THE LEAGUE OF KANSAS MUNICIPALITIES

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To: Chairman Steven Johnson and House Taxation Committee

From: Erik Sartorius, Executive Director

Date: May 10, 2017

Re: Verbal and Written Opposing Testimony to Senate Bill 146

Mr. Chair and Members of the Committee, the League appreciates the opportunity to appear before you and offer testimony in opposition to Senate Bill 146. To be more precise, we do not oppose the underlying legislation renewing the 20 mill levy for K-12 schools. Our opposition is to the Senate committee amendment prohibiting cities from abating the 20 mill levy for industrial revenue bonds (IRBs) or economic development purposes (EDX).

The ability of cities to abate property taxes for a period of up to 10 years is frequently a key component in attracting new growth or expansion. All other states surrounding Kansas, and most in the country, allow similar abatement abilities for local governments. In Missouri, one of our state's chief economic development competitors, abatements are allowed for up to 25 years.

When considering property tax abatements, both sides of the ledger must be considered, not just the "cost" of foregone revenue due to an abatement. In fact, abatements via IRBs and EDX are for new construction or expansion. Absent these projects occurring, neither the state nor local governments would see any of the benefits of these projects – not the additional jobs, nor the additional property tax, sales tax, and income tax. Furthermore, most abatement agreements are for less than 100% abatement, meaning some additional property tax revenue does come to the state and local governments as the project is completed.

Frequently, Payments in Lieu of Taxes (PILOTs) are agreed to as part of the abatement process. These payments from the property owner can provide more revenue to taxing jurisdictions than what the property was producing before development occurred. These payments go to all taxing jurisdictions, including the state. Testimony provided today by Edwardsville, Olathe and others demonstrate how abatements can have both near-term and long-term positive implications for the state.

You have written testimony from Mayor Don Roberts of Edgerton that illustrates the power of abatements and PILOTS. The chart on page 9 of his testimony shows that looking only at the “loss” of 20-mill revenue from the Logistics Park Kansas City would suggest schools were losing an estimated $3,441 that they had been receiving from the area. However, looking at the estimated PILOT revenue shows that the state’s 20-mill school levy actually sees an estimated <u>$232,963 net gain</u>. This does not even account for the increase in property taxes due to development adjacent to this area or the sales tax and income tax revenue resulting from over 3,000 jobs created within this are in the last four years.

Looking at the other side of the state, we would note Goodland has used IRBs to facilitate the construction of two hotels in recent years. They estimate 22-27 new jobs from these developments, plus additional gains from being able to better accommodate travelers. Colby, too, has utilized IRBs. Over the past decade, they have had four projects with approximately $1 million in IRBs issued for each project, with an average of 19 new jobs resulting from each project.

While this issue may be an “under the radar” issue for many, this potential policy change is already receiving attention in economic development circles. We are aware of business recruiters making contact in Kansas inquiring about SB 146, noting that they want to be able to advise their clients considering relocation about the business climate in Kansas.

Should the committee consider retaining New Section 1 of the bill, we ask that you do two things. First, the committee should seek a revised fiscal note for SB 146, so that both sides of the ledger, costs <u>and</u> benefits of abatements, are presented to the committee. Second, the provisions of the section should take effect July 1 of this year, not retroactively on May 1. It is unfair to communities working on projects to get caught halfway through the process and with no reasonable notice of this policy change.

Our members understand the need to renew the 20 mills of statewide property tax for K-12 education. They do not, however, understand the reasoning for cutting away an important economic development tool and unilaterally placing our state at a competitive disadvantage when seeking to retain and develop businesses. Elected officials at the local level have the best sense of what works for their communities and what is needed to remain competitive. We respectfully request that the committee remove New Section 1 from the bill before sending SB 146 to the full House for their consideration.