

Approved: February 18, 1993  
Date

## MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:08 a.m. on February 5, 1993 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Reynolds, Senator Sallee, Senator Wisdom

Committee staff present: Tom Severn, Legislative Research Department  
Chris Courtwright, Legislative Research Department  
Bill Edds, Revisor of Statutes  
Don Hayward, Revisor of Statutes  
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee: Bernie Koch, Wichita Chamber  
Chris McKenzie, League of Kansas Municipalities  
David Cunningham, Director Property Valuation Division  
Larry Clark, Kansas County Appraisers Association

Senator Langworthy announced to the committee that Bev Bradley, Kansas Association of Counties was scheduled to testify today; however, she is ill but there is a copy of her testimony. (Attachment 1) Also a letter from Air Technologies Inc. from Ottawa has been passed out for the committee. (Attachment 2)

### OPPONENTS (CONTINUED)

#### **SB 2--Property tax exemptions and abatements for economic development purposes Re Proposal No. 1**

#### **SB 69--School district property tax levy excluded from city and county economic development exemptions**

Bernie Koch, Wichita Chamber, spoke from a prepared statement. (Attachment 3) He told about the usefulness of tax abatements against the competitiveness of Oklahoma. Abatements also help by encouraging industries in direct competition with heavily subsidized foreign industries. He said they create new jobs and he quoted from a study done by Wichita State which gave statistics on the number of new jobs created in the city of Wichita. As of 1991, there has been a net increase of 544 employees at the 27 firms granted tax exemptions in the four years from 1987 to 1990. This represents an average annual growth rate in employment among these firms of 20 percent. Most of the property abated in Sedgwick County is machinery and equipment. He mentioned the permanent tax exemptions on farm machinery in Kansas and he said farm machinery exemption and tax abatements are similar in some ways. They both help Kansas increase its standard of living. He said the Wichita Chamber cannot support **SB 69**. The 45 day review by the Department of Revenue in **SB 2** makes it difficult in real world situations where quick answers are needed. He suggested an alternative might be for a periodic review to see if abatements are working.

Chris McKenzie, League of Kansas Municipalities, said the League supports the requirements in **SB 2** of a cost benefit study in connection with IRB tax abatements but strongly opposes the requirement for the submission of the cost benefit to the Department of Revenue or any other state agency for review. With regard to **SB 69** the League has strong reservations about removing the ad valorem property tax levied by or on behalf of a school district from the base that is available for exemption. He quoted both Pat Oslund of the Institute for Public Policy and Business Research, University of Kansas and Charles Warren, President, Kansas Inc. in regard to their testimony before the committee. (Attachment 4)

This closed the testimony of opponents to **SB 2** and **SB 69**.

## CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S  
Statehouse, at 11:08 a.m. on February 5, 1993.

### **SB 97--Real estate ratio study; study years**

David Cunningham, Property Valuation Division, Department of Revenue, appeared to brief the committee on **SB 97** which has been requested by the Department. The Department is requesting to be allowed to go back over a 4 year period for the real estate ratio study. He said they would have to recognize any market trends with its benefits to the state and the counties. (Attachment 5)

Larry Clark, Kansas County Appraisers Association appeared in support of **SB 97**. (Attachment 6) He quoted from the International Association of Assessing officers "sales data provide objective, inexpensive indicators of market value and, as such are the preferred yardstick for measuring appraisal accuracy." He continued with the remark that sales data may be augmented by extending the time period.

### **SB 98--Public utility property sales validation questionnaires**

David Cunningham, Property Valuation Division, Department of Revenue, requested a technical correction to **SB 98**. In line 16, the words "certificate of value" were struck and the words "public utility" inserted and in line 18 the words "certificates of value" were struck and the words "public utility" inserted. This is to make clear the Sales Validation Questionnaire used by the counties will not be confused with the Sales Validation Questionnaire used by the Division's State Assessed Bureau. (Attachment 7)

Senator Martin moved to accept the amendment to **SB 98** according to the balloon provided by the Department. Motion was seconded by Senator Lee. Motion carried.

Senator Martin moved **SB 98** be passed out favorably with amendments. Seconded by Senator Feleciano. Motion carried.

Senator Martin moved **SB 97** be passed out favorably. Seconded by Senator Bond. Motion carried.

Senator Tiahrt requested the minutes show the committee's concern with using the 1989 data for the real estate study and this should be taken under consideration during the study.

David Cunningham presented a chart to the committee in response to questions from the committee at an earlier meeting regarding the number of FTE's in the Department of Revenue over the past several years. (Attachment 8)

David Cunningham also responded to an earlier question by Senator Lee regarding the assessed value of used machinery and equipment. (Attachment 9) He said the constitution does not allow the Division to use market value. He said they do have some leeway if they can document they are reaching market value.

Senator Langworthy announced there is a change in the agenda for the committee meeting on Monday, February 8, 1993. Instead of a hearing on **SB 74**, there will be a hearing on **SB 171**.

The meeting adjourned at 11:55 a.m.

The next meeting is scheduled for February 8, 1993.

## GUEST LIST

COMMITTEE: Senate  
ASSESSMENT & TAXATION.

DATE: 2-5-93

[illegible]





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**Executive Director**  
John T. Torbert, CAE

February 4, 1993

To: Senator Audrey Langworthy, Chair  
Members Senate Assessment and Taxation Committee

From: Bev Bradley, Deputy Executive Director  
Kansas Association of Counties

Re: Re: SB 69 and SB 2

The Kansas Association of Counties is opposed to SB 69 and portions of SB 2. SB 69 prohibits economic development property tax exemptions for real or personal property to be granted by any city or county pursuant to section 13 of article 11 of Kansas constitution which exempts property taxes levied on behalf of a USD. Counties are not asked to grant as many exemptions as cities partially because of the location of most of the property for which the exemption is needed. We believe the benefit derived from the growth in the county outweighs the down side of the tax exemption. We believe the board of commissioners should have the authority to make such decisions.

We oppose New Sec. 2 and (c) under Sec. 4 of SB 2. These provisions would require the board of commissioners to provide for the preparation of an analysis of the costs and benefits of granting the exemption. This analysis would be sent to the department of revenue where it would be reviewed within 45 days. We believe this is far too long for a local government to wait for a response. Many decisions on location must be made in a very short period of time or the business or industry will go elsewhere. We also question whether the department of revenue has the time, interest, or personnel to accomplish this task. We believe the state should not tie the hands of the local governing board.

Thank you for the opportunity to appear before you today.

*Senate Assessment & Taxation*

*February 5, 1993*

*Attachment 1-1*



FAX 913-242-8700  
800-624-8739  
913-242-1811

February 4, 1993

Senator Audrey Langworthy, Chairman  
Senate Assessment and Taxation Committee  
State Capitol, Room 143-N  
Topeka, KS 66612


RE: Senate Bill #2

Dear Senator Langworthy:

ATI is a small business in Ottawa, Kansas which benefitted from an IRB issue in 1992. Without the assistance of the city of Ottawa, tax abatements, and funds raised from the IRB, we could not have upgraded our equipment, added on to our existing building or renovated our offices. The IRB program is very important to a small business to raise funds so that jobs can be preserved, create new jobs, and allow a company to grow and be a positive factor in the local economy.

On page 2 of Senate Bill #2, line 37 appears it would have prevented ATI from seeking IRB funding. I strongly urge that the bill not be passed so that small companies such as ourselves have access to IRB funding to grow and prosper.

Very truly yours,



Keith P. Gutreuter

KPG/wg

c.c. Senator Doug Walker  
133 N. State Capital  
Topeka, KS 66612

Representative Walker Hendrix  
115 S. State House  
Topeka, KS 66612

Representative George Taagarden  
Room 5029  
State House  
Topeka, KS 66612

Air Technologies Inc. • 205 West 17th St. • Ottawa, Kansas 66067

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*Senate Assessment & Taxation*  
*February 5, 1993*  
*Attachment 2-1*

TESTIMONY OF BERNIE KOCH  
WICHITA AREA CHAMBER OF COMMERCE

S.B. 2 AND S.B. 69

SENATE ASSESSMENT AND TAXATION COMMITTEE  
February 4, 1993

Senator Langworthy, members of the committee, thank you for the opportunity to testify today. I'm Bernie Koch with The Wichita Area Chamber of Commerce.

I very much appreciated the testimony which was presented to you yesterday on tax abatements. The conferees who appeared before you did recognize the benefits that can be derived from proper use of the tax abatement tool. Although Sedgwick County, the Wichita area, uses this tool extensively and carefully, we're not the only ones. I wanted to point that out to you because much of the discussion has centered on my area of the state and might lead some to conclude that we're the only county abating property taxes.

Why do we use tax abatements to grow new business and attract others to the state? There are several reasons. One is the competition with neighboring states in the region. For example, Oklahoma plays hardball. It's a state actively seeking manufacturers and aerospace industry.

Oklahoma can offer a lower corporate income tax rate and lower property taxes on business. Certain manufacturers qualify for automatic 5-year property tax abatements. Aircraft companies in Oklahoma pay no property tax. Instead there's a payment to the state of only \$250 for each aircraft manufactured. Property tax abatements in Kansas help level the playing field with Oklahoma and other states.

Another reason abatements are helpful in a small way is that they encourage our industries that are in direct competition with heavily subsidized foreign competition. Boeing's major competitor, Airbus, a consortium of European countries, has received government subsidies of over \$24 billion over the last two decades. Foreign countries offer low interest financing to buy their aircraft, and they sometimes do not allow landing rights at their airports unless your airline has purchased some of their products.

Tax abatements are helpful in creating new jobs. Let me quote from a study of tax abatements by the Center for Economic Development and Business Research at Wichita State University:

*Senate Assessment + Taxation*  
*February 5, 1993*  
*attachment 3-1*

"Based on City of Wichita records on all firms that have received tax abatements under the Kansas constitutional authority since its implementation in 1987, we find that, (as of 1991, there has been a net increase of 544 employees at the 27 firms granted tax exemptions in the four years from 1987 to 1990. This represents an average annual growth rate in employment among these firms of 20%.)

"Using an average annual income for those jobs of \$18,000, based on company reports, the net increase to the state's personal income was almost \$20 million, resulting in a gain in state and local revenue of \$1.6 million. Again, this does not include any gains in corporate taxes. It is interesting to note that the average size of these companies at the time of their requests was 57 employees and that all of the companies were manufacturing plants.

"We also looked at companies receiving IRBs through the City of Wichita. Among the 37 companies for which we could obtain data, there was a net increase of 10,562 jobs between 1971 and 1991. This translates to an average annual growth rate in employment of 11 percent."

That brings us to another reason that abatements are valuable tools, and a point that is central to the question you are considering. Properly used abatements can generate wealth, including new taxes to the state which far exceed the property taxes which are abated. New and precise cost benefit analysis developed by K-U and Wichita State can analyze the costs and benefits of a particular abatement. They are being used by local governments in the decision making process.

Why do our tax abatements work in Sedgwick County? I believe it's because most of the property abated is machinery and equipment. About 75% of the constitutional abatements are machinery and equipment. About 50% of the IRB abatements are for machinery and equipment.

A 1991 study by researchers at Harvard and the Massachusetts Institute of Technology explores the relationship between equipment investment and economic growth. This study looked at 61 countries over a 25 year period and the relationship between the growth of equipment investment and the growth of gross domestic product.

Let me give you some brief quotes from that study:

"...we demonstrate a clear, strong and robust statistical relationship between national rates of machinery and equipment investment and productivity growth."

"High rates of equipment investment can, for example, account for nearly all of Japan's extraordinary growth

performance."

"We interpret our results as suggesting that the social return to equipment investment in well-functioning market economies is on the order of 30 percent per year."

"The gains from raising equipment investment through tax or other incentives dwarf losses from any nonneutralities that would result."

I believe that's exactly what's happened through our use of tax abatements in Sedgwick County.

For those of you of the Democratic persuasion, I would point out that our new President seems to recognize this. He's proposing tax breaks in just this area.

In his National Economic Strategy published before the election, he says:

"Ten years ago, the United States spent about \$40 more per person than Japan in capital investment. Today the Japanese invest more than twice as much in their nation as we do. We must either change our course or continue to slide.

"To help American business create new jobs and compete in the global economy, we must dramatically increase private investment. My plan would:

-Provide a targeted investment tax credit to encourage investment in the new plants and productive equipment here at home that we need to compete in the global economy."

Because this issue is so tied to school finance in Kansas, and because those who testified yesterday were from the education community, I thought it would be interesting to see what we teach our children about machinery and about the economy. I looked in my daughter's 7th grade social studies textbook, and I went to the children's section of the Topeka Public Library where there are several encyclopedias for young people.

What we teach in K-12 in this area probably revolves around the industrial revolution which began in England with the invention of some machines, including the steam engine. I found discussion of a lot of the problems caused by the industrial revolution and machines, problems like pollution, bad working conditions, social problems. But I also found the benefits.

Mass production using machinery allowed people to buy items that once only the rich could afford. Leisure time increased. The wealth of the country increased. The standard of living in industrialized countries eventually



surpassed the rest of the world, all brought about by new machinery and equipment.

There was something else I read that I'd forgotten about. The industrial revolution brought about by machines was also a revolution for agriculture. Farmers using machines could produce more and better food.

We have the best farmers in the world in this country due in large part to the farm machinery they use.

When the question of tax abatements comes up, some urban legislators often bring up the permanent tax exemption on farm machinery in Kansas. I have to admit that I thought about that myself. If we're going to put limitations on tax abatements, why not also put limitations on the permanent tax abatement on farm machinery? Now, I've changed my mind. The farm machinery exemption and tax abatements are similar in some ways. They both help make our state more productive which increases our standard of living.

For all of these reasons, I urge you to be very careful in your deliberations on tax abatements. They are a valuable tool.

Over the last four years, the assessed value of machinery and equipment in Sedgwick County has grown over 20 percent. This is the area where most of our abatements occur. If our tax base had narrowed, if we were abating away our wealth, machinery and equipment could not have grown 20 percent.

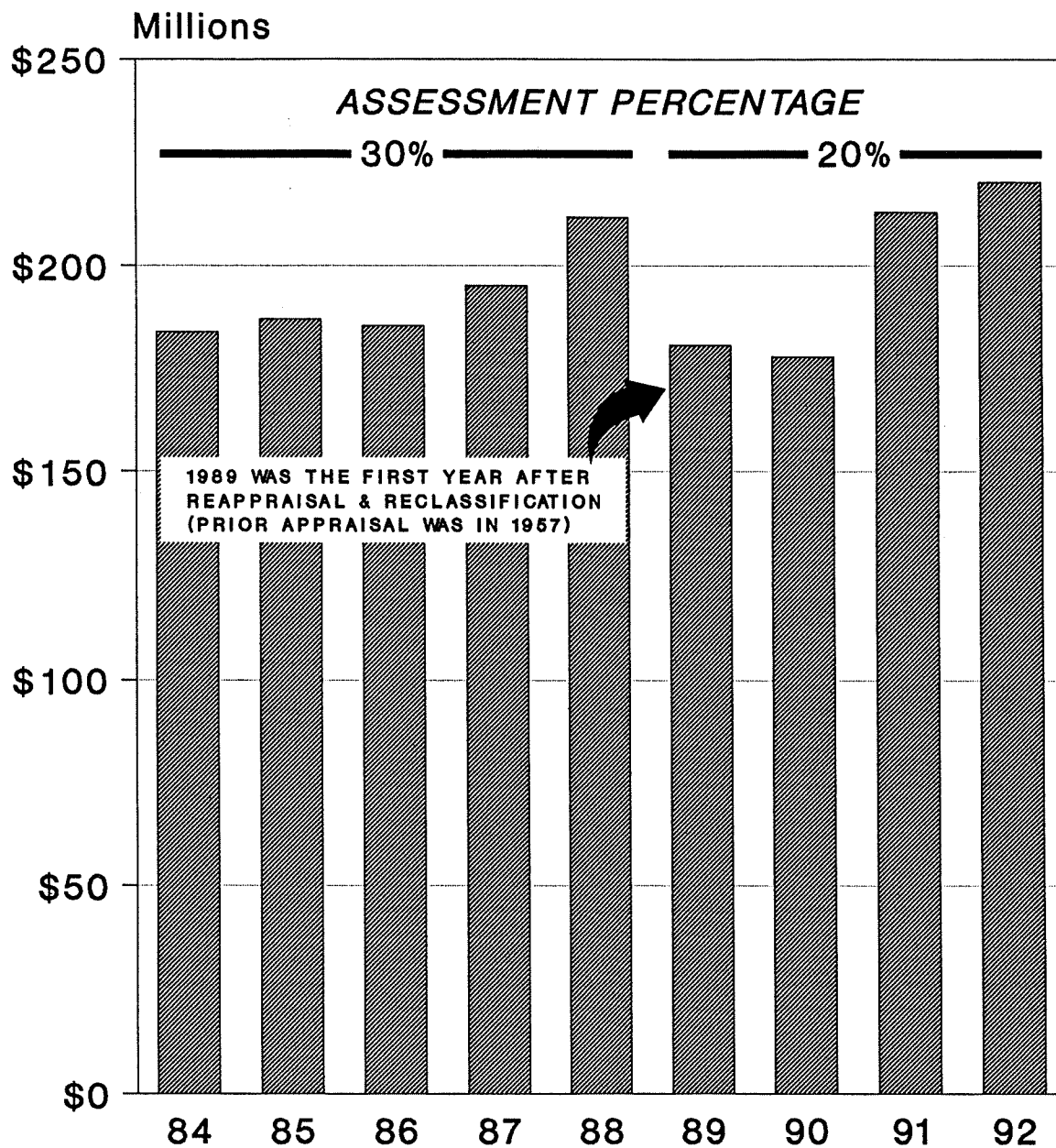
Other conferees will be addressing more specifically the two bills you are considering, but let me summarize my Chamber's position. We cannot support Senate Bill 69. Senate Bill 2's provision for Revenue Department review of cost benefit studies for tax abatements makes it difficult in real world situations where economic developers need to give prospective businesses a quick answer.

An alternative might be development of state standards for these cost benefit economic models; with periodic review to determine if they are working the way they should.

As you address this issue, please consider the recent bad news about layoffs in the Wichita area. They've been caused by outside economic influences, not by anything that we have done wrong. To respond to these layoffs with legislation that weakens a major incentive to locate and expand in Kansas sends the wrong signal to the companies that we want to expand here when they are ready to hire again.

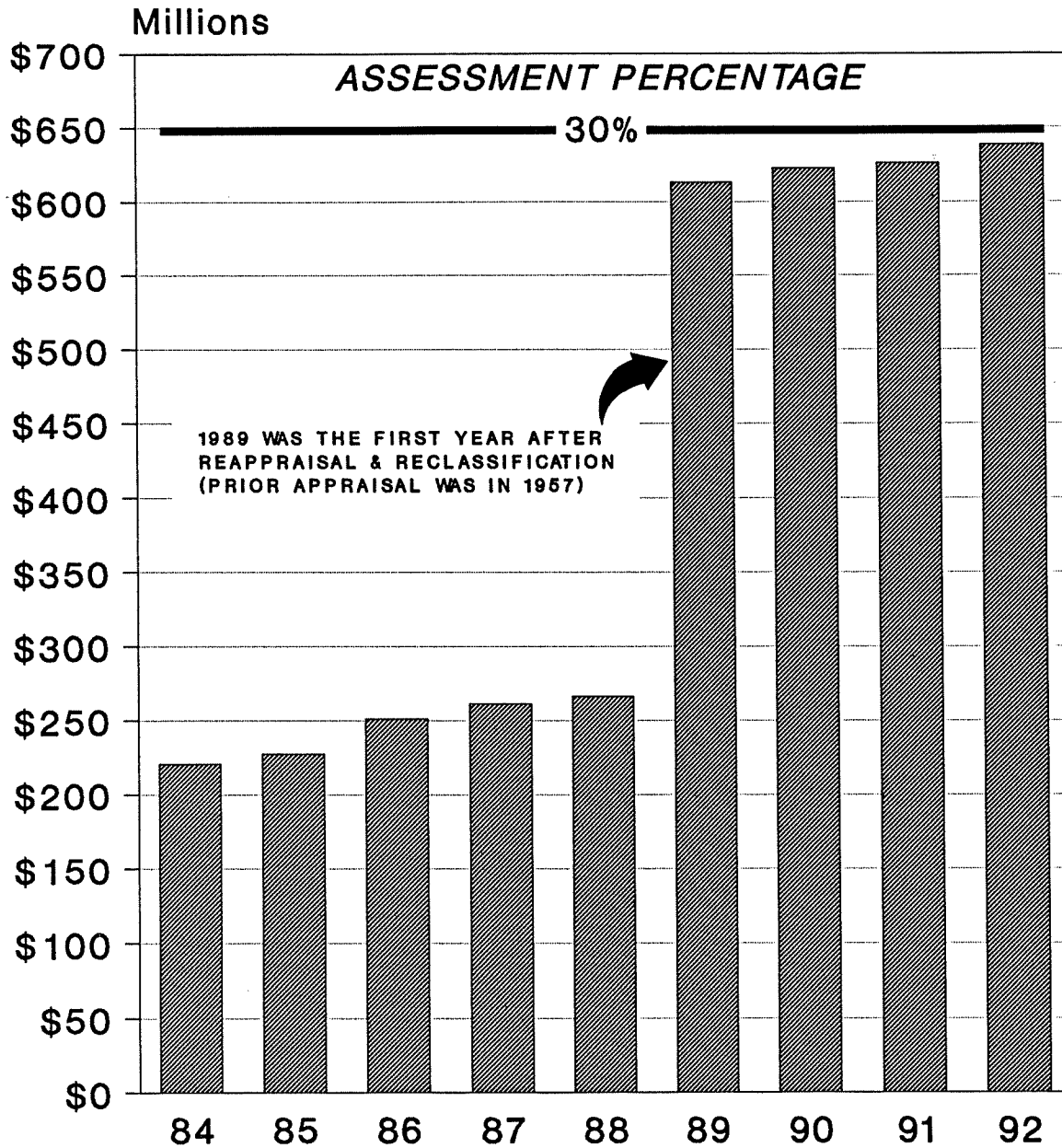
Thank you for the opportunity to appear before you today.

# ASSESSED VALUE OF COMMERCIAL/ INDUSTRIAL MACHINERY & EQUIPMENT SEDGWICK COUNTY



Source: Sedgwick County Clerk

# ASSESSED VALUE OF COMMERCIAL/ INDUSTRIAL REAL PROPERTY SEDGWICK COUNTY



Source: Sedgwick County Clerk

# PERCENT OF SEDGWICK COUNTY PROPERTY TAX BASE COMPOSED OF COMMERCIAL AND INDUSTRIAL PROPERTY

	TOTAL PROPERTY TAX BASE	COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT		COMMERCIAL & INDUSTRIAL REAL PROPERTY		TOTAL COMMERCIAL & INDUSTRIAL PROPERTY	
		ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE
1984	\$1,339,610,776	\$183,930,207	13.73%	\$220,623,496	16.47%	\$404,553,703	30.20%
1985	\$1,394,266,112	\$187,085,820	13.42%	\$227,298,750	16.30%	\$414,384,570	29.72%
1986	\$1,448,022,385	\$185,445,528	12.81%	\$250,987,830	17.33%	\$436,433,358	30.14%
1987	\$1,494,160,620	\$195,126,906	13.06%	\$261,418,256	17.50%	\$456,545,162	30.56%
1988	\$1,537,513,579	\$211,576,704	13.76%	\$266,438,350	17.33%	\$478,015,054	31.09%

*(1989 was the first year after reappraisal and reclassification)*

1989	\$1,867,511,789	\$180,826,219	9.68%	\$613,043,418	32.83%	\$793,869,637	42.51%
1990	\$1,912,253,139	\$177,862,882	9.30%	\$622,574,204	32.56%	\$800,437,086	41.86%
1991	\$1,962,204,160	\$212,948,990	10.85%	\$625,921,336	31.90%	\$838,870,326	42.75%
1992	\$2,017,833,007	\$220,016,005	10.90%	\$638,151,101	31.63%	\$858,167,106	42.53%

# **EARNINGS FROM JOB INCREASES**

- **544 NEW JOBS AT PLANTS  
RECEIVING EXEMPTIONS UNDER CONSTITUTION**
- **AVERAGE ANNUAL INCOME  
\$18,000 (Firm Reports)**
- **$544 \times \$18,000 = \$9,792,000$**
- **$\$9,792,000 \times 2 = \$19,584,000$   
(Multiplier Effect)**
- **$\$19,584,000 \times 8.08\% = \$1,582,387$   
STATE AND LOCAL REVENUE IN  
ONE YEAR (DOES NOT INCLUDE  
ANY CORPORATE TAXES.)**

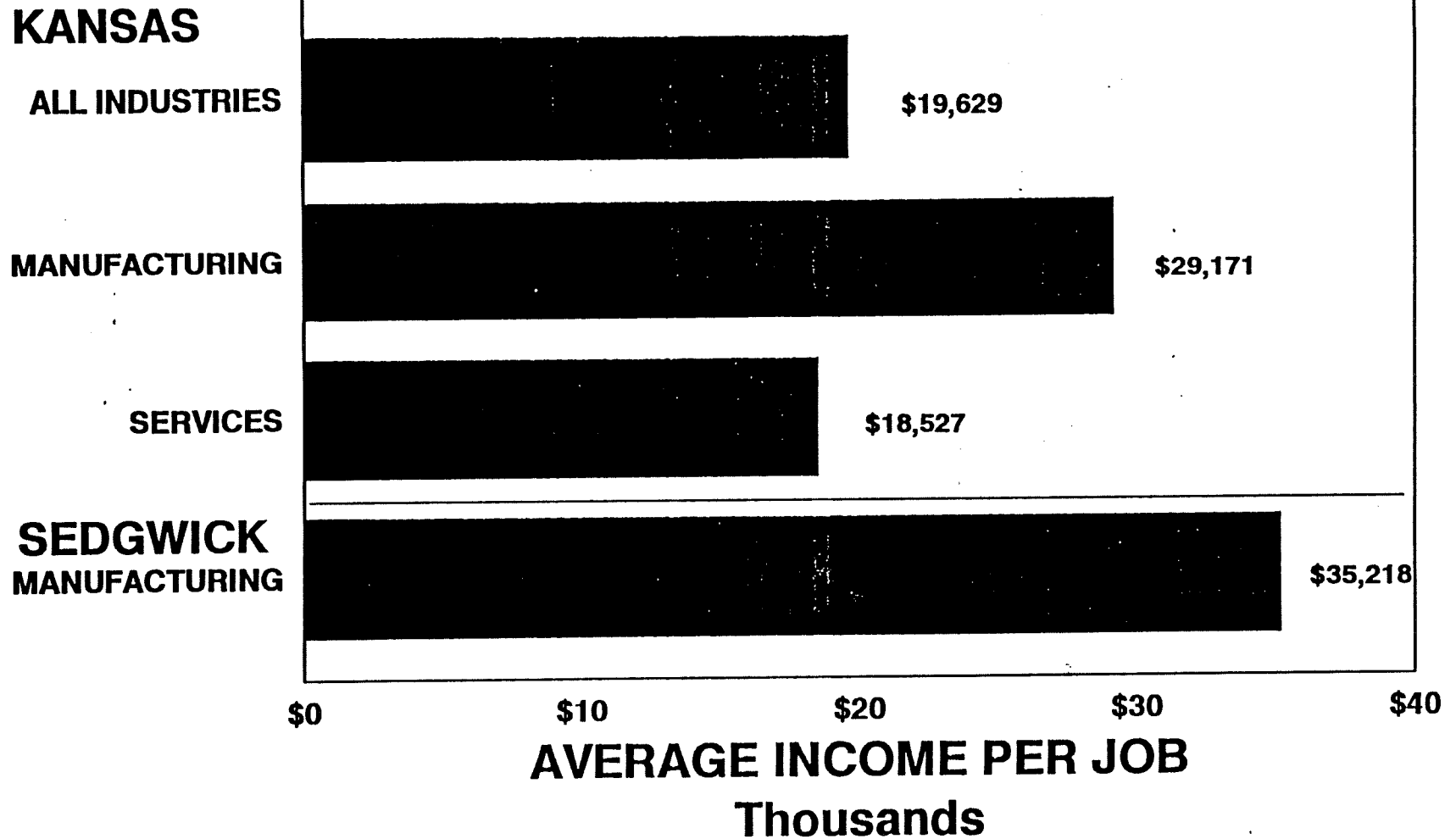
# **EMPLOYMENT GROWTH FROM FIRMS RECEIVING IRB'S CITY OF WICHITA**

- **37 FIRMS**
- **10,562 NEW JOBS 1971-1991**
- **AVERAGE ANNUAL GROWTH RATE OF  
11 %**

**Source: Center for Economic Development and Business Research, WSU.**

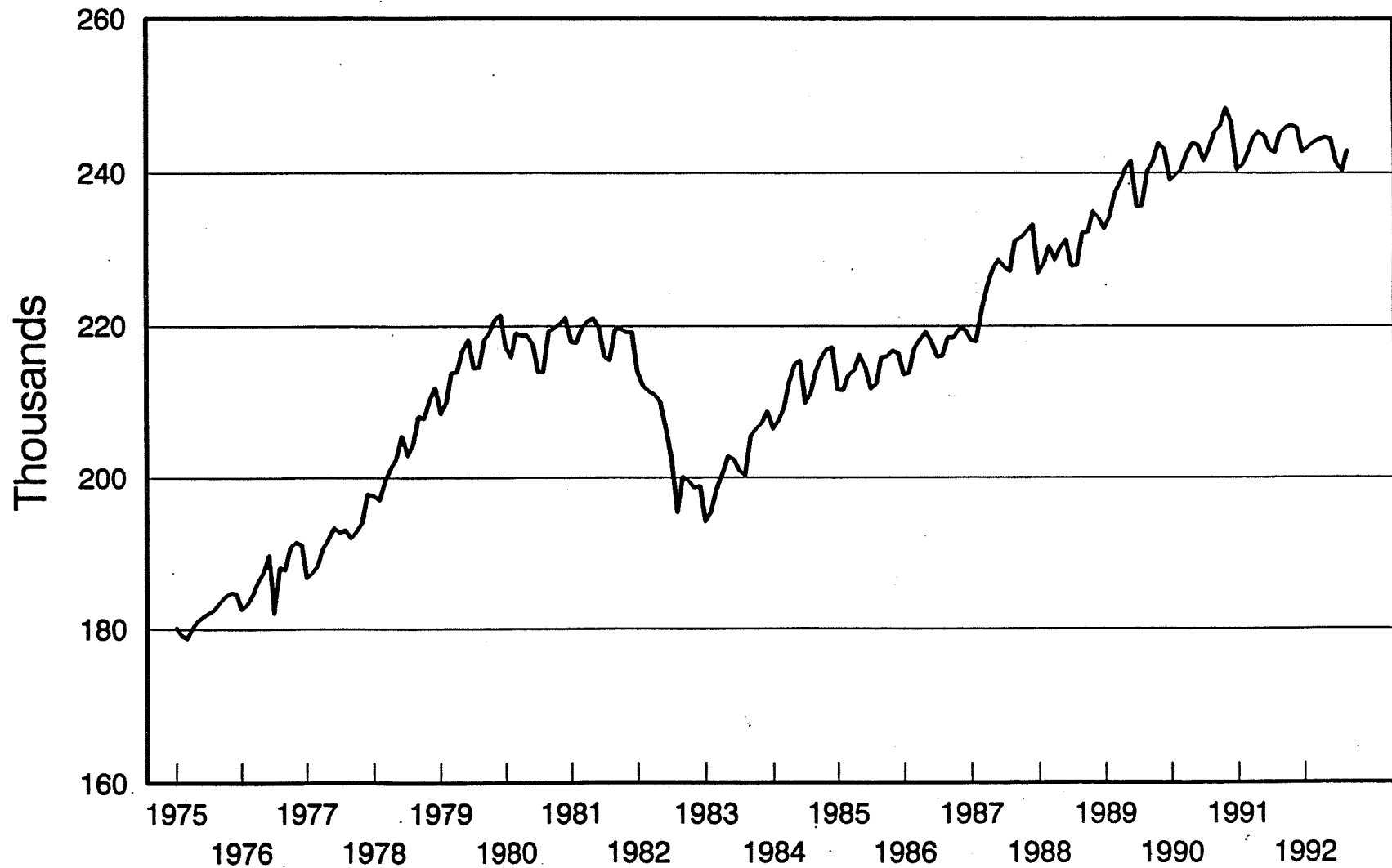


## AVERAGE INCOME PER JOB BY INDUSTRY 1989



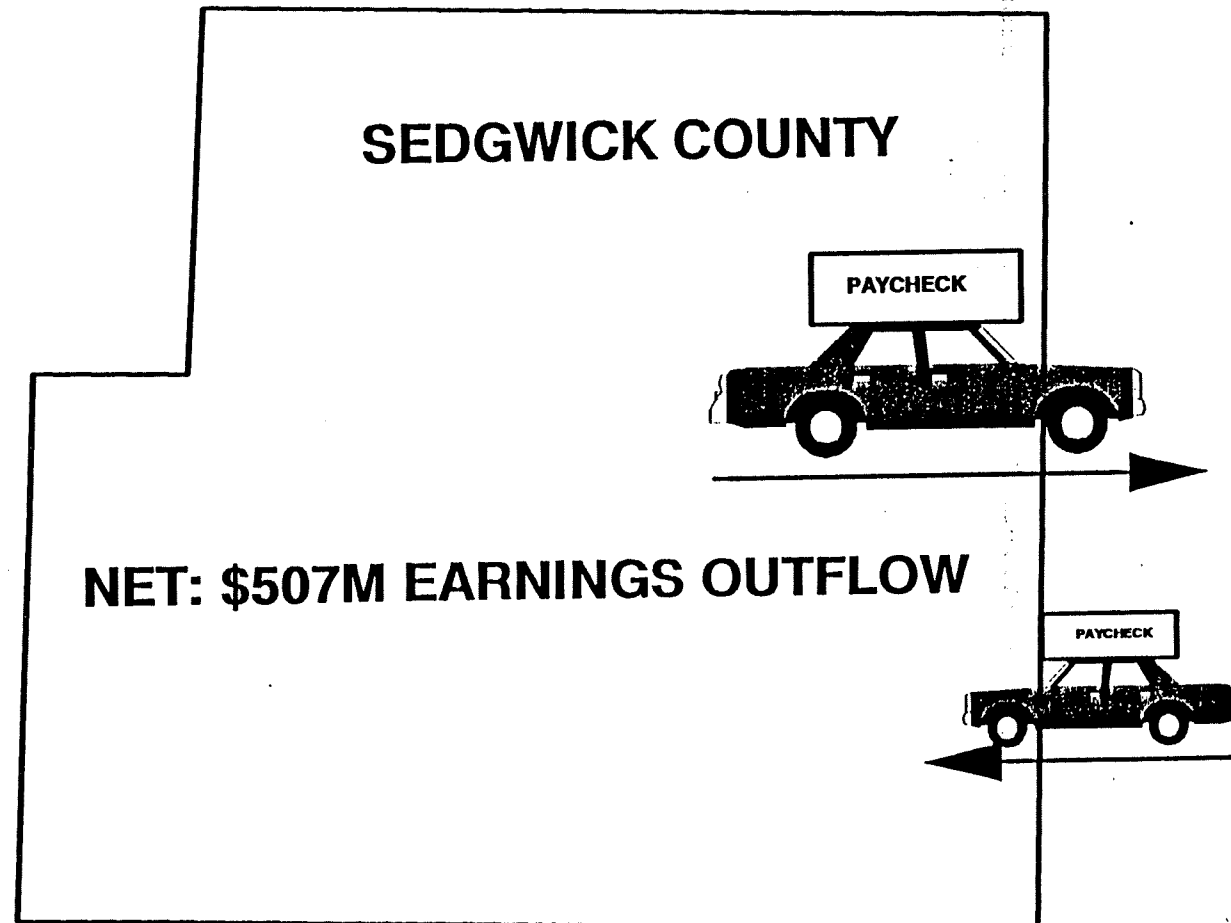
Source: U. S. Department of Commerce, Bureau of Economic Analysis.  
Compiled by The Center for Economic Development and Business Research.

# WICHITA MSA TOTAL JOBS



Source: Kansas Department of Human Resources, Wage and Salary Jobs.  
Compiled by CEDBR, W. Frank Barton School of Business, WSU.

# **EARNINGS RESIDENTIAL ADJUSTMENTS INCOME INFLOWS AND OUTFLOWS**



## **SEDGWICK COUNTY PERCENT CONTRIBUTIONS TO THE KANSAS ECONOMY**

- **19% OF STATE'S TOTAL RETAIL SALES**
- **20% OF TOTAL STATE INCOME TAX LIABILITIES**
- **17% OF TOTAL STATE PERSONAL INCOME**
- **18% OF ALL THE STATE'S JOBS**
- **21% OF ALL EARNINGS**
- **32% OF ALL MANUFACTURING JOBS**
- **38% OF ALL MANUFACTURING EARNINGS**

**Compiled by The Center for Economic Development and Business Research, WSU.**



**THE LEAGUE  
OF KANSAS  
MUNICIPALITIES**

**Municipal  
Legislative  
Testimony**

AN INSTRUMENTALITY OF KANSAS CITIES 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

TO: Senate Committee on Assessment and Taxation

FROM: *Chris* Chris McKenzie, Executive Director

DATE: February 3, 1993

SUBJECT: Testimony Concerning SB 2 and SB 69

I appreciate the opportunity to appear today and offer legislative testimony on SB 2 and SB 69. Before I offer the League's positions on these bills, I respectfully suggest that we should review some of the recent statements that have been offered by some of the legislature's economic policy advisors about the role of tax abatements in the economic development of Kansas.

**(1) Testimony by Patricia Oslund, Research Economist, Institute for Public Policy and Business Research, University of Kansas, to the Senate Committee on Assessment and Taxation, January 15, 1993.** In testimony before this Committee, Ms. Oslund stated: "If there is any single business tax where Kansas stands out as uncompetitive, it is the tax on machinery and equipment." (page 5)

Ms. Oslund later stated in her testimony: "Kansas has some of the most generous tax credits and tax abatements in the region. The new firm simulations for Kansas assume a full property tax abatement for the first 10 years of operation, and no abatement for the second 10 years. **This is the single largest incentive offered to firms.** (emphasis added) (page 8).

**(2) Testimony of Charles R. Warren, Ph.D., President, Kansas Inc., to the House Committee on Taxation, January 25, 1993.** In his testimony Mr. Warren provided his analysis of the proper scope of local government abatement policies and practices, and he also offered the following comments about the impact of tax abatements on state government:

"...It should be recognized that local tax abatements produce growing sales and income tax revenues for state government, and that 40 percent of the State General Fund is spent on state school finance aid. If used judiciously, tax abatements can contribute to our goal of a strong Kansas economy as well as increased revenues to the State of Kansas...The fact is that when local tax abatements are provided to new or expanding firms that provide increased employment and pay competitive wages and salaries, **the State of Kansas benefits far more than local governments or school districts.**" (page 5).

Mr. Warren's testimony then contains an example which I have attached to my testimony which, if time allows, I would like to review. In a nutshell, however, it shows that after the state general fund is reimbursed for its unrealized property tax gain due to the abatement, after the state is reimbursed for its unrealized property tax gain from its 1.5 statewide tax levy, and after the state is reimbursed for the value of its own tax incentives, the net gain to the state of Kansas over a 10 year period is approximately \$1.9 million dollars. A copy of Mr. Warren's analysis is attached.

*Senate Assessment & Taxation  
February 5, 1993  
attachment 4-1*

## POSITION OF LEAGUE OF KANSAS MUNICIPALITIES

During the past year the League has completed two surveys of the tax abatement and economic development exemption practices of cities. Those surveys, copies of which are attached, demonstrate that tax abatements and exemptions have a proper role in the attraction of businesses to Kansas communities. The March 24, 1992 survey of economic development practices of cities revealed that for those cities in which data were available on both new jobs promised (2,097) and new jobs created (2,845), a total of 748 more jobs were created than were initially promised. In a similar survey by the League in the summer of 1992 of municipal tax abatement practices under the IRB statutes we found a similar, but more startling pattern: in the cities reporting job related information, 2,036 jobs were promised, and 8,224 jobs were created, 6,188 more than were promised (304% greater).

Based on our formal policy positions and the results of the above surveys, the League supports the requirements in SB 2 of a cost-benefit study in connection with IRB tax abatements and the recognition in the statute of the ability to include provisions in an agreement with a company for reimbursement of the costs of the city and for the payment of property taxes that would have been forgone.

The League strongly opposes the requirement in SB 2 for the submission of cost-benefit studies to the Department of Revenue or any other state agency for review. The 45 day waiting period could effectively kill many pending projects or effectively alienate prospective businesses. The whole abatement/exemption process is complicated enough at this time without making it more so. We submit that a preferable approach to accomplishing this objective would be to charge the Department of Commerce or Kansas Inc. with the responsibility of working with the League in developing some "model" cost-benefit methodologies which incorporate effects on the state of Kansas and all local units of government.

With regard to SB 69, the League has strong reservations about removing the ad valorem property tax levied by or on behalf of a unified school district from the base that is available for exemption. Please notice in the attached survey reports that most cities offer 100% tax abatements, even though an increasing number are offering them for shorter periods of time or in smaller amounts. Such a policy change would significantly diminish the value of the exemption and make Kansas communities less competitive with communities in other states.

Finally, the League would respectfully remind the Committee that city elected officials are this state's front line ambassadors for economic development. The state is a helpful and important partner in attracting businesses to our state and aiding in the expansion of existing businesses. We urge you to proceed with caution in tying the hands of municipal officials in their negotiations with new and expanding businesses through some of the provisions contained in SB 2 and SB 69.

Thank you. Please let me know if there are any questions.

Encl: Excerpt from Charles Warren's January 25, 1993 testimony  
League's survey of municipal economic development tax exemptions  
League's survey of IRB-related tax abatements



### **TAX ABATEMENT EXAMPLE**

#### **The Project**

An advanced technology Kansas manufacturing company is considering a major expansion at one of its locations. The project would result in an increase in 200 jobs with annual average wages of \$22,500 and involve capital investment of \$8.5 million on buildings and \$20 million on machinery and equipment. The company requests a total exemption from ad valorem taxes for the building and equipment for a total of 10 years, as a condition for its decision to make the investment in the community. The company will also apply for state business incentives that are available.

#### **Revenues Foregone by State and Local Government**

The total of foregone property tax revenue from the exemption will be approximately \$4,100,000 over the 10 year period. The state would provide tax incentives with a total value of \$574,250.

Five taxing districts would be affected by the exemptions. The City would forego \$1.2 million. The state education fund (32 mill levy) would forego \$1,287,000 over 10 years. The state would also not gain \$61,500 from its 1.5 mill levy. The school district would not realize an additional gain of \$475,000 from its local option budget.

Total foregone by state:	\$1,348,500
Total foregone by local taxing units:	\$2,750,000
Total gain not realized:	\$4,098,500

#### **Revenue Benefits from the Project to the State:**

1. No estimate of corporate income tax gain.

2. State Individual Income Tax

200 workers, avg. \$22,500 <sup>1</sup>	\$174,460 annual
128 workers, avg. \$15,000	
spin-off employment:	\$ 72,548 annual

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<sup>1</sup> The annual average wages of the 200 new employees were purposefully understated by the applicant; the annual average wage of manufacturing employees in Kansas is \$29,170 -- 30 percent more than shown in this example.

10 years, no wage increase, no tax rate change	\$2,470,000
3. State Sales Tax	\$1,352,400
Total gain to state, 10 yrs.	\$3,822,400
4. less tax incentives	- 574,250
5. Net gain to state, 10 yrs.	\$3,248,150

#### **Distribution of Revenue Benefits to State:**

Net Gain to SGF, 10 years: \$3,248,150

Amount Distributed to State  
Education Fund based on 40%  
of SGF to School Finance:

\$1,299,260

Unrealized property tax gain to  
State School Finance Fund:

\$1,287,000

Balance available for other  
Schools:

\$ 12,260

subtotal

\$1,299,260

Unrealized property tax gain  
to State (1.5 mill levy)

\$ 61,500

Balance available from project  
for other SGF expenditures

\$1,887,390 \*

Total:

\$3,248,150

#### **Revenue Benefits to Local Governments:**

As noted earlier, the five local taxing districts (including the school district) would forego total new revenues of \$2,750,000. While the city and county can estimate increased sales tax revenues of \$455,400 over the ten year period, other revenue gains are less certain. Increased property taxes that would result from new home construction to house the new residents, if any, are a possible gain, but would be offset to an extent by increased public expenditures for the increased services that would result. The positive cost-benefit ratio of this tax abatement project is achieved only by including the resulting gain in state revenues from sales and income taxes. Thus, it is clear that, during the initial ten year abatement period, state government benefits far more from local tax abatements than does the community that provides them.

**STATUS REPORT ON CONSTITUTIONAL ECONOMIC DEVELOPMENT TAX EXEMPTIONS  
IN SELECTED KANSAS CITIES - MARCH 24, 1992**

<u>CITY</u>	<u>BUSINESS NAME</u>	<u>YR. EXEMP. APPROVED</u>	<u>ASSESSED VALUE NEW PROPERTY</u>	<u>% OF NEW VALUE EXEMPT</u>	<u>YRS EXEMP. EFFECTIVE</u>	<u>NEW JOBS PROMISED</u>	<u>NEW JOBS CREATED</u>	<u>COMMENTS</u>
Arkansas City	Gilliland's Printing	1988	150,000	100	10	*	*	
	Gilliland's Printing	1989	107,271	100	10	*	*	Cumulative total new jobs promised 115
	Gilliland's Printing	1990	114,000	100	10	*	*	Cumulative total new jobs created 135
	Gilliland's Printing	1991	405,600	100	10	*	*	
	Gilliland's Printing	1991	87,881	100	10	*	*	
Beloit	ban-Am, Inc.	1990	125,000	100	10	6	8	In lieu payment equals 50% of taxes going up over 10 yrs.
El Dorado	Cardwell International Limited	1991	321,697	*	4	40	41	2 years 100%; 2 years 50%
	John Banks	1989	63,000	100	5	20	15	
	Pioneer Balloon Company	1990	598,315	*	10	50-80	92	1990-1992 100%; 1993-1996 66.67%; 1997-1999 33.34%
	Southwest Valves	1988	11,915	100	2	3	3	
Emporia	Glendo Corporation	1991/1992*	112,673	100	**	3	9	* Pending before Kansas Board of Tax Appeals
	Hopkins Manufacturers	1991/1992*	207,766	100	**	29	33	* Pending before Kansas Board of Tax Appeals
	Thermal Ceramics	1990	188,833	100	**	7	12	** 10 years real; 5 years personal property
	Vek-Tek, Inc.	1991/1992*	51,451	100	10	3	10	* Pending before Kansas Board of Tax Appeals
Goodland	Ag-Dynamics	1986	1,150,000	0	7	12	15	Co. took bankruptcy in 1990. Bought out by Con-AGRA. Put back on tax rolls. Reapplying for exemption
Great Bend	Fuller Industries	1989	2,346,880	100	10	0	0	Pays in lieu payments of 150,000 first 5 years Pays in lieu payments of 250,000 next 5 years
Hutchinson	Cargill Salt	1990	3,800,000	100*	5	7	6	Payments in lieu of taxes
Kansas City	Barton-Solvents	1989	281,562	*	10	20	32	* 243,648 paid over 10 years
	Constable Print #1	1988	232,700	*	10	**	**	* 166,643 paid in lieu of taxes over 10 years ** Combined with Constable Print #2
	Constable Print #2	1988	244,950	*	10	25	30	* 207,730 paid in lieu of taxes over 10 years
	Coopers Animal	1991	249,000	*	5	5	5	* 77,347 paid in lieu of taxes over 10 years
	Focus Pack	Pending	101,671	*	10	8		* 85,102 paid in lieu of taxes over 10 years
	Gareite TSP	1990	358,707	*	10	125	133	* 385,502 paid in lieu of taxes over 10 years
	Metro WHS	1988	106,270	*	10	24	26	* 111,905 paid in lieu of taxes over 10 years
	Nord III	1990	166,055	*	10	17	16	* 143,012 paid in lieu of taxes over 10 years
	Plastic Pack	Pending	63,109	*	10	10		* 51,528 paid in lieu of taxes over 10 years
	Stevenson & Assoc.	1990	220,000	*	10	29	32	* 196,684 paid in lieu of taxes over 10 years
	Stultz Mfg.	1989	205,083	*	10	50	48	* 169,811 paid in lieu of taxes over 10 years
	Packer Plastics	1986	5,897,000	50	10	91	91	In Lieu payment \$43,117
	Davol	1989	1,105,000	50	10	15	15+	In process of filing with BOTA
	Davol	1991	4,266,000	50	10	200	200+	In process of filing with BOTA
	Standard Liquors	1989	2,620,330	50	10	47	47+	In process of filing with BOTA
Lawrence	Allen Press	1989	3,000,000	100	10	20	20	
	Allen Press	1989	1,220,000	50	10			
	E&E Specialties	1989	2,000,000	50	10	15	15+	In process of appealing to BOTA
	Garage Door Group	1990	1,466,085	50	10	66	66	

CITY	BUSINESS NAME	<u>YR. EXEMP.</u> APPROVED	<u>ASSESSED VALUE</u> NEW PROPERTY	<u>% OF NEW</u> VALUE EXEMPT	<u>YRS EXEMP.</u> EFFECTIVE	<u>NEW JOBS</u> PROMISED	<u>NEW JOBS</u> CREATED	COMMENTS
Lawrence (Cont'd)	Oread Laboratories	1991	2,400,000	50	10	33		Abatement ordinance not adopted
	Douglas County Development	1992	1,900,000	50	10	*		* Jobs identified in Pittman-Moore
McPherson	Pittman-Moore	1992	1,250,000	50	10	18		Abatement Ordinance not adopted
	Femco, Inc.	1990	155,500	100	10			Abatement Ordinance not adopted
	Mac Diesel Power	1990	*	*	7			No new real or personal property. Taxes frozen at 1990 levels.
Newton	Lifestyle Interiors	1987	210,000	100	10	35	65	
	Lifestyle Interiors	1991	73,578	100/90/80*	10	15		* Decreases every year;
	Mid-Continent Cabinetry	1987	906,796	100	10	75	225	
	Straightline Industries	1991	706,000	100/90/80*	10	47	49	* Decreases every year;
Olathe	Dillards Distribution Center	1988	3,403,306	100	10	400	400	Payment in lieu of taxes
	Pepsi Cola General Bottlers	1988	1,015,620	55*	5	150	150	* declines from 100% down over 5 year period figure shown is the average
Overland Park	United Telecom	1990	551,000,000*	50	20**	6000-8000	0***	*Value after 20 years ** 6 phases each phase has 10 years, staggered phases. *** Jobs transferred from other locations. No new jobs
Pittsburg	Future Forms, Inc.	1989	150,000	100	4	33	33	
	Maric Packaging Inc.	1991	350,000	100	3	4	7	
	Monsieur's Inc.	1991	1,200,00	100	6	10	15	
	PittPlastics, Inc.	1990	1,200,00	100	6	25	42	
	Superior Ind. Int., Inc.	1990	55,000,000	100	10	350	800	
	Vinylplex, Inc.	1990	333,000	100	2	3	8	
Salina	Premier Pneumatics	1991	178,770	*	5	3-6	3	*63%; 31.5%
	Wyatt Foundry	1991	483,857	100-50	5	20	Underway	

**STATUS REPORT ON IRB-RELATED PROPERTY TAX ABATEMENTS  
IN SELECTED CITIES, 1987-1991**

CITY	BUSINESS	TYPE (1)	YEAR ABATEMENT APPROVED	ASSESSED PRIOR VALUE	ASSESSED POST VALUE	NUMBER OF YEARS ABATED	% OF NEW ASSESSED VALUE ABATED	ANNUAL AMOUNT IN LIEU OF TAXES	No. OF JOBS PROMISED	No. OF JOBS CREATED
ABILENE	Great Plains *	G	1988	13,980	158,460	10	100	0	30	120
ANDOVER	Beech Aircraft	G	1987	2,252,700	2,737,700	10	100	0	0	0
	Vernado Air *	G	1991	771	459,348	10	100	0	100	30
BUHLER	Gregory, Inc.	G	1987	138,743	678,125	10	100	22,719	15	42
EDWARDSVILLE	Life & Safety Products	B	1991	681	147,198	10	100	Yr 1 20%, Yr 2 40% Yr 3 60%, Yr 4 80%	20	16
	Millard Refrig. Serv.	D	1992	9,171	195,405	10	100	n/a	86	not completed
FORT SCOTT	Ward Kraft Forms	G	1990	n/a	n/a	10	100	0	35	35
	Extrusions, Inc.	G	1990	n/a	n/a	10	100	0	5	5
GARDEN CITY	Acra-Plant, Inc. *	G	1990	1,400	249,891	10	100	10%	0	20
	St. Catherine Clinic	H	1988	n/a	688,947	10	100	10%	8	15
	Freezer Services, Inc.	G	1991	425,952	n/a	10	100	10%	20	not completed
HESSTON	Hay & Forage Ind.	A	1991	3,420,000	3,765,000	10	100	10,000	15	not completed
HILLSBORO	Salem Hospital	C	1987	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Parkeide Homes	H	1987	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Hillsboro Industries	D	1988	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Barkman Honey	D	1991	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Salem Hospital	C	1992	n/a	n/a	n/a	n/a	n/a	n/a	n/a
HUTCHINSON	Mega Manufacturing	G	1989	375,100	457,870	10	100	= 1989 taxes	28	(10)
	National Tank Co. *	G	1990	280,784	280,784	10	0	3,000	150	60
	Heritage Care Center	H	1990	73,631	77,118	10	100	15,000	14	8
KANSAS CITY	General Motors Corp. *	D	1988	0	92,000,000	10	91	1,400,000	0	0
	Owen Industries	D	1987	63,000	417,480	10	49	35,935	35	41
	General Motors Corp. *	D	1987	n/a	n/a	n/a	n/a	n/a	n/a	n/a

**STATUS REPORT ON IRB-RELATED PROPERTY TAX ABATEMENTS  
IN SELECTED CITIES, 1987-1991**

CITY	BUSINESS	TYPE (1)	YEAR ABATEMENT APPROVED	ASSESSED PRIOR VALUE	ASSESSED POST VALUE	NUMBER OF YEARS ABATED	% OF NEW ASSESSED VALUE ABATED	ANNUAL AMOUNT IN LIEU OF TAXES	No. OF JOBS PROMISED	No. OF JOBS CREATED
KANSAS CITY	Presbyterian Manor	H	1987	NONPROFIT	n/a	n/a	n/a	n/a	n/a	n/a
	Boyer Properties	D	1987	0	16,827	10	45	1,265	4	7
	Medical Mgt.	B	1991	exempt	1,545,900	10	21	50,720	15	not completed
	626 Project	H	1992	104,076	397,816	10	100	17,180	80	not completed
LINCOLN CENTER	Century Manufacturing	G	1987	90,140	77,919	10	100	0	n/a	100
MARYSVILLE	Landoll Corp. *	G	1988	1,080,000	1,822,000	10	100	0	15	50
OLATHE	Mitchell Oldsmobile	B	1990	4,329	598,125	6	37	n/a	100	100
	Culligan Water Cond.	G	1989	9,689	140,554	5	30	n/a	40	n/a
	Cintas Corporation *	H	1992	26,500	not completed	10	50	n/a	75	n/a
OSWEGO	Coons Mfg. Inc.	G	1988	85,700	n/a	10	n/a	50% of taxes	n/a	n/a
SALINA	KASA Industrial *	G	1991	449,600	583,360	3	100	0	6	10
	Wyatt Manufacturing *	G	1991	1,920,540	not completed	10	100 (Yr 1-5) 50 (Yr 6-10)	0 50	20	not completed
So. HUTCHINSON	Shield Industries *	G	1989	69,150	not completed	10	n/a	8,573	n/a	n/a
TOPEKA	Riser Fine Foods	G	1991	n/a	n/a	10	100	0	67	125
	LaSiesta Foods Inc.	G	1990	68,790	153,633	10	100	24,000	12	12
	Mainline Printing	D	1990	124,950	124,080	10	71	6,000	8	0
	Presbyterian Manor	B	1988	604,690	1,076,610	10	n/a	0	n/a	n/a
	La Siesta Foods	G	1988	27,280	71,577	10	100	835	n/a	n/a
	OHSE Meat Products	G	1987	254,340	297,630	10	n/a	5,000	n/a	n/a
	Volume Shoe (1)	H	1987	5,990	2,288,250	10	n/a	0	n/a	n/a
	Volume Shoe (2)	H	1987	153,795	310,640	10	n/a	0	n/a	n/a
WICHITA	Brittain Machine, Inc.	G	1991	2,815	245,820	10	100	0	100	1
	Wichita Tool Company	G	1991	180,653	226,290	10	100	0	29	29
	Koch Industries	B	1991	0	5,172,098	10	100	0	2,300	n/a



**STATUS REPORT ON IRB-RELATED PROPERTY TAX ABATEMENTS  
IN SELECTED CITIES, 1987-1991**

CITY	BUSINESS	TYPE (1)	YEAR ABATEMENT APPROVED	ASSESSED PRIOR VALUE	ASSESSED POST VALUE	NUMBER OF YEARS ABATED	% OF NEW ASSESSED VALUE ABATED	ANNUAL AMOUNT IN LIEU OF TAXES	No. OF JOBS PROMISED	No. OF JOBS CREATED
WICHITA	Boeing Company	G	1991	88,000,000	n/a	10	100	2,219	n/a	8,000
	Richard G. Chance	G	1991	20,583	552,771	10	100	0	200	388
	Prebyterian Manor	C	1990	4,192	173,403	0	—	—	24	n/a
	Associated Co., Inc.	G	1990	138,150	450,000	10	100	18,937	75	149
	Cessna Aircraft (1)	G	1990	Airport Property	—	—	—	—	200	5,343
	Cessna Aircraft (2)	G	1990	Airport Property	—	—	—	—	32	n/a
	Boeing Company	G	1990	n/a	—	10	100	0	n/a	n/a
	Boeing Company	G	1989	n/a	—	10	100	150,550	n/a	n/a
	Farmland Industries	D	1989	841,890	841,890	10	100	0	200	332
	Pioneer Teletechn Inc.	B	1989	—	23,260	10	100	0	150	331
	Tru-Circle Corp.	G	1989	112,491	129,927	10	100	0	70	106
	Boeing Company	G	1988	n/a	—	10	100	40	n/a	n/a
	Sharpline Converting	G	1988	20,673	243,758	10	100	0	35	258
	Best Western, Inc.	B	1988	11,793	480,012	10	100	0	150	280
	Boeing Company	G	1987	n/a	—	10	100	1,050	n/a	n/a
	Valassis Inserts, Inc.	G	1987	0	77,859	10	Varies	284,259	175	211
	Epic Center	B	1987	175,580	2,060,270	10	50	178,508	0	0
	Koch Industries, Inc.	B	1987	0	729,450	10	50	17,778	200	n/a
<b>TOTALS**</b>				<b>11,096,450</b>	<b>122,512,642</b>				<b>2,036</b>	<b>8,224</b>

\* Respondent said IRB/Property Tax Abatement was instrumental (or a deciding factor) in recruitment or retention of the business.

\*\* Totals reflect values of projects for which both prior and completed values were reported.

\*\* Totals reflect jobs for projects in which both jobs promised and actual jobs created were reported.

(1) Types of Business:

- |                |                             |
|----------------|-----------------------------|
| A. Agriculture | E. Natural Resources        |
| B. Commercial  | F. Recreational Development |
| C. Hospital    | G. Manufacturing Purposes   |
| D. Industrial  | H. Other                    |

Report Dated: 10/13/92

STATE OF KANSAS

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Department of Revenue  
*Division of Property Valuation*

MEMORANDUM

TO: Senator Audrey Langworthy, Chair,  
Senate Assessment and Taxation

FROM: David C. Cunningham, Director, PVD

DATE: February 5, 1993

RE: Senate Bill No. 97

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The Division of Property Valuation appreciates this opportunity to appear in support of Senate Bill No. 97. I believe this is an important bill because it will give the Division the ability to use the best possible data in the Sales Ratio Study. Obviously, the better the data, the better the analysis. I believe this bill benefits both the Division and the counties.

The current law allows the Division to use sales from the current and one previous year. If there are still insufficient sales, the Division is authorized to do appraisals to supplement the ratio study. Appraisals are not the preferred practice and, in fact, the IAAO in its Standards on Ratio Studies suggests using sales five (5) years old if necessary. Allowing the Division to pick up sales from the previous four (4) years will be more accurate than performing appraisals. Additionally, it will be more cost effective.

The key ingredient to the success of this methodology is to research market trends. If appropriate, the older sales should be trended for time or they will not represent a valid comparison to the current value. The Division will do this analysis and trend where appropriate.

*Senate Assessment & Taxation*  
*February 5, 1993*  
*Attachment 5-1*

here, any sampling process, makes judgment essential when evaluating a ratio study and acting on the results.

## 5. Timing and Sample Selection

**5.1 Data Requirements and Availability.** Data requirements and availability must be evaluated early in the design of a ratio study. The purpose of the study will dictate certain data requirements. The availability of data will, in turn, influence design of the study and may call for revisions in the objectives of the study, limit the usefulness of the calculated statistics, or both. The information generally required for a ratio study includes the nature and distribution of the population, assessment information, indicators of market value, and property characteristics.

**5.1.1 Nature of the Population.** It is essential to know the type of properties, market conditions, and composition of the population in terms of age, size, value range, and so forth. Such information is needed to make informed decisions about study design and interpretation of results.

**5.1.2 Assessment Information.** Appraised or assessed values are the numerators in the ratios used in a ratio study. Information about appraisal dates, legal requirements concerning reappraisals, the dates on which the appraisals were originally set, and the period they remained in effect are required for establishing the date of analysis (see section 5.3) and the period from which sales data will be drawn (see section 5.4).

**5.1.3 Indicators of Market Value.** Indicators of market value, either sales or independent appraisals, are the denominators in the ratios. Limitations in the availability of such data are important determinants of the design and usefulness of a ratio study. Specific information about the date, amount, terms, and conditions of sale is required for proper sales analysis. Appraisals used in ratio studies must employ sound methods and techniques and provide accurate indicators of market value (see section 4).

**5.1.4 Property Characteristics.** Information on property characteristics is crucial for determining whether a property as it was assessed corresponds to the property as it was sold or appraised (see section 4.3). Knowledge of key property characteristics is also essential for effective stratification (see section 4.4). In addition, the inclusion of property characteristics will improve the usefulness of reports that list the sales used in ratio studies.

**5.2 Frequency of Analysis.** The purpose of a ratio study dictates how often it should be conducted. Regardless of the reappraisal or equalization cycle, ratio studies made by assessors as an internal control procedure and by property tax supervisory and equalization agencies should be conducted at least annually. This enables potential problems to be recognized and corrected before they become serious, as might happen if ratio studies were conducted only in tandem with appraisal cycles.

When there is a revaluation, assessors should (if possible) conduct at least three ratio studies: one based on preliminary values so that any major deficiency, such as lack of uniformity between neighborhoods, can be corrected; a second based on values used in assessment notices; and a third based on final values after completion of the appeals process (unless unduly protracted). The final study is

the official study for that year and can be used in planning for the following year.

In addition, ratio studies are often conducted ad hoc to evaluate appraisal procedures, a discrimination complaint, or other specific questions. Ratio studies should be designed with sufficient flexibility to accommodate such occurrences.

**5.3 Date of Analysis.** Because the purpose of the ratio study is to evaluate the relationship between appraisals (or assessments) and market values at a specific time, a specific date of analysis should be selected for the study. This date will depend on the purpose of the study, but generally is the appraisal date of the tax year being studied, which may be the current year, the next year, or a past year. The appraisal date of the current year should be the date of analysis for (a) interjurisdictional equalization, (b) determining the need for a general reappraisal, (c) establishing reappraisal priorities, or (d) evaluating recently completed appraisals or revaluations. The appraisal date of the next tax year should be used when the purpose of the study is to evaluate preliminary values in a reappraisal. Finally, the appraisal date will be a past year when appraisals from past years are being evaluated.

**5.4 Period from Which Sales Are Drawn.** This period will depend on the purpose of the study and on sales activity, although the study period is sometimes set by statute or administrative rule. In general, the period should be as short as possible and, ideally, no longer than one year. Often, however, a longer period is required to produce an adequate sample for one or more strata within a jurisdiction. The period selected for each stratum can vary, although this may create practical difficulties and inconsistencies if sales are not adjusted for time.

The sales period will also vary with the intended use of the study. If the purpose of the study is interjurisdictional equalization, using sales *after* the appraisal date (adjusted for time as necessary) helps ensure the independence of appraisals and sales prices. (Use of prior years' values also helps ensure this independence.) A sales period spanning the appraisal date can be used if measures are taken to ensure the independence of appraisals made after the earlier sales. This approach has the advantage of reducing the importance of time adjustments, although such adjustments should still be made if markets have changed significantly over the period in question. At other times, of necessity, the sales period will lie before the appraisal date, for example, when preliminary values are being evaluated during a reappraisal.

In order to secure an adequate sample, sales used in ratio studies can span a period of as long as five years, provided there have been no major economic shifts and sales prices have been adjusted for time as necessary. Also, if a prior revaluation resulted in major changes in property taxes, sales before the revaluation should not be used without applying any required time adjustments to sales prices to account for the capitalization of tax shifts (See Appendix 5-3 of *Property Appraisal and Assessment Administration* [IAAO 1990] for a discussion of time-adjustment methods).

**5.5 Adequacy of Samples.** The adequacy of samples should be specifically evaluated whenever the statistical reliability of a ratio study is a major concern, such as when ratio studies are used to redistribute tax burdens or intergovernmental transfer payments. In general, a ratio study is valid to the extent that the sample is *representative*.

# KANSAS COUNTY APPRAISERS ASSOCIATION

To: Senate Assessment and Taxation Committee

From: Larry Clark, Past President KCAA

Date: February 5, 1993

Madame Chairman and members of the committee thank you for the opportunity to testify in support of Senate Bill 97. My name is Larry Clark and I represent the Kansas County Appraisers Association.

According to the International Association of Assessing Officers "sales data provide objective, inexpensive indicators of market value and, as such, are the preferred yardstick for measuring appraisal accuracy." (Property Appraisal and Assessment Administration) The text goes on to state that sales data may be augmented by extending the time period. "Extending the period from which sales are selected can be a simple and effective way of increasing sample size, particularly when real estate markets are stable. Even when prices are changing, the technique can be effective if sales prices are adjusted for time." (Page 543)

In their Standard on Ratio Studies this same organization states, "In order to secure an adequate sample, sales used in ratio studies can span a period of as long as five years, provided there have been no major economic shifts and sales prices have been adjusted for time as necessary." (Section 5.4)

The ideal situation would be to use all valid sales which occur after the appraisal date. In light of the volume of sales

*Senate Assessment & Taxation  
February 5, 1993  
attachment 6-1*

in most counties we face the prospect of adjusting otherwise poor sales or going back to prior years and adjusting good sales for time. The latter is preferable because the adjustment for time is much easier to make and easier to defend. There is typically more and better data to make the adjustment, which, in turn, makes the result more defensible.

STATE OF KANSAS

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Department of Revenue  
*Division of Property Valuation*

MEMORANDUM

TO: Senator Audrey Langworthy, Chair,  
Senate Assessment and Taxation Committee

FROM: David C. Cunningham, Director, PVD

DATE: February 5, 1993

RE: Senate Bill No. 98

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The Division of Property Valuation appreciates this opportunity to appear in support of Senate Bill No. 98. The purpose of this bill is technical in nature. Last session the "Certificate of Value" became the "Sales Validation Questionnaire." However, K.S.A. 79-5a08 was not changed and to make the statutes consistent, this revision was suggested. I would also ask the committee's consideration for a minor modification so the Sales Validation Questionnaire used by the counties will not be confused with the Sales Validation Questionnaire used by the Division's State Assessed bureau. I have prepared a balloon that amends the Bill by inserting at lines 16 and 18 prior to the word "sales" the words "public utility."

I will be happy to answer any questions you may have.

*Senate Assessment & Taxation*  
*February 5, 1993*  
*attachment 7-1*



## SENATE BILL No. 98

By Committee on Assessment and Taxation

1-26

AN ACT relating to property taxation; concerning the filing of certain sales validation questionnaires; amending K.S.A. 79-5a08 and repealing the existing section.

*Be it enacted by the Legislature of the State of Kansas:*

Section 1. K.S.A. 79-5a08 is hereby amended to read as follows:  
79-5a08. Any individual, partnership, corporation or public utility, which acquires by deed or other instrument all or any portion of another utility's property, shall forward a ~~certificate of value~~ *sales validation questionnaire* to the director of property valuation. The forms for the ~~certificates of value~~ *sales validation questionnaire* shall be prescribed and furnished by the director of property valuation. For the purposes of this section, the phrase "acquires by deed or other instrument" includes, without limitation, sales, mergers, acquisitions, take-overs, consolidations and liquidations of all or any portion of a public utility operating in this state and, whenever such sales, mergers, acquisitions, take-overs, consolidations and liquidations concern property located both within and without this state, the entire transaction shall be reported.

Sec. 2. K.S.A. 79-5a08 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

public utility

public utility

## PVD FTE History

FTE Position counts for the Division of Property Valuation					
Note:	Figures for FY 1985–FY 1993 are taken from the Agency Estimate column for the current FY on the DA-406 in the budget request for the succeeding FY. [i.e., the number used for FY 1986 is the number shown as the agency estimate for FY 1986 in the budget request for FY 1987.] The number used for FY 1994 is taken from the Governor's budget recommendation.				
		FTE for			
		Division of			
	Fiscal	Property			
	Year	Valuation			
	1985	42.0			
	1986	80.0			
	1987	81.0			
	1988	79.0			
	1989	79.0			
	1990	75.0			
	1991	73.0			
	1992	74.5			
	1993	91.5			
	1994	109.5			

## Senate Assessment + Taxation

February 5, 1993

attachment 8-1

STATE OF KANSAS

David C. Cunningham, Director  
Robert B. Docking State Office Building  
915 S.W. Harrison St.  
Topeka, Kansas 66612-1585



(913) 296-2365  
FAX (913) 296-2320

Department of Revenue  
*Division of Property Valuation*

TO: DAVID C. CUNNINGHAM, DIRECTOR

FROM: TOM PHILLIPS, SR.  
PROPERTY APPRAISER

SUBJECT: ESTIMATION OF NEW PRICE OF USED COM/IND M & E

DATE: FEBRUARY 5, 1993

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The following procedure was developed by the Division in late 1988. It involves:

1. Determining the economic life of the subject personal property by consulting (1) the list of economic lives in the 1993 Miscellaneous Property Guide, (2) the trending factor lists of economic lives provided by the Division to county appraiser's in the years before 1989, or (3) some other reliable source.
2. Determining the age of the subject property when the present owner acquired the property used.
3. Determining the price paid for the used property by the present owner, adding to it any additional cost for transportation and installation.
4. Consulting the "Used Factor" table in the 1993 Miscellaneous Property Guide. The proper used factor to use is that which is located at the intersection of the property economic life column and the proper age at purchase row.
5. Multiplying the price paid (#3) by the used factor (#4) results in an estimate of new price paid for used property.

The theory behind this approach is that since every property straight-line depreciates in accordance with its economic life, the reciprocals of the resulting values each year are correct factors to project the used purchase price back to an estimate of cost new.

TMP:kjb

cc: John Cooper

*Senate Assessment + Taxation*  
*February 5, 1993*  
*attachment 9-1*

### Example of Use of Used Factor

1. John Smith buys a used golf car for use on his public for-profit golf course. It is a 1988 model. He bought it in 1991 for \$2,000.
2. The county appraiser refers to a source for economic lives and learns 10 years is appropriate for golf cars.
3. The county appraiser refers to the "Used Factor" table, using this information:  
Age at purchase    3 years  
Econ. life            10 years  
and selects the appropriate factor, 1.429.
4. The county appraiser multiplies this:  
 $\$2,000 \times 1.429 = \$2,858$   
for the original cost estimate of \$2,858.

### Calculation of Appraised Value

1. Appraiser determines:  
Age            3  
Economic Life    7 or more  
Factor        .571
2. The county appraiser multiplies this:  
 $\$2,858 \times .571 = \$1,630$   
for the appraised value estimate of \$1,630.

Fabricated Metal Products, Special Tools	3
Fishing Equipment (Except Boats & Barges)	4
Food Production, Special Handling Devices	4
Forms, Production Fabrication	5
Fuel Dispenser Pumps	10
Fuel Tanks	15
Furniture, Motel & Hotel	10
Furniture, Outdoors	5

General Manufacturing M & E	10
(Except Dies, Forms, Hand Tools, & Jigs)	10
→ Golf Equipment	10 ←

Hand Tools*	5
Handling Devices, Special for Food & Beverage	4
Heat & Smoke Detectors	15
Hoists, Large	15

Indoor-Outdoor Carpet	5
Information Systems (Peripheral to Computers)	6
Instrumentation, Electronic	5
Instruments, Professional & Scientific	10
Intercom/Paging Equipment	15

Jigs, Production (Fabrication & Assembly)	5
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Laundromat Equipment, Commercial	5
Laundry Equipment	10
Letterpresses	15
Lifts, Large Hydraulic & Pneumatic	15
Lithography Equipment	15
Logging (Timber Cutting)	6

Machines, Office, Electric & Electronic	5
Mechanical Equipment for Swimming Pool	5
Miniature Golf Equipment	10
Molds, Production (Fabrication)	5
Motor Vehicle Special Tools	3
Motors, Plumbing	4

Natural Gas & Petroleum Drilling Equipment	6
Nets, Tennis	2
Nuclear Fuel Assemblies	5
Numerical Control Machinery	7

Office Equipment (Except Electric & Electronic)	10
Office Equipment (Electric & Electronic)	5
Office Furniture	10
Outdoor Furniture	5

Paging/Intercom Equipment	15
Patterns, Production (Fabrication & Assembly)	5
Petroleum & Natural Gas Drilling Equipment	6

TABLE II  
"USED FACTOR"  
(COLUMN 8)

		ECONOMIC LIFE																								
		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
AGE AT PURCHASE	1	2.000	1.500	1.333	1.250	1.200	1.167	1.143	1.125	1.111	1.100	1.091	1.083	1.077	1.071	1.067	1.063	1.059	1.056	1.053	1.050	1.048	1.045	1.043	1.042	
	2	5.000	3.000	2.000	1.667	1.500	1.400	1.333	1.286	1.250	1.222	1.200	1.182	1.167	1.154	1.143	1.133	1.125	1.118	1.111	1.105	1.100	1.095	1.091	1.087	
	3	5.000	4.000	2.500	2.000	1.750	1.600	1.500	1.429	1.375	1.333	1.300	1.273	1.250	1.231	1.214	1.200	1.188	1.176	1.167	1.158	1.150	1.143	1.136		
	4		5.000	5.000	3.000	2.333	2.000	1.800	1.667	1.571	1.500	1.444	1.400	1.364	1.333	1.308	1.286	1.267	1.250	1.235	1.222	1.211	1.200	1.190		
	5			5.000	5.000	3.500	2.667	2.250	2.000	1.833	1.714	1.625	1.556	1.500	1.455	1.417	1.385	1.357	1.333	1.313	1.294	1.278	1.263	1.250		
	6				5.000	4.000	3.000	2.500	2.200	2.000	1.857	1.750	1.667	1.600	1.545	1.500	1.462	1.429	1.400	1.375	1.353	1.333	1.316			
	7					5.000	4.500	3.333	2.750	2.400	2.167	2.000	1.875	1.778	1.700	1.636	1.583	1.538	1.500	1.467	1.438	1.412	1.389			
	8						5.000	5.000	3.667	3.000	2.600	2.333	2.143	2.000	1.889	1.800	1.727	1.667	1.615	1.571	1.533	1.500	1.471			
	9							5.000	4.000	3.250	2.800	2.500	2.286	2.125	2.000	1.900	1.818	1.750	1.692	1.643	1.600	1.563				
	10								5.000	4.333	3.500	3.000	2.667	2.429	2.250	2.111	2.000	1.909	1.833	1.769	1.714	1.667				
	11									5.000	4.667	3.750	3.200	2.833	2.571	2.375	2.222	2.100	2.000	1.917	1.846	1.786				
	12										5.000	5.000	4.000	3.400	3.000	2.714	2.500	2.333	2.200	2.091	2.000	1.923				
	13											5.000	4.250	3.600	3.167	2.857	2.625	2.444	2.300	2.182	2.083					
	14												5.000	4.500	3.800	3.333	3.000	2.750	2.556	2.400	2.273					
	15													5.000	4.750	4.000	3.500	3.143	2.875	2.667	2.500					
	16														5.000	5.000	4.200	3.667	3.286	3.000	2.778					
	17															5.000	4.400	3.833	3.429	3.125						
	18																5.000	4.600	4.000	3.571						
	19																	5.000	4.800	4.167						
	20																			5.000	5.000					

Used Factor is required to convert purchase price of equipment purchased used to a "Retail Cost when New" base before applying Valuation Factor (Column 9- Schedule 5- Class 2E property).

$$\text{Used Factor} = \frac{\text{Economic Life (Actual)}}{\text{Economic Life - Age at Purchase}}$$

# 1993 TAXABLE VALUE FACTORS

Purchase <u>NEW</u>	Purchase <u>USED</u>	Economic Life In Years					
Year of Purchase	Current Age	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7 or more</u>
1993	0	1.000	1.000	1.000	1.000	1.000	1.000
1992	1	.500	.667	.750	.800	.833	.857
1991	2	.200	.333	.500	.600	.667	.714
1990	<u>3</u>	.200	.200	.250	.400	.500	<u>.571</u>
1989	4	.200	.200	.200	.200	.333	.429
1988	5	.200	.200	.200	.200	.200	.286
1987	6	.200	.200	.200	.200	.200	.200
1986 & BEFORE	7 years or older	.200	.200	.200	.200	.200	.200