

MINUTES OF THE HOUSE TAXATION COMMITTEE

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

All members were present.

Committee staff present:

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

Conferees appearing before the committee:

Proponents:

Hal Hudson, National Federation of Ind. Businesses
Pat R. Hubbell, Kansas Railroad
Jeff Berke, CJS Industries
Jim Showalter, PTMW, Inc.
Denise Walsh, Hills Pet & Nutrition, Inc.
Marlee Carpenter, Kansas Chamber of Commerce
Ed Wallace, General Motors
George Turner, General Motors
Ken Daniel, Midway Wholesale
Mark Beshars, Sprint
Robert J. Fasl, AT & T
Written testimony only
Wes Ashton, Overland Park Chamber of Commerce
Harriet Lange, Kansas Association of Broadcasters
Christy Caldwell, Greater Topeka Chamber

Neutral:

Mike Taylor, United Government of Wyandotte County

Opponents:

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

Others attending:

See attached list.

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

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

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

CONTINUATION SHEET

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

PROPONENTS:

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

Pat R. Hubbell, Kansas Railroad, testified that public utility tangible personal property was excluded in the bill. He proposed an amendment that would include railroads which follows:

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

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

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

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

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

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

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

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

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

CONTINUATION SHEET

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

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

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

NEUTRAL:

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

OPPONENTS:

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

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

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

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

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

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

Matt Shatto, City of Lenexa, read into the record a letter from Mayor Michael Boehm, City of Lenexa which stated that Lenexa stands to lose more than \$900,000 in the first year. He said the eventual

CONTINUATION SHEET

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

annual impact on the City would be in excess of \$3.5 million, or 4 mills. He encouraged the committee to consider providing an income tax credit for the amount of property taxes paid as this would encourage economic growth without harming local governments (Attachment 19).

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

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

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

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

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

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

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