

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on February 18, 2003, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Randall Allen, Kansas Association of Counties
Larry Baer, League of Kansas Municipalities
Jim Edwards, Kansas Association of School Boards
Bernie Koch, Wichita Area Chamber of Commerce
Mike Taylor, City of Wichita
Christy Caldwell, Greater Topeka Chamber
Marlee Carpenter, Kansas Chamber of Commerce & Industry

Others attending: See attached list.

Senator Corbin called the Committee's attention to the minutes of the February 17 meeting. Senator Donovan moved to approve the minutes of the February 17, 2003, meeting, seconded by Senator Taddiken. The motion carried.

Continued hearing on: **SB 192—Enacting the streamlined sales and use tax agreement**

Randall Allen, Kansas Association of Counties, testified in support of **SB 192**. He discussed his concerns about the continued viability of the state and local option sales taxes as the world of commerce continues to change and an increasingly larger percentage of sales are conducted over the Internet or by mail order. He noted that the state sales tax has been the source of two of three demand transfers for counties and other local governments. However, he is more concerned about the viability of county option sales taxes levied in 76 of 105 counties. In this regard, he called attention to an attachment to his testimony documenting the collection and distribution of \$289 million in countywide sales taxes in 2002. He pointed out that Section 2 of the bill protects the local sales tax. (Attachment 1)

Larry Baer, League of Kansas Municipalities, testified in support of **SB 192**, noting that the League has been a member of the working group which was formed when the issue first began to be studied. He pointed out that the Streamlined Sales and Use Tax Agreement does not result in a new tax but simply in an equitable application of an existing tax. He went on to say that the League believes that a system must be in place which is equitable for those businesses which operate from brick and motor locations as well as those operating via the Internet. The bill also meets the League's objectives because it establishes a compensating

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use tax for cities and counties and continues the local tax on sales specified in K.S.A. 12-189a. (Attachment 2)

There being no others wishing to testify on **SB 192**, the hearing was closed.

SB 163–Property taxation; exemptions, limitation, school district levy

Jim Edwards, Kansas Association of School Boards (KASB), expressed KASB’s qualified support of **SB 163**. KASB does not oppose the abatement of such properties; it opposes the abatement of such properties where the school district or the state has no direct input before such abatement is provided. (Attachment 3)

Senator Corbin called the Committee’s attention to written testimony in support of **SB 163** submitted by Mark Desetti, Kansas National Education Association. (Attachment 4)

Bernie Koch, Wichita Area Chamber of Commerce, testified in opposition to **SB 163**. He pointed out that Sedgwick County has the highest business personal property taxes of any state in the region, and the county uses tax abatements as a tool to compete with states with lower property taxes. To illustrate, he compared Sedgwick County’s business personal property taxes with those in Oklahoma, a major economic development competitor. He went on to inform the Committee that a study of equipment investment from Harvard and the Massachusetts Institute of Technology concluded that any loss of revenue caused by a tax incentive for equipment investment was dwarfed by the economic and social benefits. Mr. Koch noted that his community has recently suffered substantial layoffs, and weakening a tool that has been very important to its economic growth would not be a strong signal of support for Wichita and Sedgwick County. In conclusion, he called attention to one of the charts attached to his testimony which lists the unified school districts in Sedgwick County, noting that the bill would create an uneven playing field because those school districts that invested in their schools through property taxes would tend to be at a competitive disadvantage in the area of economic development. The last chart includes the result of an annual survey from *Site Selector Magazine*. He pointed out that tax exemptions rated third in importance when selecting a site, and state and local incentives have grown in importance in the last year. (Attachment 5)

With regard to Mr. Koch’s written testimony, Senator Corbin pointed out that he indicated that, if the bill becomes law, a property tax abatement would require that the entire school mill levy for the Wichita School District (51.839 mills) to be paid. Senator Corbin clarified that the bill requires that only 20 mills be collected.

Mike Taylor, City of Wichita, testified in opposition to **SB 163**, contending that it will have a devastating effect on economic development in Wichita at a time when retaining and expanding existing business and attracting new business is more difficult and more crucial than ever. In his opinion, the bill attempts to fix a problem which does not exist in Wichita. He explained that the City of Wichita never abates taxes on land and that school districts already have options to deal with tax abatements. He emphasized that putting unnecessary restrictions on local government hampers efforts to attract out-of-state prospects which are likely looking at other states with lower overall tax burdens and additional incentives. (Attachment 6)

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Larry Baer, League of Kansas Municipalities, testified in opposition to **SB 163** because it would eliminate the ability of cities and counties to grant either constitutional or statutory exemptions from property or ad valorem taxes levied by or on behalf of school districts. He noted that, in many situations, these economic incentives are the only incentives that the local government has to offer. In addition, taxes levied by or on behalf of the school district very often represent a significant share of the taxes levied in a city; therefore, eliminating the exemption for real or personal property from the ad valorem tax levied by a school district would significantly devalue these economic incentives. He pointed out that neither the economic incentives nor the IRB exemption are granted by the Board of Tax Appeals without a favorable cost-benefit ratio, and most exemptions are granted for a reduced time or on some type of tiered basis. (Attachment 7)

Following questions regarding the mill levy, Senator Corbin clarified that the bill deals only with the state 20 mill levy, not local.

Christy Caldwell, Greater Topeka Chamber, testified in opposition to **SB 163**. She stated that the bill reduces the effectiveness of the constitutional tax abatement law and abatements allowed as part of an IRB. She noted that, in Topeka, an administrative review committee considers all requests and determines the amount of the exemption based upon the number of jobs created and the amount of wages. Representatives of the affected school district are invited to attend and participate in the discussions. To her knowledge, there has never been an incident where a school district objected to a tax exemption proposed in Shawnee County. She contended that, if the state begins limiting the amount of the tax exemptions by excluding the tax dollars that go to school districts, it removes local flexibility. In conclusion, she noted that the property tax exemptions laws work well and policies should be tailored by the community providing the abatement. (Attachment 8)

Marlee Carpenter, Kansas Chamber of Commerce and Industry, testified in opposition to **SB 163**, noting that property tax abatements are a very important tool in attracting and retaining business in the state. Because school district mill levies make up a large portion of the local mill levy, the enactment of the bill would reduce the effectiveness of the property tax abatement and the local community's ability to increase its tax base. She acknowledged that she misread the bill just as other conferees; however, not allowing the 20 mill state property tax to be abated also causes her to be concerned. She went on to note that Kansas business property tax is high for the region and called attention to a chart from Kansas, Inc.'s latest study comparing Kansas business property taxes to other states. She pointed out that property tax abatements provide the single most important tax incentive at the state and local level and contended that the bill would increase the cost of doing business for the types of business Kansas needs the most. (Attachment 9)

Senator Corbin called the Committee's attention to written testimony in opposition to **SB 163** submitted by Don Seifert for the City of Olathe. (Attachment 10)

Senator Oleen explained that the reason for the introduction of **SB 163** was to look at the broader tax policy and the broader issue of support for public education with 20 mills. She commented that it was unfortunate that the opponents did not have a clear understanding that it pertains only to the 20 mills, and it is prospective. She informed the Committee that a number of states are looking at the commitment of the state funding formula. She stated that her overall goal is not to have the bill passed out of committee, but rather to stir debate and an interest in referring the issue to an interim committee to study the impact of having a policy of

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not having a formalized way for exemptions to be reviewed. With this, the hearing on **SB 163** was closed.

Senator Corbin turned the Committee's attention to possible action two bills previously heard, **SB 1** concerning the Kansas and Missouri metropolitan culture district compact and **SB 162** concerning reauthorization of the school district ad valorem tax levy and exemption therefrom.

Senator Clark moved to amend **SB 1** by changing the percentage of moneys expended within each state from 45 percent to 40 percent, seconded by Senator Pugh. The motion carried.

Senator Clark moved to report **SB 1** as favorable for passage as amended, seconded by Senator Pugh. The motion failed.

Senator Clark moved to report **SB 162** as favorable for passage, seconded by Senator Lee. The motion carried.

The meeting was adjourned at 11:35 a.m.

The next meeting is scheduled for February 19, 2003.