

Approved: March 12, 1993
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:12 a.m. on March 11, 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: Brett Marshall, Kansas Golf Association, Lawrence
Joe Christ, Shawnee Country Club, Topeka
Paul Lenherr, Knights of Columbus, St. Mary's

Others attending: See attached list

Senator Langworthy called the meeting to order by calling the committee's attention to the minutes for March 10, 1993

Senator Bond made a motion to approve the minutes for March 10, 1993. The motion was seconded by Senator Tiahrt. The motion carried.

Senator Langworthy also pointed out the copies of letters from Clay Center Country Club, Salina Country Club and the El Dorado Loyal Order of Moose which had been passed out to the committee. (Attachments 1, 2, and 3.)

HB 2035--Classification of property for taxation purposes (Continued)

Brett Marshall, Kansas Golf Association, Lawrence, spoke first as a proponent for **HB 2035**. He read from a prepared statement. (Attachment 4) He spoke of the many uses for the golf courses, for recreation, beauty, use by school golf teams, charity events, etc. He asked that the bill be amended to include 501(c)(7).

There was a discussion of the municipal golf courses which do not pay property tax. Also there is no alternative to the percent of tax; it is either 30 percent or 12 percent when commercial property is at 25 percent.

Joe Christ, Jr., Shawnee Country Club, Topeka, spoke about the increase in taxes which have already been assessed to the country club. (Attachment 5) Since 1987 the real estate taxes more than doubled in only four years. He said also the need for a raise in the dues and assessment put upon the members has caused a loss of membership. He pointed out in his testimony several charts in regard to the expenses and membership for the club.

Paul Lenherr, Knights of Columbus, St. Mary's, requested **HB 2035** be amended because as currently written it will not grant property tax relief to Knights of Columbus councils who own a building. (Attachment 6) He went on to explain the problem and asked that 501(c)(2) be included in the bill.

The hearing on **HB 2035** was closed.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:12 a.m. on March 11, 1993.

Senator Langworthy asked for discussion on **HB 2035**.

A member of the committee said he felt strongly that any person who voted upon the constitutional amendment felt they were going to be in the 12 percent category.

Senator Martin moved to amend **HB 2035** by including 501(c)(2)(5)(6) and (7). Senator Bond seconded the motion.

Senator Lee made a substitute motion to amend **HB 2035** to include only 501(c)(2). The substitute motion was seconded by Senator Wisdom.

There was discussion about the impact of including the 501(c)(2)(5)(6) and (7), and if another constitutional amendment should be put to the people. A statement was made that some decision has to be made because the law is self-executing.

A vote was taken upon the substitute motion. The motion did not pass.

A vote was taken upon the amendment to include 501(c)(2)(5)(6) and (7). The motion carried.

Senator Bond moved to pass **HB 2035** favorably as amended. Senator Martin seconded the motion. The motion carried with Senator Lee and Senator Feleciano voting No.

The meeting was adjourned at 11:55 a.m.

The next meeting is scheduled for March 12, 1993.

GUEST LIST
SENATE ASSESSMENT AND TAXATION COMMITTEE

DATE: March 11, 1993

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
JOE CHRIST, JR. C.P.A.	7110 S.W. BLUE TOPEKA	SHAWNEE Country Club
PAUL L. FENHERR	204 W. Palmer St. Marys	Knights of Columbus
Robert G. Gindoff	Topeka	Masons
Jack Deane	Topeka Ks	Masonic Bodies
BEV BRADLEY	Topeka	KS Assoc of Counties
Bill Tanceel	Wichita	Boeing
Brett Marshall	Lawrence	Ks. GOLF Assoc.
HAROLD P. JES	Topeka	AARP-CCF
HAROLD E. KRAM	TOPEKA	KSAE
Mike Bean	Topeka	KSAE
Mark Tallman	Topeka	KASLB
Alan Steppat	Topeka	Pete McGill & Assoc
Bill Anderson	Mission	Wata Dist #1 of Jo Co
Gordon T. Ganett	Topeka	Comm Prop Assoc
Carl Hill	Topeka	Ks Motor Carriers Assn
SUSAN SUMERS	Topeka	KSCPA
Roger Treuza	"	Ks Gov. Consulting

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

SENATOR AUDREY LANGWORTHY, CHAIRMAN

TESTIMONY ON H.B. 2035

**PRESENTED BY BEUFORD ROOK
CLAY CENTER COUNTRY CLUB
P.O. BOX 282
CLAY CENTER, KANSAS 67432**

MARCH 11, 1993

Madam chairman and members of the committee, I appreciate the opportunity to present written testimony today on H. B. 2035. I represent 223 members of the Clay Center Country Club in asking you to favorably consider county clubs in the category of benevolent organizations in H. B. 2035.

In Clay Center, the country club provides a place for the Clay Center Community High School to practice and conduct tournaments for both a boy and girls golf team and cross country teams as well as a place to practice and hold a place to practice and hold matches during a summer league for junior golfers. All of these activities are open to all youth.

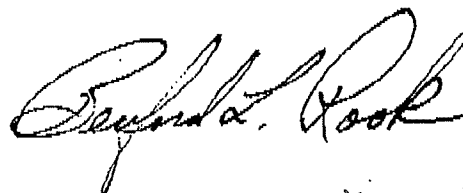
Sixty four percent (64%) of our club members are over 65 years of age and the ability to provide a place for them to enjoy their leisure hours in wholesome physical activity, is certainly a benefit to all. As our tax burden increases, it becomes increasingly difficult to maintain the community activities for youth and our senior citizens.

I believe you will find this same scenario in other communities whose schools are a part of the North Central Kansas League. These communities are Abilene, Chapman, Concordia, Marysville and Beloit.

There are other organizations in our community who have been designated as benevolent organizations under H. B. 2035. Although they have a national charter and some specific activities, I believe the contribution of the Clay Center Country club certainly equals or exceeds anything done in the community by these organizations.

It will be increasingly difficult for rural country clubs to continue to offer these kinds of services and benefits of the community under tax provisions of H. B. 2035 as it now stands. We urge your inclusion of country clubs as benevolent organizations in this legislation.

Again, thank you for the opportunity to present this testimony.



Senate Assessment + Taxation

March 11, 1993

Attachment 1-1

The Salina Country Club

Telephone (913) 827-0388 Post Office Box 2056
SALINA, KANSAS 67402-2056

Max A. Holthaus, Secretary-Manager

Testimony addressed to Senator Langworthy and Committee Members
Regarding House Bill 2035
From Max A. Holthaus, CCM
Secretary/Manager of the Salina Country Club, Salina, Kansas
March 11, 1993

The Salina Country Club is located on the east end of Marymount Road, the Elks Country Club Number 718 is located on the west end of Marymount Road, approximately two miles separate the two clubs. The Salina Country Club is classed as a not-for-profit club under Section 501(c)(7). The Elks club is considered a fraternal beneficiary lodge system, one of the 501(c) classifications that will be taxed at 12% due to their charitable, beneficial purpose. Both establishments operate a restaurant, swimming pool and golf course and have other similarities. The Municipal Golf Course represents the third point of the 2 mile triangle in which the three very fine golf courses of Salina, population 42,810, are located. Being a municipal operation, this last golf course is exempt from property taxes.

Working from 1992 Valuation Notices, all parcels belonging to the Salina Country Club have a combined market value of \$1,581,960 with varying levies. The tax due at the 30% rate would be approximately \$42,500; tax due at the 12% rate approximately \$17,000.

The Salina Country Club was incorporated in 1911 and has been paying various federal, state and city taxes since that time. The Salina Country Club may be considered a strong source of revenue for the State of Kansas with over \$120,000 in sales taxes and \$27,000 in excise taxes paid annually. The annual operating revenue of the Salina Country Club is 2.4 million dollars. Virtually all of this money is spent in Kansas, most of it in Salina. Our club presently employs sixty-five employees and hires an additional twenty seasonal employees each summer. Most of these seasonal employees are college students.

The Salina Country Club works to benefit many charitable fund raising organizations. These charities raise in excess of \$100,000 each year by using our facility. All Country Clubs that I know of, especially private clubs, are involved in many types of charity events, and many 501(c)(7) private not-for-profit Clubs in Kansas raise much more for charity than does the Salina Country Club.

Senate Assessment & Taxation

March 11, 1993

Attachment 2-1

Senator Langworthy and Committee Members
Page two

In addition to these charity fund raisers, the Salina Country Club is host to several tournaments open to the public, including State Amateur events. We host four Men's and Ladies City Golf Tournaments each year, operating with the Elks and the Municipal courses for the City Four-Ball Tournament. Both of the city's high schools and the Kansas Wesleyan University golf teams practice on our course each season. The Salina Country Club also works for the Junior Golf League. We enjoy being a part of the great sport of golf and supporting our state and local public tournaments in the hopes of furthering golf as a sport for all citizens.

As you are probably aware, private country clubs are almost assuredly going to be receiving another bit of bad news from the United States Congress. Under President Clinton's economic plan, private club members will no longer be allowed to deduct Club dues as a part of their business expense and their deduction for the cost of business meals will be reduced from the current 80% to 50%. These measures are estimated to result in an 18% revenue loss for country clubs nationwide.

As the Legislature determines the tax rates of all not-for-profit clubs in the state, we would like the Legislature to consider the goodwill, tax dollars and operating dollars that private clubs contribute to the economy of the state. Private clubs obviously benefit many, many more people besides their dues paying members.

The Salina Country Club would like to see the Kansas Legislature tax all clubs at 12%, regardless of which paragraph of Section 501 subsection (c) the club falls under.

Max A. Holthaus

Max A. Holthaus, CCM
Secretary/Manager

cc: Senator Ben Vidricksen
Salina Country Club Board of Directors

LOYAL ORDER of MOOSE

EL DORADO LODGE No. 1698



1000 Country Club Lane
El Dorado, Kansas

DATE March 8, 1993

Senator Audrey Langworthy, Chairperson
Senate Assessment & Taxation Committee
State Capital - Room 143 N
Topeka, Kansas 66612

Dear Senator Langworthy:

I am a member of El Dorado Lodge #1698, Loyal Order of Moose, a fraternal organization tax exempt under 501 c 8 of the Internal Revenue Code. I and the members of our Lodge urge you to support H.B. 2035 which will lower our property taxes from 30% to 12%.

THANK YOU.

Edwin A. Bates

229 Dellway St

El Dorado KS 67042

Senate Assessment + Taxation
March 11, 1993

attachment 3-1

TO: HONOURABLE AUDREY LANGWORTHY,
CHAIR, SENATE ASSESSMENT & TAXATION COMMITTEE

FROM: BRETT MARSHALL, EXECUTIVE DIRECTOR
KANSAS GOLF ASSOCIATION

SUBJECT: PROPERTY TAX RATES FOR 501C NOT-FOR-PROFITS

I represent a 501c(4) organization, the Kansas Golf Association, which represents more than 150 Kansas private clubs, daily fee, municipal and military golf courses. Our membership exceeds 25,000 Kansas citizens.

Of the nearly 230 golf courses in Kansas, 124 of them are privately owned and most are classified as 501c(7). We understand the provisions as passed in Kansas House Bill No. 2035 will allow certain 501c's, (3), (4), (8) and (10) to have their property taxed at 12 percent.

It is our general counsel's belief that even though the Kansas Attorney General's office has ruled that this legislation is not self-executing, it does violate the uniform and equal protection of Article 1, subsection 1 of the Kansas Constitution and the Equal Protection Clause of the United States Constitution. In his opinion that determined the 1992 amendment to Article 11, Section 1 of the Kansas Constitution is not self-executing, he noted that the opinion does not address the issue of equal protection, since it was not asked.

*Senate Assessment & Taxation
March 11, 1992
attachment 4-1*

(Page 2)

What does a golf facility mean to a Community?

In addition to providing recreational opportunities and aiding in the preservation of open space, golf facilities also mean jobs and income to a community. These comprise salaries, wages, tips and so forth paid to those actually working at the facility. They also include the job opportunities created and income earned by others in the community from the facility's purchases of services, equipment and supplies to maintain its day-to-day operation. Furthermore, expenditures made by businesses and households, as a result of the facility's direct payment for goods and services, expand jobs and income indirectly within the economy of the region.

A golf facility provides other economic benefits to its community. Non-municipal facilities pay property taxes, while municipal ones may contribute significant operating surpluses directly to public funds. Nearby property values are enhanced, increasing a locality's tax base and fiscal revenues.

By elevating the overall attractiveness and quality-of-life of its community, a golf facility can be an

(Page 3)

important influence in both household and business location decisions that improve fiscal and economic potential. To the extent that a facility induces visitations from non-residents, local restaurants, hotels, service stations, other retailers -- and the people they employ -- can benefit from sales they might not otherwise realize. Obviously, these types of economic and fiscal impacts of golf facility operations vary greatly by community, depending on its size, commercial assets and the nature of the facility operations themselves. Some are difficult to measure in strict quantitative terms, but it is important they be noted for a complete picture of the economic impact of the golf facility.

Your typical 9-hole private facility, as indicated by a nationwide National Golf Foundation survey, will average 13 employees with average wages about \$88,000 annually. Total annual expenditures at the facilities average about \$198,000. Regulation 18-hole private facilities using the same NGF survey, will average 60 employees with annual wages and expenditures at \$564,000 and \$1,284,000.

(Page 4)

The typical golf facility provides full-time, part-time and seasonal job opportunities within its community. They can serve the employment needs of primary and secondary wage earners, students, and others with a diversity of skills, experience and backgrounds. Employment areas include food and beverage services, grounds maintenance, pro shop, administrative and other services. In addition to wage payments, a golf facility makes other expenditures for its day-to-day operations that affect the economy of its local community and surrounding region.

Property taxes are a major expense item for golf courses. According to a 1991 Economic Study conducted by the Club Managers Association of America, the average club paid \$87,642 in property taxes in 1990. This concern stems from rising taxes, uncertain valuation and appraisal methodology and lack of data supporting the positive benefits that privately-owned and privately-operated golf courses bring to communities.

Property taxes are typically the major funding source for local services. Tax levies or rates are set by local governing bodies (such as school boards, city & county

(Page 5)

commissions and special districts), based on their budgets and the services they need to fund for the coming year. As communities begin to face increases in public sector costs, pressure to raise taxes occurs. The major problem with tax rate increase inconsistencies is that course operators cannot plan ahead and cut budgets or raise fees in time to create needed revenues. Many times, market competition is such that revenues do not increase but taxes do, further eroding profit. Taxing authorities need to understand that while a golf course may occupy 100+ acres in a community, it is not burdensome on public services such as schools, fire districts, police, etc. Also, golf courses provide an aesthetically pleasing recreational facility to a community (remember, these are your local citizenry), preserving grass, trees, ponds and wetlands which might otherwise be destroyed.

In some cases, private sector course operators must compete for customers with public sector facilities. Since only private sector facilities generally pay property taxes, this is perceived to inhibit their ability to fairly compete. Taxing jurisdictions must carefully consider the impact tax rates could have on

(Page 6)

these privately owned courses in context with municipally owned facilities.

One of the emerging sources of legislation which most directly affects the golf industry relates to the property tax treatment of open space. One solution to many of the property tax issues facing golf course owners today is the adoption of a public policy which attempts to promote retention or expansion of open space land such as golf courses. In this manner, property tax treatment is one way in which to encourage the preservation of land for open space use and protect recreational and scenic resources for the use of the general public. By relieving the economic pressure caused by property taxes, these tax treatment policies can discourage conversion of land to more urbanized, more intensive uses.

We would encourage your Committee to consider the fairness aspect of this Amendment. It is our belief that the citizens of Kansas' perception of this amendment was to allow all 501c's to be included at the 12 percent tax rate. The House Bill, in our opinion, selectively eliminates many of those organizations whose citizenry

(Page 7)

voted for the amendment.

The golf industry in Kansas has a major impact in many areas, one of which I think needs to be mentioned. The golf clubs of Kansas generously provide their facilities for high school and college for nominal fees and in many instances at no cost to the local educational institution. In addition, golf clubs in Kansas provides facilities for hundreds of charity events which raise millions of dollars for worthwhile causes.

Conservatively, the golf industry spends approximately \$90 million annually on golf equipment, fees and apparel in Kansas. When you take into account the food and beverage operations, maintenance purchases and other budget necessities, it is not unrealistic to see the impact of golf reach into the \$200 to \$400 million range.

Members of private clubs are already burdened by taxes in other areas -- individual and business. Many clubs have a predominantly senior citizen membership with fixed incomes, especially those in smaller communities. We know many clubs which have lost members due to the

(Page 8)

necessity of raising dues to absorb the increased property taxes. The state already derives considerable income from clubs with sales taxes, liquor and others. Initiation dues have increased by nearly 70 percent since 1985 and club annual dues have seen a nearly 40 percent increase over the same time frame.

We sincerely hope you will consider this proposal and see the adverse affect it will have on a wide range of businesses and individuals in Kansas. We trust that you will look at this in a fair and equal manner. On behalf of the Board of Directors and membership of the Kansas Golf Association, I thank you for this opportunity.

Brett A. Marshall

Executive Director, Kansas Golf Association

March 11, 1993

Shawnee Country Club

913 EAST 29TH STREET
TOPEKA, KANSAS 66605

Shawnee Country Club Real Estate Taxes more than doubled in only four years.

<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
\$ 44,238	\$ 52,496	\$ 60,031	\$ 84,236	\$ 93,159

Our annual payroll is approximately \$400,000.

Taxes account for 13.6% of operating expenses.

Membership declines have occurred because of the weak economy and the need to increase dues to cover rising property taxes.

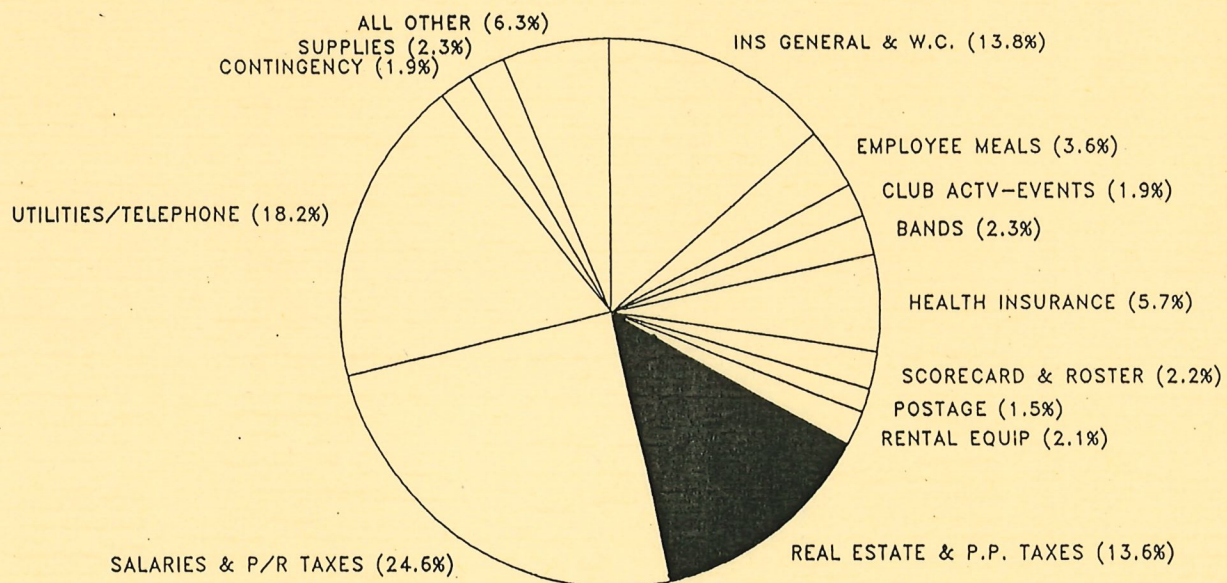
This decline in membership has created a reduction of two office, two kitchen, and three wait staff personnel and lowers liquor and sales tax collections to the State.

Country Clubs in Kansas are appraised using residential land value, but taxes are calculated using commercial rates. A recent condemnation proceeding at Shawnee used residential land prices as comparables. Landscaping is also added to the land value.

Our review of Clubs sold or foreclosed in Kansas reflects selling prices are substantially below assessed values.

We must compete with City and County golf course operations which pay no property taxes and receive taxpayer subsidies.

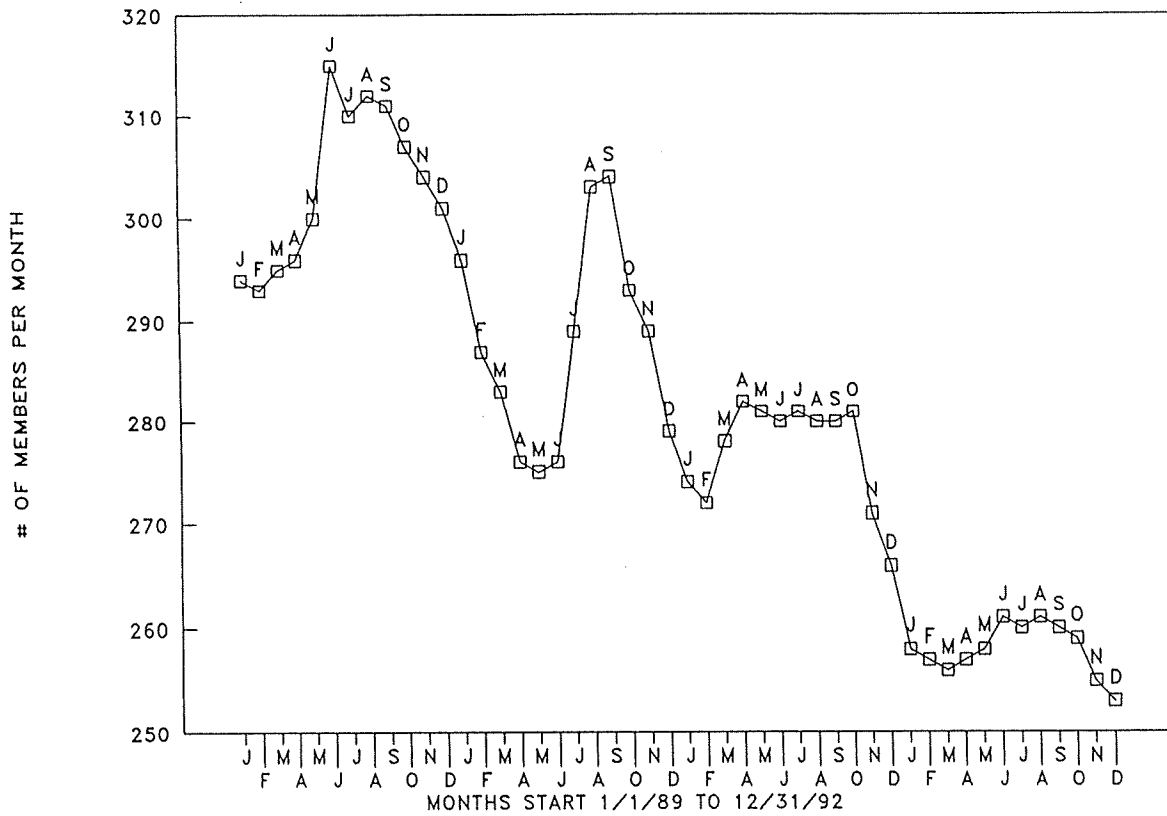
Voters believed the Constitutional Amendment applied to all non-profit organizations.



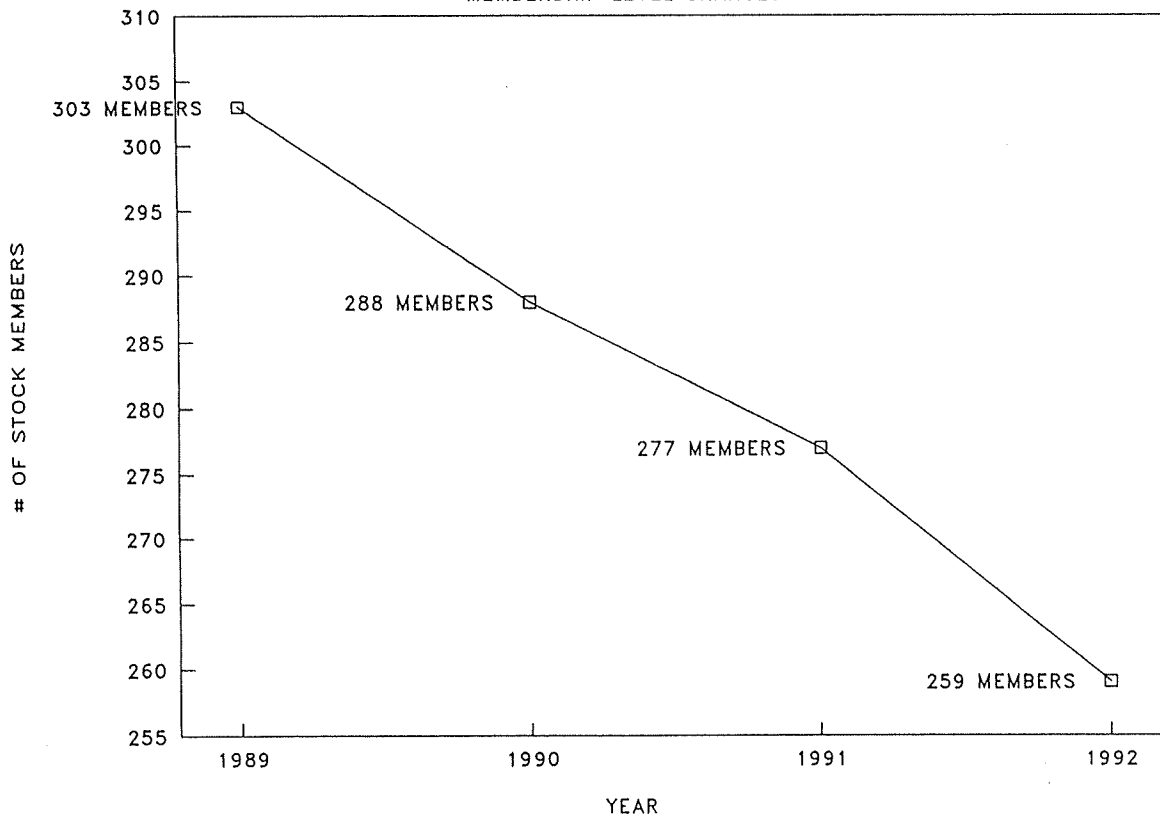
*Senate Assessment & Taxation
March 11, 1993
attachment 5-1*

SHAWNEE COUNTRY CLUB

MEMBERSHIP ANALYSIS - STOCK



MEMBERSHIP LEVEL CHANGES



Chairperson, Senator Langworthy, and members of the committee. Thank you for allowing me the opportunity to address you today with regard to House Bill #2035.

My name is Paul Lenherr from St. Marys, Kansas, and I am the Public Relations Chairman for the Kansas State Council of the Knights of Columbus. Throughout the State we have 226 local councils with a statewide membership of just over 30,000. I am here to request that you amend the language of House Bill #2035.

I make such a request based on the fact that, as currently written, House Bill #2035 will not grant property tax relief to Knights of Columbus councils who own a building. This is due to an unintended and, I am sure, little-known technicality. I am certain that last November when Kansas voters decided to lower the property tax on buildings owned by non-profit organizations they thought they were including those buildings owned by Knights of Columbus councils as well as those owned by other fraternal organizations.

However, due to a mismatch between the Internal Revenue Code and the wording of House Bill #2035 this will not be the result. Here is why:

1. House Bill #2035, as written, allows for real property owned by not-for-profit organizations to be assessed at 12% rather than 30%.
2. House Bill #2035 defines not-for-profit organizations eligible for this relief as organizations chartered pursuant to Internal Revenue Code Sections 501(c)(4), 501(c)(8), and 501(c)(10).

Senate Assessment & Taxation
March 11, 1993
attachment 6-1

3. Here is where the problem comes into play:

- * each of the 226 Knights of Columbus councils in Kansas is chartered under Code Section 501(c)(8).
- * however, 501(c)(8) organizations cannot own real estate because they are not corporations - they are unincorporated associations holding charters from our Supreme Council - they are subject to being dissolved or merged. Therefore, councils cannot effectively acquire title to real estate.
- * so a Knights of Columbus council that owns real estate must form a corporation to hold title to the real estate.
- * these corporations are chartered under Internal Revenue Code Section 501(c)(2) which reads as follows:

"Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under this section".

4. Thus, council homes are technically not owned by 501(c)(8) entities but rather by 501(c)(2) entities and would not be eligible to have their property assessed at the lower rate as being proposed in House Bill #2035.
5. To correct this inadvertent error, I ask your utmost consideration in amending House Bill #2035 to include 501(c)(2) organizations.

Briefly, let me recap why I believe the Knights of Columbus councils that own buildings should be assessed at the lower tax rate of 12%:

The Knights of Columbus is a fraternal benefit society organized for the betterment of mankind. Each of our councils are encouraged to, and do, conduct programs which benefit the community, the family, youth and the church. We are probably most recognized for the work we do to help the mentally retarded. This year we have raised and distributed over \$130,000.00 to this cause. Last year alone, our 30,000 members raised over \$850,000.00 for charity and performed some 350,000 man-hours doing charitable works for the disadvantaged and less fortunate citizens of our State.


Our council homes are spread throughout the State in communities both large and small. These facilities are currently being used by many community groups for their meetings and charitable fund raisers. Organizations such as the Boy Scouts, Girl Scouts, 4-H groups, church guilds, Chamber of Commerce, Lions Club and other fraternal groups use the local K of C hall without paying rent. Community soup suppers, breakfasts, bingos for charity are also conducted there. If forced to charge them rent to offset taxes, or worse yet, if forced to sell the building because the tax bill cannot be met, it would have a very dramatic effect not only upon us, but upon the community at large. This is especially true in some of the small rural areas where our council hall is the only possible option available.

Revenues received from the operation of the council homes are used for the charitable endeavors of the local council. They do not inure to the benefit of any individual or individuals. Rather, they augment the charitable works being done in the communities where they are located.

I feel that the Kansas voters last November voted "YES" on Question #1 because of the charitable contributions being made to our society by the fraternal organizations, and because of the volunteer hours of service being rendered by their memberships.

I firmly believe that they looked upon the Knights of Columbus as one of those fraternal organizations to be taxed at the 12% rate. To qualify however, it appears House Bill #2035 must be amended to include 501(c)(2) organizations.

Personally, and on behalf of the 30,000 Knights of Columbus members in Kansas, I thank you for giving this request your utmost consideration.

A handwritten signature in cursive script, reading "Paul L. Lenherr", written over a horizontal line.

Paul L. Lenherr
Public Relations Chairman
Kansas State Council
Knights of Columbus