George
Joan Wagnon, Secretary of the Department of Revenue
Mark Desetti, Kansas National Education Association, and Kansas Association of School Boards
Larry R. Baer, League of Kansas Municipalities

Others attending:

See attached list.

Chairman Donovan opened the meeting and gave a brief overview of the history of the bill. He has worked on it for several years, and feels now is the time to introduce it, because of the recent downturn in our economy. The assessment rate on vehicles would be reduced from 20% to 12% over a five year period, with a 1% decrease in year 1 and 2% decrease in the following four years. At the same time, the property tax mil levy be brought back. It would factor in 5 mils the second year, 10 mils the third year, 15 mils the fourth year, and be at 20 mils the fifth year. That money would be approximately \$40,000,000 (forty million) that would go to school finance, freeing up that same amount in the State budget for another use.

Chairman Donovan opened the hearing on **SB 242 - Computation of amount of personal property tax on motor vehicles.** He introduced Don L. McNeely, Kansas Automobile Dealers Association President, who spoke in favor of this bill. The Association believes this bill needs to be considered. It would provide stimulus to the retail auto industry in Kansas by encouraging consumers to purchase newer, safer, more fuel efficient vehicles and, at the same time, provide additional funding to the state's school districts. (Attachment 1)

Next to speak in favor of the bill was Rep. Pat George. He also pointed out the benefits of this bill: People will buy newer cars that are more fuel efficient, burning less fuel and producing less harmful emissions, and, it will contribute to the recovery of the Kansas economy. (Attachment 2)

Secretary Joan Wagnon, Department of Revenue, told the committee the Department is in favor of passage of this bill.

Mark Desetti, representing both Kansas National Education Association, and Kansas Association of School Boards was next to speak, as a neutral on this bill. The associations he represents are glad it examines the possibility of broadening the tax base. At the same time, they are concerned about the bill's effect on other local units of government. The associations hope the committee considers the concept of broadening the base and applies it to every tax decision. (Attachment 3)

The final speaker was Larry R. Baer representing the League of Kansas Municipalities. The League stands in opposition to this bill. (Attachment 4)

Chairman Donovan explained an amendment to be made to this bill. It changes the bill to an eight year appreciation phase in. This year the assessment on cars from 20% to 19% and the property tax mil levy will be 4 mils (for spending this year). After the fifth year of reductions they will be reduced to 15%. If any part

CONTINUATION SHEET

Minutes of the Senate Assessment and Taxation Committee at 10:30 a.m. on March 18, 2009, in Room 535-N of the Capitol.

of the bill is not working, this process will be stopped. If the bill is working as intended, the process will be continued for an additional three years. Discussion was held.

The hearing was closed. The proposed amendment was distributed to the committee for review.

Sen. D. Schmidt moved the amendment be adopted. The motion was seconded by Sen. Lynn. The motion carried.

The next meeting is scheduled for Thursday, March 19, 2009. Chairman Donovan told the committee it will be a busy meeting, and requested everyone be there promptly.

The meeting was adjourned at 11:50 a.m.



KANSAS AUTOMOBILE DEALERS ASSOCIATION

March 18, 2009

To: The Honorable Les Donovan, Chairman
and Members of the Senate Committee on Assessment & Taxation

From: Don L. McNeely, KADA President *DM*

Re: SB 242 – An act concerning personal property taxation; relating to motor vehicles: computation of amount of tax

Good morning, Chairman Donovan and Members of the Senate Committee on Assessment & Taxation. My name is Don McNeely and I am the President of the Kansas Automobile Dealers Association, which represents the retail new franchised motor vehicle industry in Kansas.

On behalf of KADA, I am pleased to appear this morning in support of SB 242 and provide some comments in regard to personal property tax on vehicles. This is an issue which really has not been revisited since the gubernatorial election of 1994 and the legislative session of 1995, when the assessed value for the calculation of motor vehicle property tax was reduced from 30 to 20 percent and school property tax was removed from the formula. Prior to this Kansas had the oldest fleet of vehicles in the country and a study commissioned by Wichita State University's Hugo Wall School of Urban and Public Affairs at that time found that Wichita families with incomes of \$75,000 to \$100,000 had the very highest motor vehicle tax burden in the nation.

After the enactment of the phased-in reduction of motor vehicle property tax in 1995, Kansas experienced a dramatic increase in newer vehicles being purchased and registered, and thus an increase in sales tax revenue associated with the purchase of newer vehicles. However, since that time, Kansas consumers have experienced a gradual increase in local mill levies, which has erased much of the motor vehicle property tax relief that was enacted in the mid-90's, not to mention the increases in local sales tax, which has detrimentally impacted and influenced the purchase of newer vehicles.

SB 242 proposes to gradually reduce the current assessed value of 20 percent to 12 percent over a five year period, much like the previous motor vehicle property tax reduction, while at the same time phasing back in motor vehicle property tax levied by school districts. An interesting concept, which we believe deserves discussion and consideration, in that it would provide much need stimulus to the retail automobile

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industry in Kansas by encouraging consumers to purchase newer, safer, more fuel efficient vehicles and at the same time provide additional funding to the state's school districts.

KADA continues to believe our current system of taxing vehicles continues to be regressive, especially as it relates to property tax. Even after the reduction of the 90's, we continue to depreciate the value of vehicles very slowly on the front-end of the life of the vehicle and accelerate it on the back-end, when in the real world, just the opposite occurs. We believe research will prove that local units of government have also seen a significant increase in revenue associated with the purchase of vehicles over the years due to the increases in local sales taxes, increases in mill levies and the escalating average selling prices of used and new vehicles. Sometimes, it appears we turn a blind eye to how our tax policy actually impacts commerce.

On behalf of the Kansas Automobile Dealers Association, I thank you for the opportunity to appear to appear this morning and provide some comments in support of SB 242.

Total vehicles in operation in 2007, by state

State	Passenger cars	Trucks and buses	Total vehicles*
Alabama	1,795,596	2,825,636	4,630,314
Alaska	242,487	429,901	675,094
Arizona	2,189,979	1,987,392	4,182,332
Arkansas	958,640	1,027,414	1,994,255
California	19,835,554	13,289,690	33,182,058
Colorado	858,967	943,027	1,807,823
Connecticut	1,999,809	1,041,651	3,051,952
Delaware	432,509	378,512	813,188
D.C.	168,916	47,300	219,105
Florida	7,425,148	8,899,488	16,373,565
Georgia	4,141,179	4,123,932	8,286,454
Hawaii	538,581	464,288	1,008,540
Idaho	541,487	729,861	1,275,115
Illinois	5,947,468	3,910,742	9,876,246
Indiana	2,694,901	2,228,559	4,955,434
Iowa	1,744,519	1,593,003	3,345,951
Kansas	872,878	1,512,396	2,389,192
Kentucky	1,969,142	1,574,731	3,558,122
Louisiana	1,950,372	1,900,270	3,872,744
Maine	581,797	486,680	1,071,876
Maryland	2,656,597	1,819,645	4,488,397
Massachusetts	3,310,725	2,063,283	5,385,215
Michigan	4,765,547	3,362,440	8,154,235
Minnesota	2,512,491	2,174,813	4,704,914
Mississippi	1,118,200	869,860	1,997,581
Missouri	2,715,297	2,230,390	4,957,172

*Includes buses Source: Department of Transportation

State	Passenger cars	Trucks and buses	Total vehicles*
Montana	447,446	616,613	1,066,562
Nebraska	832,511	893,627	1,733,133
Nevada	679,828	684,806	1,366,557
New Hampshire	585,455	472,635	1,059,963
New Jersey	3,692,966	2,241,195	5,957,988
New Mexico	699,312	877,956	1,580,820
New York	8,528,457	2,685,424	11,283,896
North Carolina	3,659,926	2,607,790	6,301,436
North Dakota	345,502	364,080	712,169
Ohio	6,438,988	4,345,371	10,828,843
Oklahoma	1,606,517	1,576,680	3,201,831
Oregon	1,427,597	1,538,960	2,981,379
Pennsylvania	5,842,819	4,013,315	9,894,163
Rhode Island	508,389	295,433	805,548
South Carolina	1,964,994	1,470,771	3,453,843
South Dakota	375,760	465,580	843,984
Tennessee	2,878,136	2,193,213	5,091,328
Texas	8,805,316	8,642,899	17,538,388
Utah	1,079,455	1,155,325	2,236,088
Vermont	309,972	275,951	587,668
Virginia	4,031,355	2,586,357	6,635,976
Washington	3,087,818	2,590,014	5,689,497
West Virginia	734,599	703,706	1,441,099
Wisconsin	2,639,984	2,317,130	4,971,461
Wyoming	228,057	414,047	645,192
Total	135,399,945	107,943,782	244,165,686

Total new-vehicle registrations, by state

State	2007	2006	2005	2004
Alabama	223,480	232,666	239,098	233,488
Alaska	31,016	32,155	33,861	35,587
Arizona	377,996	419,204	409,009	366,019
Arkansas	131,402	128,258	134,349	134,582
California	1,871,132	2,086,931	2,144,882	2,122,834
Colorado	255,466	252,000	253,408	265,793
Connecticut	192,054	189,950	204,524	215,349
Delaware	49,922	53,379	56,579	59,312
D.C.	20,995	18,612	17,888	19,035
Florida	1,241,454	1,416,862	1,451,193	1,444,605
Georgia	466,284	499,669	507,011	494,564
Hawaii	96,917	107,727	119,623	109,800
Idaho	59,738	63,270	59,831	57,975
Illinois	654,387	663,428	667,939	694,164
Indiana	251,149	279,154	276,890	299,437
Iowa	117,485	118,466	122,236	126,197
Kansas	113,370	114,433	116,042	117,238
Kentucky	153,544	152,761	155,749	159,268
Louisiana	262,688	286,369	268,106	243,429
Maine	52,872	57,946	59,568	63,053
Maryland	360,195	376,039	395,737	406,920
Massachusetts	332,090	344,490	371,789	383,577
Michigan	646,485	693,741	664,900	712,788
Minnesota	259,924	268,358	257,426	283,067
Mississippi	116,226	132,168	109,942	115,651
Missouri	280,499	286,714	285,193	305,190

Source: The Polk Co.

State	2007	2006	2005	2004
Montana	49,944	46,787	47,289	47,854
Nebraska	75,380	71,679	75,517	84,218
Nevada	177,227	192,413	182,385	174,926
New Hampshire	84,304	97,145	91,252	92,122
New Jersey	611,572	602,437	608,774	644,568
New Mexico	107,505	106,234	105,212	103,499
New York	870,323	847,727	863,734	909,757
North Carolina	434,165	443,149	446,689	458,363
North Dakota	27,019	25,319	25,977	28,729
Ohio	563,468	563,813	597,276	628,928
Oklahoma	362,883	336,895	273,066	180,270
Oregon	162,753	170,512	168,564	169,027
Pennsylvania	682,697	661,787	700,724	738,215
Rhode Island	52,974	55,157	59,457	61,227
South Carolina	209,066	210,321	206,404	206,217
South Dakota	32,860	33,374	35,039	35,742
Tennessee	277,901	272,329	271,963	290,604
Texas	1,390,745	1,302,253	1,284,460	1,256,385
Utah	122,332	122,521	116,550	108,975
Vermont	37,936	38,287	38,820	43,092
Virginia	427,456	445,841	452,985	476,800
Washington	285,385	291,249	286,048	280,275
West Virginia	80,352	80,963	83,744	87,120
Wisconsin	232,224	242,574	258,467	263,663
Wyoming	30,138	29,059	27,111	27,326
Total U.S.	16,007,379	16,564,575	16,690,280	16,866,824

Total automaker inventory remained lower than in 2006, averaging 3.3 million units in 2007.

New light-duty vehicle sales, by year

Year	New cars	Light-duty trucks	Total light-duty vehicles	Light-duty trucks as % of total
1997	8,272,100	6,858,100	15,130,200	45.3%
1998	8,137,400	7,404,500	15,541,900	47.6
1999	8,698,600	8,197,200	16,895,800	48.5
2000	8,846,900	8,502,800	17,349,700	49.0
2001	8,422,600	8,699,300	17,121,900	50.8
2002	8,103,200	8,714,300	16,817,500	51.8
2003	7,609,800	9,024,900	16,634,700	54.3
2004	7,505,900	9,360,600	16,866,500	55.5
2005	7,666,700	9,278,300	16,945,000	54.8
2006	7,780,800	8,721,000	16,502,700	52.8
2007	7,618,400	8,470,900	16,089,300	52.6
Average 1997-2007	8,060,218	8,475,627	16,535,927	51.3%

Source: NADA Industry Analysis Division

Number of new vehicles sold and selling price

Year	New vehicles sold per dealership	Average retail selling price
1997	668	\$22,650
1998	694	23,600
1999	759	24,450
2000	783	24,900
2001	785	25,800
2002	774	26,150
2003	769	27,550
2004	779	28,050
2005	788	28,400
2006	778	28,450
2007	775	28,800

Source: NADA Industry Analysis Division

New-vehicle sales and market share, by manufacturer

Year	Chrysler	Ford	General Motors	Toyota	Honda	Nissan	Volkswagen	Other imports	Total
1997	2,303,800 15.23%	3,807,100 25.16%	4,734,100 31.29%	1,230,100 8.13%	940,400 6.22%	728,400 4.81%	172,000 1.14%	1,214,400 8.03%	15,130,200
1998	2,510,000 16.15%	3,860,200 24.84%	4,570,100 29.41%	1,361,000 8.76%	1,009,600 6.50%	621,600 4.00%	267,200 1.72%	1,342,300 8.64%	15,541,900
1999	2,638,600 15.62%	4,115,600 24.36%	4,974,600 29.44%	1,475,400 8.73%	1,076,900 6.37%	677,900 4.01%	381,500 2.26%	1,555,300 9.21%	16,895,800
2000	2,522,700 14.54%	4,147,700 23.91%	4,911,700 28.31%	1,619,200 9.33%	1,158,900 6.68%	752,800 4.34%	435,900 2.51%	1,800,800 10.38%	17,349,700
2001	2,273,200 13.28%	3,915,500 22.87%	4,852,500 28.34%	1,741,300 10.17%	1,207,600 7.05%	703,700 4.11%	438,900 2.56%	1,989,200 11.62%	17,121,900
2002	2,205,450 13.11%	3,576,250 21.27%	4,815,150 28.63%	1,756,150 10.44%	1,247,850 7.42%	739,850 4.40%	423,850 2.52%	2,052,950 12.21%	16,817,500
2003	2,127,450 12.79%	3,437,700 20.67%	4,716,050 28.35%	1,866,300 11.22%	1,349,850 8.11%	794,800 4.78%	389,100 2.34%	1,953,450 11.74%	16,634,700
2004	2,206,000 13.08%	3,271,100 19.39%	4,657,400 27.61%	2,060,050 12.21%	1,394,400 8.27%	855,000 5.07%	334,050 1.98%	2,088,500 12.38%	16,866,500
2005	2,304,900 13.60%	3,106,900 18.34%	4,456,800 26.30%	2,260,300 13.34%	1,462,500 8.63%	1,076,900 6.36%	307,250 1.81%	1,969,450 11.62%	16,945,000
2006	2,142,500 12.98%	2,848,100 17.26%	4,067,600 24.65%	2,542,500 15.41%	1,509,400 9.15%	1,019,500 6.18%	325,300 1.97%	2,047,900 12.41%	16,502,700
2007	2,076,100 12.90%	2,502,000 15.55%	3,824,550 23.77%	2,620,800 16.29%	1,551,550 9.64%	1,068,500 6.64%	324,050 2.01%	2,121,750 13.19%	16,089,300
Average 1997-2007	2,300,973 13.91%	3,508,014 21.21%	4,598,232 27.81%	1,866,645 11.29%	1,264,450 7.65%	821,723 4.97%	345,373 2.09%	1,830,545 11.07%	16,535,927

Source: NADA Industry Analysis Division

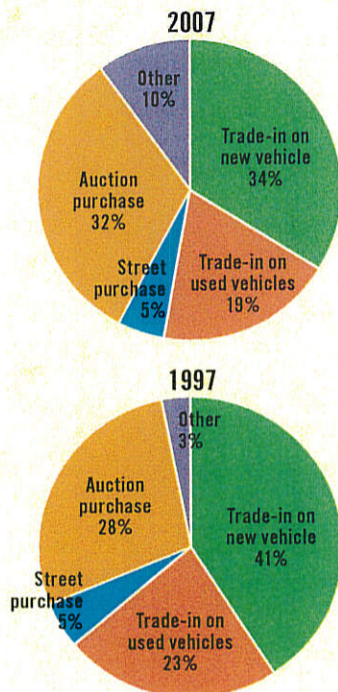
The Used-Vehicle Department

NEW-CAR DEALERS sold more than 18.5 million used vehicles last year. Of these, 11.4 million were retail and 7.1 million were wholesale. The average selling price of a used unit retailed in 2007 was \$15,715.

New-car dealers acquired 53 percent of the used units they retailed from trade-ins and got the remaining 47 percent from auctions, street purchases, or other sources. As a source of used cars, auctions have made the biggest inroads in the past decade—from less than 10 percent of the dealer's inventory in the early 1980s to 32 percent in 2007.

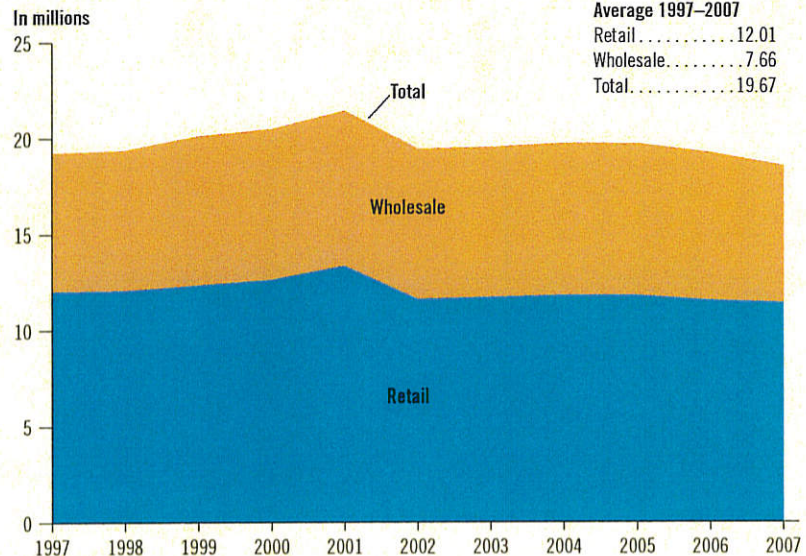
Sources of used vehicles retailed by dealerships

By department



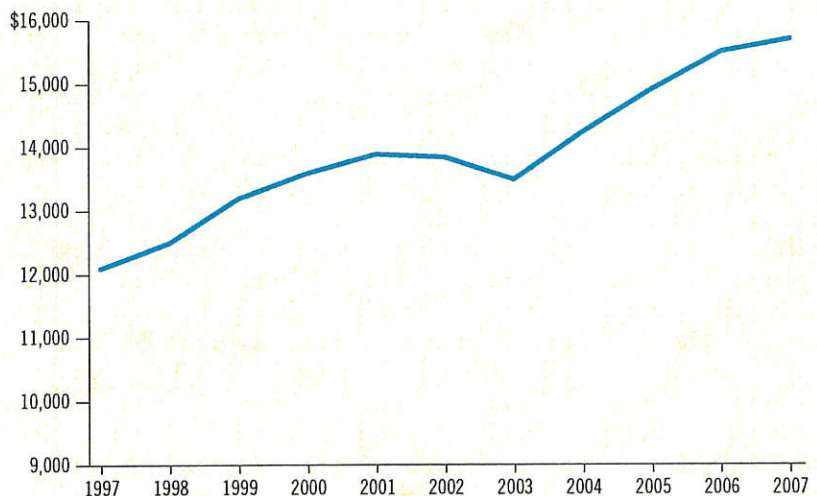
Source: NADA Industry Analysis Division

Used-vehicle sales by new-car dealerships



Source: NADA Industry Analysis Division

Average retail selling price of used vehicles retailed by new-car dealerships



Source: NADA Industry Analysis Division



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

VICE CHAIR: VISION 2020
MEMBER: ECONOMIC DEVELOPMENT AND
TOURISM
TAXATION
VETERAN, MILITARY AND
HOMELAND SECURITY

PAT GEORGE

REPRESENTATIVE 119TH DISTRICT
HOME ADDRESS: 3007 WESTVIEW
DODGE CITY, KANSAS 67801
620-227-2012

OFFICE ADDRESS: STATE CAPITOL
TOPEKA, KANSAS 66612
785-296-7655

March 18, 2009

**To: Chairman Les Donovan
Members of the Senate Assessment and Taxation Committee**

From: Pat George, 119th District State Representative

Re: SB 242

Mr. Chairman and Members of the Committee:

I am here to speak in support of SB 242. I look at SB 242 as continuing a policy that began in the mid 90's to move Kansas from having one of the highest tax rates in the country in regards to car ownership to a more affordable, equitable rate. I spent 25 years in automotive retail and have lost track of the number of times I heard "I wouldn't mind trading cars and paying the difference, but I can't afford the tax! By the time I pay the sales tax and then the property tax, I won't be able to afford the car."

The policy adopted in the 90's that encouraged more people to purchase newer more efficient cars is even more important today. With a greater concern about our dependence on foreign oil and the awareness that we need to protect our environment, SB 242 is the right bill at the right time. By encouraging people to purchase newer vehicles, they will be acquiring vehicles that burn less gas and produce less CO2 as well as other harmful emissions.

The gradual reduction in motor vehicle property tax will also contribute to the recovery of the Kansas economy and help prevent us from experiencing the total meltdown other states have experienced. Auto dealerships, new and used, are some of the largest employers in

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Attachment 2

our communities. The size of their hearts cannot be measured; always the first to help schools, non profits, and community activities.

Favorable passage of SB 242 will encourage positive action by the citizens of our state as well as serve as a major influence on growing our workforce and our economy. I ask for your support in passing SB 242 favorably.



Making public schools great for every child

KANSAS NATIONAL EDUCATION ASSOCIATION / 715 SW 10TH AVENUE / TOPEKA, KANSAS 66612-1686

Mark Desetti, KNEA
Mark Tallman, KASB
Senate Assessment and Taxation Committee
Senate Bill 242
March 18, 2009

Mr. Chairman, members of the Committee, thank you for the opportunity to be here today to share our thoughts on Senate Bill 242.

As we read this bill it would apply the statewide 20 mill property tax levy to motor vehicles while reducing the current tax on motor vehicles. This would be phased in over time and would ultimately result in tax relief for automobile owners.

We appear as neutral on this bill and would like to share some thoughts we have as we look at this and many other tax proposals to come before this committee and your House counterparts.

First, we are glad to see a proposal that examines the possibility of "broadening the base." Applying this tax to motor vehicles does indeed widen the property tax base and we believe that the tax committees ought to be considering such actions. Fundamentally, we believe that by widening the tax base, you will eventually allow for tax relief by readjusting tax rates. We also believe that you can make taxes fairer by widening the base.

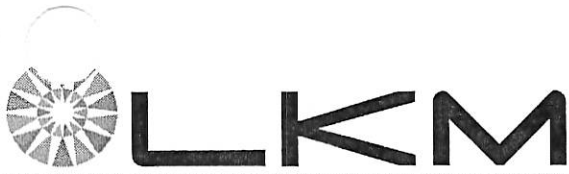
At the same time, we have some concern about the impact of this proposal on other local units of government. As we have said many times before this committee, the tax system reacts to changes in much the same way as pressure on a balloon. When one part of the balloon is restricted – when you squeeze one end – another part of the balloon reacts by expanding. When you offset the increase in the 20 mill levy applied to motor vehicles with a reduction in the current tax, you put pressure on cities to raise taxes elsewhere or to cut services. This has happened a number of times in recent years.

We would hope that a proposal such as the one in SB 242 could be considered within the context of a comprehensive examination of the Kansas tax system. Such a review could be conducted by a blue ribbon task force of economists, legislators, business and non-profit representatives, and representatives of local units of government including cities, counties, and school districts.

We do believe that you can craft a tax system for this state that protects state services by moderating reactions to swings in the economy, that provides adequate revenue to quality state services, that is fair to both businesses and individuals, and that encourages economic development.

We would hope that this committee considers the concept of "broadening the base" that is at the heart of this very specific bill and applies that thinking to every tax decision.

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Attachment 3



League of Kansas Municipalities

Date: March 18, 2009
To: Senate Committee on Taxation
From: Larry R. Baer
Assistant General Counsel
Re: SB 242
Testimony in Opposition

Thank you for allowing me to present testimony on behalf of the League of Municipalities and its member cities. While the League appreciates that the Committee is looking at a bill that would have the effect of expanding the tax base, we must oppose Senate Bill 242 because it results in a reduction in local property tax collections.

The revenues generated by motor vehicle taxes flow entirely to local taxing entities. Therefore, any reduction in the taxable value of a motor vehicle results in decreased tax revenues to the local taxing entities. This loss of revenue results in either decreased services or replacing the lost revenue by shifting of the loss of motor vehicle taxes to property taxes. This matter was last visited in the mid-1990s. The taxable value of motor vehicles was "stepped-down" from 30% to 20%. This was at a time when cities, counties and the state were "flush with cash" and the economy was growing without restrictions. This is not the case presently. Economic uncertainties exist on the local level every bit as much as they do at the state level.

The changes proposed to phase in the reinstatement of taxes upon the general property taxes levied by the school districts appears to have the affect of helping the state by picking up some part or all of the 20 mills now used for school financing. We acknowledge that the net effect of this could be that the State would have to appropriate less money for school financing and thereby have additional funds that could be shared with local government. However, local government becomes concerned when it has to depend upon legislative action to receive money which was once payable directly to the taxing entity. For example, it is only necessary to look at what has happened to LAVTRF in years gone by and what is proposed with M & E monies this year.

While the League appreciates the intent of the amendments made to SB 242 by the committee, they are not without problems. First, any benefit that may arise under the amendment does not come into play until 2014. Secondly, the amendments reference the amount LAVTRF transfers as of July 1, 2009. Both Senate and House appropriation bills presently provide that no transfer is to be made in 2009.

For the above reasons, the League of Kansas Municipalities opposes Senate Bill 242.