



March 12, 2012

Sen. Les Donovan and the Senate Assessment & Taxation Committee
Rep. Richard Carlson and the House Taxation Committee
Statehouse
Topeka, KS 66612

Dear Senators and Representatives:

As representatives of county government in Kansas, we have followed with great concern recent legislative policy discussions regarding what appropriately constitutes commercial-and-industrial machinery and equipment (CIME), with a focus on the line between real property and tangible personal property. Over a month ago, our staff expressed our Association's opposition to both SB 317 and HB 2501, as introduced, based on our serious concern over the proposals' likely shift of the tax burden to the remaining tax base, including residential homes, commercial properties, and agricultural land.

Since then, the Property Valuation Division (in a March 5, 2012 letter to both tax-committee chairmen), concluded that "it is impossible to accurately project the statewide impact of such legislation because of the property mix of the 105 Kansas counties." The letter further stated, "obviously, any reduction in commercial property values will shift the tax burden to other classes of property, principally residential and land devoted to agriculture use." Nevertheless, the same letter contained an estimated loss in tax dollars for the three Kansas refineries and the Coffeyville nitrogen plant at \$42.7 million, and the loss in tax dollars for railroad property at approximately \$15.7 million. And, these properties are only the more prominent examples of the likely revenue loss from such legislation, which could impact the valuation of grain-handling and grain-storage facilities, manufacturing facilities, gas-processing facilities, and light-industrial and warehouse facilities, among other properties. Moreover, the loss of revenue due to reduced property valuation would likely shift the tax burden to residual taxable properties, resulting in large property tax increases for the remaining taxpayers.

In lieu of enacting SB 317 or any other similar legislation that attempts to define taxable (and not taxable) commercial-and-industrial machinery and equipment during the current legislative session, the Association respectfully urges the Legislature to impose a two-year moratorium on any reclassification of commercial-and-industrial machinery and equipment to real property, except under very prescribed situations. Our members are greatly concerned about the loss of property valuation and resulting shift of the tax burden to homeowners, business owners, farmers, and agricultural producers. The moratorium period would provide adequate time for all stakeholders to assess probable impact of various definitions of CIME and for the current litigation concerning valuation of the Coffeyville nitrogen plant to wind its way through the judicial process. This seems to us a reasonable approach to ensure that our state policies protect all interests as much as possible.

As such, we urge you and your colleagues in the Legislature to insert the following

language, or language substantially similar, into SB 317, HB 2501, or whatever vehicle is ultimately chosen, to accomplish our recommendation:

Amend K.S.A. 79-223, by adding:

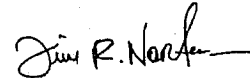
"For tax years 2013 through and including 2014, county appraisers shall not reclassify any property that is classified for property-tax purposes within subclass (5) of class 2 of section 1 of article 11 of the Constitution of the State of Kansas to real property unless (a) the property is being placed on the tax rolls for the first time following a period of tax exemption or abatement and can properly be reclassified as real property as defined in K.S.A. 79-102, (b) the use of such property has materially changed during the preceding tax year and because of the change it can properly be reclassified as real property as defined in K.S.A. 79-201, or (c) the reclassification is ordered by a court of competent jurisdiction."

Like you, locally elected officials are concerned with the impact of tax changes on the ability of state and local government to provide essential services, as well as the impact of policy changes on the property tax burden of all taxpayers. We believe that this approach is prudent and respectful to all parties who are vitally interested in this important policy discussion.

Respectfully,



Commissioner John Miller
Norton County
Legislative Policy Chairman



Commissioner Tim Norton
Sedgwick County
KAC President

This letter is authorized by the entire KAC Legislative Policy Committee, which in addition to the signatories above includes Commissioner Gary Baker, Stevens County; Commissioner Richard Malm, Jefferson County; Commissioner Kimberly Skillman-Robrahn, Coffey County; Commissioner Ben Bennett, Geary County; Commissioner Duane Patrick, McPherson County; and Ms. Linda Finger, Planning and Zoning Director, Douglas County.

cc: Kent Eckles, Vice President, Kansas Chamber
Ron Gaches, Coffeyville Resources Nitrogen Fertilizers, LLC
Brad Smoot, Montgomery County