

Approved: November 23, 1993  
Date

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

The meeting was called to order by Chairperson Audrey Langworthy at 9:14 a.m. on October 1, 1993 in Room 519-S of the Capitol.

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

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

**RECEIVED**  
DEC 17 1993  
Legislative  
Administrative Services

Conferees appearing before the committee: Lynne Holt, Legislative Research Department  
Charles Warren, Kansas, Inc.  
Pat Oslund, Kansas University  
Darwin Daicoff, Professor Emeritus, Kansas University  
Glenn Fisher, Professor Emeritus, Wichita State University  
Jarvin Emerson, Professor, Kansas State University  
Chris Courtwright, Legislative Research Department  
Mark Burghart, Chief Counsel, Department of Revenue

Others attending: See attached list

### **Framework for Economic Development Initiatives**

Lynne Holt, Legislative Research Department, spoke on tax policies and economic development. She gave an overview in changing structures of the economy for the state and she stated Kansas is expected to lag behind in 1993. The economy is very sluggish in both the federal and state. The developments in the field of aviation have hurt Kansas. In manufacturing there is downsizing. In the service sector, there will be more jobs but Kansas will still lag behind other regions of the country. There is a projected growth in service of 2.3% for 1993-1994. She spoke of targeting where companies will become more competitive. They should be assisted in investing in better technologies. She also spoke of networking where companies work together in education and training. Kansas will be more competitive in both domestic and international situations by working together.

Charles Warren, Kansas, Inc., stated that income in Kansas is not keeping up with the national rate. He said the standard of living in Kansas needs to be raised and Kansas needs to have jobs that pay higher wages. Kansas also needs to become globally competitive in business. He said networking is a new strategy for Kansas; there is a lack of networking in Kansas. (Attachment 1)

### **Update on Tax Policy Studies**

Pat Oslund, Kansas University, said that the complexities of the tax rates need to be simplified for the business firms in Kansas. Kansas does have a favorable tax system for new firms or for firms with major expansions; however for established firms, the taxes in Kansas are a more substantial burden. Kansas is in the middle in tax rates in the region studied.

### **Conferees on State Tax Policy**

Darwin Daicoff, Kansas University, spoke from an outline. (Attachment 2) He quoted Adam Smith, economist, regarding taxes being equitable or fair, certain, non-arbitrary, clear, convenient, or an excessive burden. He said proportional income tax needs to offset regressive sales tax.

## CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S  
Statehouse, at 9:14 a.m. on October 1, 1993.

Glenn Fisher, Wichita State University, passed out two handouts. (Attachment 3 and 4) He said personal income tax should provide 20 - to 35% of all state and local tax revenue, sales tax should provide 20 to 30 percent and property tax should provide 20 - 30 percent. He said the state has made improvements in the tax structure but it needs to be fine tuned.

Jarwin Emerson, Kansas State University, made observations on taxes and economic developments. He said high taxes may not deter business investment. Taxes are just one part of a business location decision. However, recently, taxes may have played a greater part in the decision. Personal income taxes also seem to be more important than previously thought.

### AFTERNOON SESSION

Senator Langworthy called the afternoon session to order at 1:40 p.m.

#### **Briefing on Actions of the House Committee**

Chris Courtwright, Legislative Research Committee, reported on actions taken by the House Taxation Committee during the interim.

**H.Sub.SB 324** would phase in an expansion in the property tax credit allowed in the severance tax law on natural gas from 1 percent to 3.67 percent, thereby reducing the rate from 7 percent to 4.33 percent, the same as the tax on crude oil. (Attachment 5)

**H.Sub.SB 191** would establish, beginning in 1995, a new tax system for recreational vehicles. (Attachment 6)

**H.Sub.SB 157** would reduce the assessment level from 30 percent to 12 percent starting in tax year 1994 on all taxable real property owned and operated by groups or organizations chartered pursuant to subsections 501(c) (3), 501(c)(4), 501 (c)8, and 501(c)(10) of the Internal Revenue Code. The reduction also would apply to certain taxable real property owned and operated by 501(c)(2) organizations if such property is leased to a 501(c)(8) organization. 501(c)(5), 501(c)(6) and 501(c)(7) are out of this version of the bill. (Attachment 7)

**SB 230** as amended by the House Committee on Taxation would limit the credits of contributions by business firms for the purpose of financing the provision of health care services to health care services. The original bill would have authorized credits for contributions to "community service organizations." (Attachment 8)

The committee determined that since these bills also were materially changed, and if they pass the House, they should be referred to the Senate Assessment and Taxation Committee rather than a Conference Committee.

Chris Courtwright also called the committee's attention to a Memo to the Chairman, Keith Roe, concerning 3 bills which were requested to be drafted by the House Taxation Committee: IRB and EDX Tax Exemptions, Uniform Cost-Benefit Model, and the Release of Certain Tax Data to Kansas, Inc. The House Taxation Committee also introduced a bill to authorize local airports to levy motor fuel taxes. (Attachment 9)

#### **Briefing on Status of *Barker* case and other tax litigations**

Mark Burghart, Chief Counsel, Department of Revenue, reported on the *Barker et al v. State of Kansas et al.* (Attachment 10) He stated a ruling from the District Court is expected before the 1994 Legislature convenes.

#### **Discussion and instructions to staff**

The committee requested staff to get information from other states about the make up and qualifications of the Board of Tax Appeals, if such a board exists in other states, if they use hearing officers or are hearings held before the entire board, the qualifications of such a board, if continuing education is required and a little bit of history of the Kansas Board of Tax Appeals.

Senator Langworthy announced there has been an appointment to the Board of Tax Appeals which will need to be interviewed by the Committee early during the 1994 Legislative Session.

There were several questions from the committee regarding the status of bills from the 1993 session which

## CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S  
Statehouse, at 9:14 a.m. on October 1, 1993.

had not passed the House.

Staff was directed to find out where **SB 171** is in the House. This is the bill removing sales tax on entry fees for tournaments being held in Kansas.

The committee requested staff to research and report back at the November meeting about motor fuel tax being charged on home heating oil. Secretary Parrish, Department of Revenue, also should be contacted about this tax.

Senator Langworthy announced a meeting has been requested by Secretary Parrish with regard to questions raised by Post Audit on the property tax issues. The committee members who can attend this meeting should do so.

Staff was also requested to make a report on the way the state taxes its employees retirement pay.

The meeting adjourned at 2:45 p.m.

The next meeting is scheduled for November 22, 1993.

DATE: October 1, 1993

[illegible]

# KANSAS Inc.

## *Board of Directors*

GOVERNOR JOAN FINNEY  
ERIC THOR JAGER  
*Co-Chairmen*

JAY A. ANDERSON  
PAUL "BUD" BURKE  
JILL DOCKING  
TIMOTHY R. DONOGHUE  
GERALD "JERRY" KARR  
BOB KNIGHT  
ROBERT H. MILLER  
JOHN E. MOORE  
JACK WEMPE  
BILL WOHLFORD

Charles R. Warren  
*President*

632 S.W. Van Buren, Suite 100  
Topeka, Kansas 66603  
(913) 296-1460  
fax - (913) 296-1463

October 1, 1993

## MEMORANDUM

TO: Senate Committee on Taxation

FROM: Charles R. Warren, President, Kansas Inc.

SUBJECT: Implementing "A Kansas Vision" -- A Preliminary Package of Ideas and Option

The following list of ideas and options for implementing "A Kansas Vision" has been prepared to aid discussion of the Committee on tax and non-tax incentives and programs that can be designed within a conceptual framework and that would help realize the strategy outlined in "A Kansas Vision." Some of these options have been considered by the House Tax Committee and many of them are being discussed by the Action Planning Committees formed by Kansas Inc. to move the strategy forward. Most of them require further refinement and more effort is needed to build a consensus on these suggestions. The options have been categorized according to the four topics outlined by Lynne Holt in her testimony to you today.

### **Accountability:**

1. Require a cost-benefit analysis on all IRB exemptions using a uniform methodology and to include analysis of the effect of the abatement on state revenues. BOTA would be required to reject applications where projected costs exceed projected benefits.
2. Fund the development, testing, reproduction and training of a cost-benefit model to be used by Kansas communities for tax abatement applications.
3. Require counties to file an annual report to PVD on exempt property and IRB and EDX exemptions. PVD would issue an annual report to legislative committees on the amount of IRB and EDX valuation.

*Senate Assessment & Taxation*

*Oct 1, 1993*

*attach 1-1*

4. Prohibit cities and counties from exempting any property already on the tax rolls.
5. Require the same public hearings and notification for IRBs as required for EDXs.
6. Require follow-up analysis of IRB exemptions so that initial claims can be matched to actual use.
7. Enable the Department of Revenue to provide Kansas Inc. with specific and detailed information on the provision of state tax credits and sales tax exemptions for an annual evaluation of their effectiveness.

**Targeting:**

8. Target IRB exemptions by restricting their use to manufacturing, warehousing and R&D firms, as well as exporting service sector firms.
9. Expand the eligibility for investments that are allowed venture capital tax credits to service sector firms and non-manufacturing high technology companies.
10. Extend R&D Tax Credits for an additional five years and liberalize the amount of benefits provided. (expires 12/93)
11. Expand eligibility under Senate Bill 73, High Performance Firms Incentive Program, to exporting service sector firms.
12. Establish specific criteria for firms to qualify for KIT/KIR funds and develop strong linkages to community colleges for program administration and training.

**Leveraging:**

13. Capitalize and modify the Partnership Fund:
  - a. Provide a FY94 appropriation of \$2 million.
  - b. Amend current statute to allow a carryover of funds.
  - c. Expand eligibility to private infrastructure projects.
14. Create a statutory Economic Opportunity Fund:
  - a. Provide a FY94 appropriation of \$5 million for initial capitalization of the fund.
  - b. Establish specific criteria for project eligibility to include project size or significance and wage criteria.
15. Create a Linked Deposit business financing program operated by the State Treasurer through Kansas banks.
16. Amend the Kansas trade show assistance program to include the funding of domestic trade show participation by Kansas firms.

17. Increase the Export Finance Program's capacity to insure larger loans by amending current legislation to increase the limitation from 30% to 50%.
18. Amend the KDOC&H statute to merge the Division of Existing Industry and the Division of Industrial Development to increase the effectiveness of existing resources and the emphasis on business retention and expansion.
19. Require participation in or adoption of a community strategic plan for CDBG applicants.

**Networking:**

20. Establish a tax credit and state challenge grant to encourage for-profit consortiums or networks of small firms created for joint product development, marketing, sales, and related purposes.

D. W. Daicoff  
Oct. 1, 1993

The primary goal of taxation is to transfer resources from one group in society to another and to do so in ways that do not jeopardize, and may even facilitate, the attainment of other economic goals.

Adam Smith and other economists and social philosophers--cannons.

1. Equity or fairness--ability to pay v benefits received.
2. Certain, nonarbitrary, clear.
3. Convenient.
4. Excess burden--a. administrative expense b. distortions on business c. effort to avoid d. vexation.

### Equity

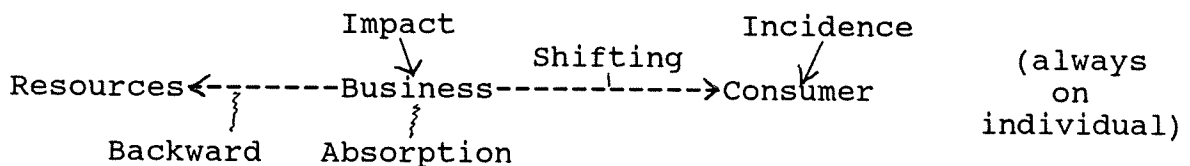
Benefits (Tax and Expenditure Policy)

- .As an adjunct to the private exchange economy.
- .User pays his cost--no cross subsidization, current nonfederal motor fuel tax, close enough tie to benefits.
- .Not concerned with redistribution--can't deal with transfers or achieve redistributive objectives.
- .Generally regressive.

Ability (Tax Policy, leaves expenditure side dangling)

- .Public goods are different from private.
- .Measures of ability--current income above something, spending, wealth, family size, extraordinary medical, etc.
- .Vertical & Horizontal Equity (progressive, proportional, or regressive)--Sacrifice rules.
- .Total State and Local taxes about proportional.

### Shifting and Incidence



- .Shifting to Feds. or out-of-state consumers or resource owners.
- .Partial and General Equilibrium.
- .Burden by age distribution.

5. Adequacy--generate meaningful revenue at socially acceptable rates, except when designed to penalize-- like environment or cigarettes.
- .Laffer
- .Elasticity and Stability.

*Senate Assessment + Taxation*

*Oct 1, 1993*

*Attach 2-1*



## The Domino Effect and the Coming of Classification in Kansas

Glenn W. Fisher  
Professor Emeritus  
Wichita State University

Copyright © 1993 by Glenn W. Fisher

The term "domino effect" has often been used as an explanation or justification for public policy. The term was most widely used during the Cold War when many claimed that the fall of one nation to communism would be followed by the fall of a neighboring nation and then by a neighbor of that nation until a whole continent--or the whole world--had become communist. In other contexts, the image of a string of dominos falling one by one can be invoked to describe a series of events each of which appears to be the principal cause of the next event in the series.

Using the domino analogy to describe political events can be misleading. The politics of public policy are exceedingly complicated. Often complex negotiations and maneuvers obscure the decision process and make it very difficult to identify motives or to make even rough approximations of the importance of the factors that influence the results.

At other times, however, it is possible to identify a series of events each of which seems to be a major cause of the next event. Such a series of events can be identified in the recent history of the Kansas property tax. These events do not constitute the entire history of the enormous changes that occurred, but they are an important part of it. Isolating these events for study can contribute to our understanding of the politics of the property tax at this point in American history.

### INITIAL CONDITIONS

At the beginning of the 1970s the quality of property tax assessment in Kansas was appalling. A reappraisal ordered by the 1957 legislature had dragged on for eleven years. Local officials resisted reappraisal and the whole effort was viewed as an intrusion upon local autonomy. County boards of equalization sometimes refused to allow new values to be entered or arbitrarily reduced the values.<sup>1</sup> No administrative organization was established to reviewing or updating the work of outside reappraisal firms.

The poor quality of the assessment was well documented. Kansas had an elaborate, if not statistically perfect, assessment ratio study. The statutes required that all property be

---

<sup>1</sup>Bonnie L. Hickie, Reappraisal and Equity in Property Taxation, M.A. thesis, Department of Economics, Wichita State University. 1968, pp. 64-65.

*Senate Assessment + Taxation*  
*Oct 1, 1993*  
*Attach 3-1*

assessed at 30 percent of market value, but the 1970 ratio study indicated that the median rate of assessment for urban (within a municipality) property within the 105 counties varied from a low of 10 percent to a high of 35 percent. For rural property the county medians varied from a low of 5 percent to a high of 27 percent. Coefficients of deviation were as high as 95 percent for urban property and as high as 86 percent for rural property. Coefficients for sub-classes of property within the rural and urban categories were even higher.<sup>2</sup>

In 1969 the legislature authorized and directed the State Director of Property Valuation to order a county to reappraise any classification or sub-classification of property for which the coefficient of deviation was greater than 20. This provision was to be effective on January 1, 1972. The 1972 legislature delayed the effective date to January 1, 1974. The 1974 legislature postponed the effective date to 1976 and the 1976 legislature changed it to 1978.<sup>3</sup> One county did act on its own to order a complete reappraisal. This resulted in strong protests from taxpayers in school districts that overlapped county lines. These taxpayers correctly argued that reappraisal, with the resulting higher assessed values, would place a greater school tax burden on property that had been reassessed. The 1978 legislature responded by prohibiting any county from applying the results of a reappraisal until all counties had been reappraised and again postponed the effective date of the director's authority to order a county to reappraise.<sup>4</sup> Clearly, neither the legislature nor county officials wanted to face the political consequences of bringing the quality of assessment up to a reasonable standard.

There were no studies of personal property assessment, but it was generally agreed that the quality of assessment was very bad. Property that was highly viable and had an easily determined market value was probably well assessed in some counties, but the situation varied greatly from county-to-county. Public service property, assessed at the state level, was assessed close to the legally required 30 percent.

Clearly, there were strong pressure to maintain the status quo. Assessment deviated so far from the statutory standard that a reform of property tax administration would cause massive shifts in the tax burdens--with unpleasant political consequences. Oddly, it was the brief period of unusual farm prosperity in the 1970s--combined with the Property Tax Division's attempt to improve assessment--that set in motion of chain of events that eventually led to massive change in the Kansas tax system.

---

<sup>2</sup>Kansas. Property Valuation Department. Kansas Real Estate Ratio Study, 1970.

<sup>3</sup>Laws of Kansas, 1969, Ch. 435; Laws of Kansas, 1972, Ch. 363; Laws of Kansas, 1974, Ch. 428; Laws of Kansas, 1976, Ch. 423.

<sup>4</sup>Laws of Kansas, 1978, Ch. 396.

## DOMINO ONE--RISING FARM MACHINERY VALUES

As result of high farm product prices in the 1970s, the price of new and used farm machinery soared. The Director of Property valuation directed that farm machinery assessments be consistent with guidelines based on "bluebooks" reporting the selling prices of used farm machinery. This resulted in large increases in farm machinery assessments. Sometimes assessments increased as the machinery aged.

In response to the resulting complaints, the legislature made three attempts to provide relief: 1) In 1978, a bill was passed requiring a one-year, fifteen percent reduction in the value of farm machinery as established in the Kansas Appraisal Guide, published by the Division of Property Valuation. 2) In 1979, the law was extended for one year and the reduction was increased to 20 percent.<sup>5</sup> The amended law was declared unconstitutional as a violation of the uniform and equal provision of the Kansas Constitution.<sup>6</sup> 3) The 1981 legislature then passed a law prescribing a depreciation schedule to be used in assessing farm machinery.<sup>7</sup> This was also declared in violation of the uniformity provision.<sup>8</sup>

During this time period a number of counties defied the state orders to use the appraisal manuals. In 1980, the Director of Property Valuation sent legal notices to four counties and wrote a letter to another asking that the guide be used. This resulted in a number of protest meetings around the state. For example, a crowd of more than 500, described in a newspaper headline as "angry," attended a meeting with the Director of Property taxation in Holton.<sup>9</sup>

## DOMINO TWO--TRENDING FACTORS FOR MANUFACTURING MACHINERY

Farmers who protested increased assessment of farm machinery argued that they were being treated unfairly in comparison to the owners of industrial machinery because manufacturing machinery was appraised at book value--that is, at cost minus the depreciation allowed for income tax purposes. There was no active resale market for most types of industrial machinery, therefore, it was not possible to prepare reappraisal manuals based on used machinery price manuals (bluebook<sup>5</sup>). Instead the Kansas Division of Property Valuation attempted to correct the alleged inequality by requiring assessors to utilize trending factors when

---

<sup>5</sup>Kansas Laws, 1978, Ch. 395; Kansas Laws, 1979, Ch. 311.

<sup>6</sup>State ex re. Stephen v. Martin, 227 Kan 456 (1980).

<sup>7</sup>Kansas Laws, 1981, Ch. 373.

<sup>8</sup>State ex re. Stephen v. Martin, 230 Kan 759.

<sup>9</sup>Topeka Capital Journal, September 10, 1980.

assessing business or industrial machinery. These factors, computed by the division, were designed to take account of the downward trend in values caused by depreciation and the upward trend caused by inflation. The use of trending factors resulted in large upward revisions in the assessed value of machinery generating complaints, particularly from the owners of small manufacturing businesses. The Kansas Small Business Trust, an organization of small business owners, was organized to protest this appraisal method.

### DOMINO THREE--A TAXPAYER SUIT

The Kansas Small Business Trust, and others sympathetic to their views, carried out the usual lobbying activities, but they also petitioned the courts for relief. They had little hope of proving that machinery was assessed higher than the legal 30 percent, but it was clear that it was being taxed at a higher percentage of value than was real estate which was, on the average, greatly underassessed. They recognized that Increasing the assessment of real estate to the statutory level would reduce the tax burden on farm and industrial machinery. In an effort to force reappraisal of real estate individual members of the Kansas Small Business Trust, who were residents and taxpayers of Sedgwick, Ford and Rice counties, filed complaints with the Kansas Board of Tax Appeals. The complainants presented evidence that their own and other residential properties were assessed at less than the legal 30 percent of market value and asked the Board to order reappraisal of Sedgwick, Rice and Ford counties and after completion to order a reappraisal of the entire state. The Board of Tax Appeals admitted that their complaint was valid and stated that statewide reappraisal was the answer to their complaints, but added that the relief requested was not in the best interests of the people of Kansas.<sup>10</sup>

After this ruling, suits were filed in Sedgwick and Rice counties asking the court to order all real estate in the state reassessed to conform to the constitutional uniformity doctrine. The Kansas Small Business Trust sent the governor a copy of the complaint along with a letter detailing how small business was being injured and promising to pursue the suit until the legislature acted. Representatives of the Small Business Trust and other business interests also testified before legislative committees asking that business personal property, such as inventories and machinery, be exempt from taxation.

### DOMINO FOUR--REAPPRAISAL

The plaintiffs clearly had a strong case. In spite of possible statistical weaknesses, the assessment ratio studies clearly revealed the constitution was being violated. The legislature had not only condoned but, in effect, had mandated the violation by forbidding counties to apply the results of reappraisal until all counties had been reappraised.

---

<sup>10</sup>Kansas. Board of Tax Appeals. Docket No. 3278-83-CP and Docket No. 3591-83-CP. January 30, 1985.

It was clear that the fall of the fourth domino--reappraisal--would have enormous impact not only on the tax system but on the political system as well. If a court ordered reappraisal, the time allowed would probably be relatively short. There would be little time to establish the administrative machinery and to train assessors. Therefore, it would be necessary to hire appraisal firms from outside the state who would again depart without leaving in place the organization and personnel to perform the constant updating that is necessary to maintain good assessment.

Even more important from the viewpoint of legislators and other public officials, reappraisal would bring about massive shifts in tax burden. The high coefficients of deviation and the great variations in the median level of assessment among counties and classes of property meant that a good job of reappraisal would result in massive shifts in tax burden--both within classes of property and among classes of property. It is true, of course, that the total tax decreases would equal total increases, but there is a political truism that the anger of those whose taxes are increased far exceeds the gratitude of those whose taxes are decreased.

Not surprisingly, legislators and the governor began looking for an alternative to court ordered reappraisal. Legislatively ordered reappraisal was one option, but memories of the backlash from the earlier attempts at reappraisal were vivid. Examination of the assessment-sales data revealed that farm property and single family property were assessed at the lowest percentage of market price. Commercial and industrial property was assessed somewhat higher. State-assessed public service (utility) property was not included in the ratio studies, and it was assumed that assessments of this type of property would not change as a result of reappraisal. The consequences of reappraisal would be a massive shift of taxation from commercial and utility property to farms and single family houses--in each of which there resided one or more voters! Obviously, the reappraisal domino was in danger of falling and it would have a enormous political impact.

Casting around for a solution, the governor, the legislature, and important farm and business groups came up with a package that tied reappraisal to a vote on a constitutional amendment classifying property for tax purposes. Agricultural land was to be assessed according to use value, as authorized by a constitutional amendment that had never been implemented. Residential property was to be assessed at 12 percent of market value. Commercial, industrial and utility property were to continue to be assessed at 30 percent. In order to soften the effects of the 30 percent assessment of commercial property, and as a contribution to economic development, merchants and manufacturers inventories were exempted from taxation and merchants' and manufacturing machinery was to be assessed at 20 percent of cost less depreciation. Farm machinery was exempted.

The reappraisal bill was carefully drafted. It provided a 3 1/2 year lead time during which cadastral maps were to be updated, computer systems developed, and assessing personnel trained. The state division of property valuation was to supervise and assist local assessors.

The first tax bills after reappraisal were mailed in December 1989 and it quickly became obvious that classification notwithstanding, the repercussions would be immense. Classification had greatly reduced the shifts among the major classes of property, but there were massive shifts within the major classes.

The shifts from properties that were relatively under-appraised to those of the same class that were relatively over-appraised were inevitable and desirable, but no less painful. Few taxpayers faced with large tax increases took the time to give thanks for the years they had paid less than their share!

The attempt to prevent shifts from one major class to another was relatively successful. The share paid by farm, residential, business and utility classes shifted only slightly, but there were major shifts from sub-class to sub-class. The exemption of inventories largely offset the increase in real estate taxes in the business sector, but there were large gains and losses for particular types of businesses. For example, manufacturing and retail firms gained at the expense of the owners of commercial buildings who had little inventory.

#### DOMINO FIVE--POLITICAL BACKLASH

The political backlash was considerable. Newspapers carried stories regarding individuals or firms facing large tax increases, often including a statement that the new taxes would lead to bankruptcy or a move from the state. The only stories about tax decreases stressed the adverse effects. For example, in some school district the assessed valuation was greatly reduced because of the exemption of inventories. There were protest meetings and a businessman, with no history of political involvement, was nearly successful in a challenge to the governor in the Republican primary of 1990. In fact, the governorship was won by the state treasurer who, in the 1990 Democratic primary, defeated the ex-governor who had signed the reappraisal bill. She then went on to defeat the sitting Republican governor, who had been speaker of the house when the reappraisal-classification package passed.

In spite of the backlash, many legislators remained convinced of the wisdom or necessity of reappraisal and continued to be generally supportive of reappraisal efforts, but they did make some concessions to public outcry. The legislature added steps to the appeal process that may serve as a political safety valve, but complicates assessment administration and probably reduces the quality of assessment. They also submitted another constitutional amendment which, with little public notice, was approved at the 1992 general election. That amendment made relatively minor changes. The level of assessment of commercial and industrial property was reduced from 30 percent to 25 percent, the level of assessment of residential property was reduced from 12 to 11 1/2 percent and the assessment of utility property was raised to 33 percent of market value. It was provided in the amendment that property of not-for-profit organizations could be assessed at 12 percent, but this provision was not self-executing and the legislature has not been able to agree on implementing legislation.

## DOMINO SIX--JUDGE BULLOCH'S SCHOOL FINANCE DECISION

The controversy over property tax focused attention on school finance in Kansas. School districts are the largest users of the property tax and the controversy over reappraisal brought to public attention the great disparities in the tax resources of school districts. A number of districts have extremely high property tax bases because of the existence of taxable mineral wealth--particularly natural gas in the southwest part of the state. A few have extremely high per pupil valuations because of the existence of utility generating plants. Johnson County, in suburban Kansas City, has a per capita income and median value of housing that is about fifty percent higher than the next most wealthy county. At the other extreme are a number of counties with declining populations and low per capita incomes.

The State of Kansas provided a considerable amount of state aid to local schools districts. Part of this aid was distributed according to an "equalizing" formula that, among other things, took account of the equalized assessed value per pupil.<sup>11</sup> However, even after "equalization" expenditure per pupil varied greatly from district to district.

In 1991, the District Court of Shawnee County handed down a far reaching school finance decision. After reviewing the state's constitutional duty to provide equal educational opportunity for every child, Judge Bullock asked the question, "Does this mean 100 percent state financing is required for public schools." The judge then answered his own question with a simple "yes." He stated:

The reasons are two: (a) that is what the constitution says; and (b) that is what we have always had--for so-called local school districts are legally only political subdivisions of the state, exercising such of the state's taxing authority as the legislature delegates to them in partial fulfillment of the legislature's obligation to finance the educational interests of the state. Thus money raised by school districts through "local" taxation is still state money. It just hasn't been thought of that way.<sup>12</sup>

The last two sentences quoted above, if upheld and implemented, have enormous implications for government structure. The sentiments expressed by Judge Bullock are in line with Dillon's Rule which emphasizes that local governments are "creatures of the state," but they are very different from widely held political sentiments in Kansas.

---

<sup>11</sup>The principal purpose of the assessment-sales ratio study was to compute the median level of assessment used in the school equalization formula.

<sup>12</sup>Robert Mock, et al. v State of Kansas, et al., Consolidated Shawnee County Kansas District Court Case No. 91-CV-1009 (October, 1991).

## DOMINO SEVEN--A STATE SCHOOL TAX LEVY

The 1992 Kansas legislature responded to Judge Bullock's demand that the legislature provide equal educational opportunity for all children by setting up a centralized system of school finance. The system included a ceiling on per pupil spending and required all districts to impose a 32 mill property tax levy. Any amount above the spending ceiling for each district was to be remitted to the state for distribution to "deficit" districts.<sup>13</sup>

Although levied locally, the financial impact is the same as that of a statewide levy. In effect, the action restored the property tax to its original position as a major source of finance for state government and simultaneously expanded the state's responsibilities for financing elementary and secondary education. To meet this responsibility, while reducing the total property tax burden, the state increased the rates of both the sales and income taxes.

The implementation of the uniform levy resulted in very large geographic shifts in property tax levies. The thinly populated but mineral-rich counties in southwest Kansas and high income Johnson County experienced increases in tax rates and decreases in the amounts they are permitted to spend on public education. This brought forth a new round of protests, including the widely publicized threats of several southwestern counties to secede from the state.

## DOMINO EIGHT--JUDGE BULLOCK'S TAX DECISION

Obviously, the existence of a uniform statewide school finance levy made uniformity of assessment even more important. On June 30, 1992, Judge Bullock, in response to a suit brought by Attorney General Robert Stephens, issued another sweeping order, this one addressed to property tax administration.

The judge found the school finance levy to be a statewide property tax levy and noted that the constitution requires a uniform and equal basis of valuation and rate of taxation within a tax jurisdiction. He asserted that the Director of Property Valuation has general supervision over the administration of the assessment and property tax laws of the state and:

"over all county, city and township officials involved in the process to the end that all property of every kind and character, including real estate is assessed (appraised) at its actual and full cash market value. K.S.A. 1991 Supp. 74-1404. (Emphasis added)"<sup>14</sup>

---

<sup>13</sup>Laws of Kansas, 1992, Ch. 280.

<sup>14</sup>State of Kansas, ex rel., Robert T. Stephen, Attorney General v. Kansas Department of Revenue, et al., Shawnee County Kansas District Court Case No. 92-CV-796 (June \_\_, 1992)



The court ordered the Secretary of Revenue and the Director of Property Valuation to perform their statutory duties to the fullest extent possible so that appraisal would be at fair market value. Specifically, the defendants were ordered to compel county appraisers, county commissioners and all others whose duty it is to value and assess property to do so according to the laws of the state. The Department of Revenue was ordered to devote all necessary resources to develop a valid ratio study to be completed by February 28, 1993. The department was required to continue and expand county audits of appraisal systems, to test the computer assisted assessment system (CAMA) and to correct such deficiencies as were discovered. The Department was also ordered to establish minimum standards of education for county appraisal personnel and to withdraw and review all directives regarding property tax appraisal before codifying and reissuing them. The department was to determine the adequacy of resources available to support the counties in carrying out their duties and to develop and present to the legislature plans for ongoing educational programs in connection with the state universities and junior colleges.

## THE RESULTS

The events described here as "dominos" were, in the opinion of the writer, the most important events in the recent history of the Kansas property tax. Each event was a major factor bringing about the next event. The series of events resulted in major changes in property tax administration and in the state revenue structure.

### Changes in Assessment Administration

An exact measurement of the change in the quality of assessment is not possible. There have been changes in the methodology used in the sales assessment ratio and, as indicated by Judge Bullock order and by pending litigation not reported in this paper, challenge and change are still in progress. Nevertheless, available data do show dramatic improvement in the quality of assessment. Table 1 shows selected data from the state summary table of the 1988 Assessment/Sales Ratio Study. Note that at the time, all property was to be assessed at 30 percent of value.

TABLE 1  
INDICATORS OF ASSESSMENT QUALITY, 1988

	Median Ratio	Coefficient of Deviation
Residential	7.60%	52.76
Commercial and Industrial	10.56%	100.35

Table 2 shows similar data for 1991, however, the median ratios are ratios of appraised (not assessed) values to sales prices.

TABLE 2  
INDICATORS OF ASSESSMENT QUALITY, 1991

	Median Ratio	Coefficient of Deviation
Residential	98.91%	12.48
Other*	99.34%	25.45

\*Similar to Commercial and Industrial under previous property class definitions.

These summary data clearly indicate improvement. The coefficient of deviation for residential property in 1991 was less than one-fourth its 1988 value and is within the range that many would consider satisfactory. The coefficient for commercial and industrial property (now called other property) shows a comparable decline. The median ratios of both classes of property in 1991 were very close to the legal requirement of 100 percent as compared with being only 1/4 to 1/3 of the legal standard in 1988. Of course, the quality of assessment continues to

vary greatly from county-to-county and from sub-class of property to sub-class. These variations are due, in part, to variations in the difficulty of the job. The CAMA system has obvious limitations when there are limited number of usable sales available for modeling purposes.

Because of changes made by the classification amendment, it is not possible to compare the quality of assessment for some classes. For example, agricultural land is not assessed according to use value and therefore assessment/sales ratio studies are useless as measures of assessment quality.

### Shifts in Tax Burden

The changes described in this paper have altered the tax structure in Kansas. As shown in Table 3, classification and reappraisal resulted in a large increase in the 1989 assessed values of real estate and a decline in the assessed values of personal property. As expected, it had little impact on the assessment of state assessed, public service property. The decline in the assessed value of real estate in 1990 and the small increases in 1991 and 1992 may result from reductions during the appeal process. The decrease in 1993 reflects the new classification system adopted in the second classification amendment. This second classification amendment also explains the 10.49 percent increase in the assessment of state assessed properties in 1993.

TABLE 3  
PERCENTAGE INCREASES IN ASSESSED VALUE, BY PROPERTY TYPE

	1989	1990	1991	1992	1993*
Real Estate	67.76	-1.64	2.96	0.19	-4.00
State Assessed	-0.78	2.13	.90	2.47	10.49
Personal Property	-33.09	11.94	3.12	-4.34	15.79
TOTAL	24.28	1.04	2.60	-0.20	1.62

\*1993 data are preliminary

Table 4 shows the change in the tax levies that occurred in the years 1889-1992. (1993 data are not yet available). These data also show large shifts from personal property to real estate in 1989. The decrease in the total property tax levy in 1992 resulted from the new school finance law. Increases in both the sales and income tax rates make up the revenue lost by property tax decreases.

TABLE 4  
PERCENTAGE INCREASES IN TAXES LEVIED, BY PROPERTY TYPE

	1989	1990	1991	1992	1993*
Real Estate	35.65	3.67	10.72	-13.9	
State Assessed	-9.68	5.56	8.77	-3.78	
Personal Property	-49.08	14.95	12.88	11.81	
TOTAL	6.10	5.35	10.76	-12.27	

\*1993 data are not yet available

The 1992 school finance law resulted in a major step toward state finance of local schools in Kansas. The uniform school tax levy was the first significant state property tax levy since the depression years<sup>15</sup>. The state has assumed a much larger role in school finance and is attempting to impose a high degree of equalization which includes ceilings on the amount that can be spent by the wealthy districts. Equalization is financed by a uniform property tax levy as well as by increased sales and income taxes.

The Kansas experience illustrates the close connection between government structure and the property tax. Kansas, like most American states, has a fragmented, decentralized system of local government. The development and survival of that system was financed largely by the property tax. Unfortunately, poor local administration of the tax led to a series of events which resulted in increased central control of property tax assessments and to the centralizing of school finance. The long run effect will be less local control.

Hopefully, it will also mean better assessment. Kansas has made a huge investment in mapping, data collection, computer technology, and assessor training. Most of the ingredients for maintaining a good assessment system are in place, but the long run results are not yet known. Perhaps the system can be fine-tuned to produce equitable assessment and to build public confidence, or perhaps, another domino will fall and launch a new series of changes.

---

<sup>15</sup> For many years the only state property tax has been a 1.5 mill levy for building purposes. The uniform school levy is imposed by the school districts and therefore is technically not a state property tax, but the impact is identical to that of a state levy.

*Special Commission on  
a Public Agenda for Kansas*

**Rep. Mike Hayden**  
Chairman  
Atwood

**Sen. Neil H. Arasmith**  
Phillipsburg

**Rep. Marvin Wm. Barkis**  
Louisburg

**Robert F. Bennett**  
Prairie Village

**Rex R. Borgen**  
Beloit

**Rep. James D. Braden**  
Clay Center

**Archie R. Dykes**  
Topeka

**Kathlien Edmiston**  
Wichita

**Sen. Michael L. Johnston**  
Vice-Chairman  
Parsons

**Phillip Finley**  
Colby

**Sen. Robert G. Frey**  
Liberal

**John Lee**  
Hutchinson

**Jack McGlothlin**  
Pittsburg

**John E. Moore**  
Wichita

**Keith Shumway**  
Ottawa

**Sid Warner**  
Cimarron

**H. Edward Flentje**  
Coordinator

# KANSAS POLICY CHOICES

Report of the Special Commission  
on a Public Agenda for Kansas

EDITED BY H. EDWARD FLENTJE

UNIVERSITY PRESS OF KANSAS



*Senate Assessment + Taxation  
Oct 1, 1993  
attach 4-1*

*ATT 4-1*

of the state and local governments of the fifty states if every state applied identical tax rates, in other words, national averages, to each of twenty-six commonly used tax bases?<sup>17</sup> The tax bases of each state are standardized and computed from statistics from a number of sources.<sup>18</sup> These computed tax bases approximate the revenue potential. The tax rates to be used for each revenue source are computed by dividing the total tax base into the total revenue obtained from that tax by all states. The resulting rate multiplied by the defined tax base of each state gives the yield or "capacity" of that tax. Adding the hypothetical yields for all twenty-six taxes provides the total yield or capacity for each state.

This measure of tax capacity, as computed using the representative tax system, is relative to that of other states. Tax capacity is the estimated amount of revenue that would be collected by the state if it imposed all twenty-six taxes in the representative tax system, at the average rate.

Table 3.11 compares the 1983 tax capacity of Kansas state and local governments with the actual tax revenue from major categories of taxes. This table shows that the revenue collected from all the tax categories except the property tax is below capacity. Property tax collections, by contrast, are well above capacity. If Kansas governments had imposed all twenty-six taxes in the representative tax system at the average rate, the state would have collected \$221 million more than actually was collected. A considerable shift in the sources from which the revenue came also would have taken place. One hundred eighty-four million dollars less would have been collected from property taxes, but considerably more would have been

**Table 3.11**  
**Kansas State and Local Tax Capacity and Effort, 1983**  
(dollar amounts in thousands)

Tax source	Tax capacity	Tax revenue	Capacity minus revenue	Tax capacity index	Tax effort index
General sales	\$ 643,940	\$ 548,594	\$ 95,346	95.9	85.2
Total selective sales	350,964	272,880	78,084	105.2	77.8
Total license	116,814	92,574	24,240	120.6	79.2
Personal income	549,743	530,657	19,086	96.2	96.5
Corporate income	146,811	141,347	5,464	99.4	96.3
Total property	896,716	1,080,803	(184,087)	97.1	120.5
Estate and gift	28,207	27,435	722	106.1	97.3
Total severance <sup>a</sup>	184,650	2,339	182,311	228.5	1.3
Total	\$2,917,845	\$2,696,629	\$221,216	102.3	92.4

Source: U.S. Advisory Commission on Intergovernmental Relations, 1983 *Tax Capacity of the Fifty States, an Information Report*, M-148 (Washington, D.C., May 1986).

<sup>a</sup>The Kansas severance tax was not in effect in FY 1983. In FY 1984, collections from this source were \$106,112,000.

collected from selective and general sales taxes. Notice that only a token amount of severance tax collections are shown. Kansas did not enact a severance tax until 1983, and fiscal year 1984 was the first full year of collections, amounting to \$106 million. Note also that Kansas taxes oil and gas property as personal property.

The last two columns of Table 3.11 are indexes comparing Kansas per capita tax capacity and tax effort with the national average. Overall, Kansas tax capacity exceeds the national average by 2.3 percent, and its tax effort falls below it by 7.6 percent.

Table 3.12 reveals that the Kansas tax capacity exceeds that of three of the comparison states but falls well below that of Colorado and Oklahoma. Examination of data (not reproduced here) shows that Colorado's capacity exceeds the national average for every major tax category—sales, income, and property. Oklahoma ranks far above average in the severance category and above in property taxes, corporate income taxes, and selective sales. At this writing, however, oil prices are falling rapidly, and the Oklahoma situation may be very different now.

The tax effort indexes reveal that all the states in the comparison group, except Iowa, levy taxes which, as a percentage of capacity, are below the national average. This finding confirms the generally accepted view that states in this part of the country are not high-tax states.

### Is the Kansas Revenue Structure Well Balanced?

Although consensus as to what constitutes a properly balanced tax structure is unlikely, large areas of agreement exist among those who have thoughtfully considered the matter. A paper by Robert Kleine and John Shannon delivered at the 1985 meeting of the National Tax Association provides a thoughtful statement by well-informed individuals.<sup>19</sup> This paper, entitled "Characteristics of a Balanced State-Local Tax System," represents a revision of earlier work by ACIR.

**Table 3.12**  
**Tax Effort and Capacity Indexes, in Selected States, 1983**

	Tax capacity	Tax effort
United States	100.0	100.0
KANSAS	102.3	92.4
Colorado	122.2	79.0
Iowa	90.8	108.6
Missouri	89.2	86.9
Nebraska	100.7	94.4
Oklahoma	114.9	80.3

Source: U.S. Advisory Commission on Intergovernmental Relations, 1983 *Capacity of the Fifty States, an Information Report*, M-148 (Washington, D.C., May 1986).

Authors Kleine and Shannon point out that recent changes have affected the climate for state and local tax policy. Among these are the serious recessions in 1974-75 and 1980-83 and the greater demands for political accountability as evidenced by taxpayer "revolts" in several states. In addition, new and critical elements are intensified competition among the states and a renewed emphasis upon business climate. The authors identify the following factors in the evolving competitive environment:

1. International economic competition has become more intense.
2. Domestic competition has intensified. Political jurisdictions have become more aggressive in competing with other states and foreign countries for jobs.
3. The federal government has reduced its support to state and local governments, which puts pressure on states to raise more revenue. Attracting new business is seen as one way of doing so.
4. Increased competition, better communication, and transportation facilities have caused companies to become more mobile and less loyal to their home states.

5. The environment will become even more competitive if President Reagan's proposal to repeal federal deductibility of state and local taxes is adopted.

The authors suggest that important equity considerations, such as shielding the income of the poor, are countered by growing recognition that increased geographic mobility precludes highly progressive state or local taxes. At the same time, they believe, a wide range of exclusions, exemptions, and credits have violated the principle of equal treatment of taxpayers who have equal ability to pay. Thus, state tax reform, like proposals for federal tax reform, should be aimed at broadening the tax base to achieve lower rates. Diversification continues to be a characteristic of a good state and local tax structure, but emphasis may now be shifting from diversification of state taxes to local revenue diversification.

### Characteristics of a Balanced State and Local Tax Structure

In summarizing the thinking about what constitutes a good state and local tax structure, Kleine and Shannon discuss the characteristics of individual taxes and then prepare a "report card" rating the various states. They list the following characteristics of a balanced tax system;

*Personal income tax.* A tax on personal income should meet the following criteria:

1. A personal income tax should provide 20 to 35 percent of all state and local tax revenue. Too heavy reliance on the personal income tax can have an adverse effect on business climate, and too little will increase the need to rely on regressive taxes with little growth potential.
2. Rates of an income tax should not be markedly higher than rates in surrounding areas.

3. A state or local income tax should offer personal exemptions or credits at least as generous as the federal income tax exemptions. Ideally, exemptions or credits should shield persons below the poverty line from paying taxes.
4. The number of deductions allowed on state income taxes should be minimized. This policy objective would simplify the income tax, make it more equitable, and be in line with federal reform efforts. *Let drive*
5. State and local income taxes should be indexed for inflation. This provision would prevent inflation from automatically pushing taxpayers into higher brackets and reducing the real value of personal exemptions; further, it would reduce the responsiveness of the income tax to changes in income (elasticity).
6. A state should share the proceeds of the personal income tax with local units of government or permit local income taxation with proper safeguards.

*Sales tax.* The general sales taxes deserve heavy weight in state and local tax structure, because they are productive, relatively stable, and exportable to nonresidents. A good sales tax should meet the following criteria:

1. A sales tax should provide 20 to 30 percent of all state-local tax revenue.
2. The sales tax rate should not be out of line with rates in surrounding states.
3. Foods, drugs, and utilities should be exempted from the sales tax, or a tax credit for the purchase of these items should be provided.
4. A sales tax should tax most services as well as goods.
5. The proceeds of the sales tax should be shared with local governments, or local governments should be allowed to levy local sales taxes subject to state-imposed safeguards.
6. A strong audit and enforcement program should be maintained to protect the integrity of the tax base.

*Property tax.* Although the property tax continues to be the most criticized of the major taxes of state and local governments, it will continue to be a major source of local government revenue. This revenue source is stable and productive and allows a considerable degree of local fiscal independence. In addition, the property tax reaches nonresident property owners, who make no contribution of income or sales taxes. Finally, the property tax recaptures property values created by government provision of public services. The virtues of the property tax can be maximized and its weaknesses minimized by adopting certain safeguards:

1. The property tax should provide 20 to 30 percent of all state and local tax revenue.
2. State and local government should work together to insure that the property tax burden does not become excessive. The states should finance the

Sample Assessment & Taxa  
 Oct 1, 1993  
 4-3

- nfederal share of welfare expenditure and a major share of the cost of elementary and secondary education. The states should also share general revenue with local governments to relieve pressure on the property tax and reduce fiscal disparities between the have and have-not communities. The state can also authorize the use of local income and sales taxes, preferably piggy-backed on state taxes to reduce administrative and compliance costs.
3. States should finance a "circuit breaker" property tax relief program to shield low-income taxpayers from excessive tax burdens (this program is known as the homestead property tax refund in Kansas).
  4. Property should be assessed on average no less than 80 percent of full market value (100 percent is ideal). The objective of this recommendation is to prevent low fractional assessments from providing a convenient graveyard in which assessors can "bury their mistakes." There should be a full-disclosure policy requiring that assessment/sales ratios results be available to taxpayers. This information should be allowed as evidence in taxpayer appeals.
  5. Property tax laws should include a mechanism to prevent automatic, unrestrained increases in revenue from inflation-induced assessment growth. Such increases occur when property taxes are levied by rate or when public attention is focused upon the tax rate rather than the dollar levy.
  6. The property tax should be administered fairly and equitably. Two measures of the quality of administration are available. The coefficient of intraarea dispersion measures the variation within a county. The median assessment level for the county and the various classes of property indicate the equality of assessment among the counties and classes of property.

*Business taxes.* Kleine and Shannon admit the difficulty of developing general principles that apply to business taxes, a difficulty partly caused by the confused and indeterminate distribution of the ultimate burden of business taxes. While they acknowledge that any set of principles may not be valid for a particular state, they nevertheless suggest the following as a general framework:

1. Taxes on business should be broad-based with some consideration of ability to pay. A tax based on a broad measure of economic activity, rather than on profit, could serve as the primary basis for state taxation of business firms. Money-losing or low-profit firms might gain protection by a tax credit.
2. The tax structure should apply to all forms of business and should not discriminate on the basis of the form of ownership, i.e., sole proprietorship or corporation.
3. Immediate write-off for capital investment rather than special tax inducements should be provided. "Expensing" of business capital investment for

all firms is preferable to special tax concessions that often discriminate against existing firms.

4. The number of separate taxes within a business tax system should be kept to a minimum.
5. A stable tax base should be used. This would provide a uniform flow of business tax receipts unaffected by business swings; however, as mentioned above, some safeguards should be built in to protect small, low-profit firms.
6. States should provide funding to allow local repeal of personal property taxes on inventories.
7. Rates should be moderate for unemployment insurance and workers compensation as well as for general business taxes.

*Excise taxes.* Excise taxes on alcohol, tobacco, and motor fuel constitute relatively minor sources of revenue for most states and have major disadvantages. They have little growth potential, fall heavily upon low-income persons, and are susceptible to tax evasions. The revenue potential of such taxes can be improved by the following steps:

1. Specific taxes on unit consumption (for example, per gallon, per pack) should be replaced by ad valorem (levied on value) taxes. State and local governments should use restraint in setting excise tax rates. Tax rates that are substantially higher than in neighboring states will encourage tax evasion.
2. When rates are increased, a portion of the proceeds should be earmarked for enforcement and audit programs. Strong programs are needed to prevent high levels of tax evasion if tax differentials are large.

*Severance taxes.* Severance taxes are a major source of revenue in a few energy-rich states. Such taxes are an attractive revenue source, because their payment is largely exported to other states, and natural resources cannot be moved to avoid taxes. Excessively high rates can discourage marginal exploration activities, and, as recent events have demonstrated, the yield can fluctuate greatly.

*User charges.* State and local governments, including those in Kansas, have increased their reliance on user charges for more than two decades. The most significant increases have been in sanitation, water revenues, special assessments, and other public utility categories. Opinion polls show that taxpayers often prefer user fees to taxes as a way of financing services. Local governments could do a better job of unbundling specific services and moving such services from general tax support to financing with user fees. Minimum levels of service could be supported with taxes, and charges could be made for higher levels of service.

### *Report Card on Kansas Tax Structure*

It is not possible to assign numerical values to all the characteristics which make up a balanced tax system, but Kleine and Shannon have developed a "report card" that does quantify many of the characteristics

4-4



**Table 3.13**  
**Balanced Tax System Scorecard**

Characteristic	Points possible	Kansas	
		Points	Rank
Overall fiscal systems	30	23.1	14
Revenue diversification	50	39.9	23
Tax equity	35	13.0	26
Fiscal equalization	50	21.9	40
Property tax administration	35	2.5	37
Total	200	100.9	
Business climate <sup>a</sup>	0	-15.0	25
Grand total	200	85.9	32

Source: Robert Kleine and John Shannon, "Characteristics of a Balanced State-Local Revenue System", paper delivered at the National Tax Association Conference, Denver, 1985.

<sup>a</sup>Deduction up to 40 points.

they believe result in a balanced tax system. In the report card for Kansas, shown in Table 3.13, there are 200 possible points for an ideal score. Features of the tax system believed to result in a poor business climate in the state are shown as deductions from the score.

Kansas makes its best showing on the first test, overall fiscal system. This test has two parts. One part measures the progressiveness of the tax system by comparing the tax burden on taxpayers with incomes of \$17,500 to \$100,000. Kansas, along with seven other states, receives the maximum score of 20 points on this part. The other part of the test relates to the state share of the revenue system. Kansas receives only 3.6 points out of a possible 10, because the state raises less than the 50 percent of the state-local total.

Kansas scores 39.9 out of a possible 50 on the revenue diversification test. A perfect score on this test requires that 20-30 percent of state-local tax revenue come from the sales tax, 20-35 percent from income taxes, and 20-30 percent from property taxes. Kansas loses .6 of a point for underuse of the income tax and 9.5 points for overuse of the property tax.

Kansas scores only 13 out of a possible 35 points on the tax equity characteristic. This characteristic relates to relief for low-income people by means of the circuit breaker, homestead tax relief, or sales tax exemption or credit for food, utilities, and drugs. The authors also suggest sales taxation of services to broaden the base and make it slightly more progressive and indexation of the personal income tax. Kansas scores as follows:

	Possible	Kansas
State financed property tax relief (circuit breaker)	10.0	5.0
Sales tax exemptions or credits	10.0	5.0
Sales tax on services	5.0	3.0
Indexing of personal income tax	10.0	0.0
	35.0	13.0

## State and Local Finance

The fiscal equalization test is an attempt to measure the extent to which the state aids local governments in financing certain functions. Possible points awarded and the Kansas scores are as follows:

	Possible	Kansas
Welfare, state financed	10.0	9.4
Health and hospital, state financed	10.0	5.0
Local education, state financed	20.0	7.5
General revenue sharing	10.0	.0
	50.0	21.9

Kansas receives its lowest ranking on this test. Clearly, Kansas leaves more of the financial responsibility for government in the hands of localities than the authors of the report card believe desirable.

Kansas receives its lowest absolute score on property tax administration. The score of 2.5 out of a possible 35 should come as no surprise to those who follow the Kansas property tax issue. Points are lost because assessments are not uniform, either within or among assessment districts, and therefore not in compliance with state law or the state constitution. Currently, reappraisal of property is underway, and a referendum on constitutional classification of property is on the ballot in November 1986.

The business climate test is of special importance given the current nationwide concern with economic growth. This test differs from others in that points are subtracted from a state's score for characteristics believed to indicate an adverse business climate. These deductions are based on overall tax burden, marginal income tax rate for individuals, marginal income tax rate for corporations, property tax exemption for inventories, machinery and equipment, workers compensation tax rates, unemployment insurance rates, sales tax on machinery, and worldwide unitary apportionment of corporate income. The 15 points subtracted from Kansas' score for poor business climate result from deductions of 2 points because the top marginal income tax rate is over 7 percent; 8 points because Kansas has no property tax exemption for machinery, inventories, and equipment; and 5 points because Kansas taxes sales of machinery. If the classification amendment to the state constitution passes, it will eliminate the inventory tax and reduce, but not eliminate the tax on machinery.

## Policy Choices in State and Local Finance

The above analysis raises a variety of questions concerning Kansas tax policy, and these call for attention on a public agenda for Kansas. The policy choices facing Kansas in state and local finance are discussed as follows: First, how should Kansas respond to the recent shortfall in revenue relative to growth in the state's economy? Second, what direction

4-5

4-5

SESSION OF 1994

SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR  
SENATE BILL NO. 324

As Recommended by House Committee on  
Taxation

**Brief\***

House Sub. S.B. 324 would phase in an expansion in the property tax credit allowed in the severance tax law on natural gas from 1 percent to 3.67 percent, thereby reducing the effective rate from 7 percent to 4.33 percent, the same as for the tax on crude oil. The effective rate on gas will be reduced from 7 percent to 6 percent on July 1, 1994; to 5 percent on July 1, 1995; and to 4.33 percent on July 1, 1996.

Under current law, 93 percent of severance tax receipts is deposited in the State General Fund (SGF) and 7 percent is deposited in the County Mineral Production Tax Fund (CMPTF).

Based on the April, 1993 consensus estimate of price and taxable production and assuming a two-month lag in receipts, the bill would reduce severance tax receipts as follows:

	\$ in Thousands				
	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998 and Annually Thereafter</u>	<u>Cumulative through FY 1998</u>
SGF	\$ (7,614)	\$ (16,846)	\$ (23,553)	\$ (24,586)	\$ (72,598)
CMPTF	<u>(573)</u>	<u>(1,268)</u>	<u>(1,773)</u>	<u>(1,851)</u>	<u>(5,464)</u>
TOTAL	<u>\$ (8,187)</u>	<u>\$ (18,114)</u>	<u>\$ (25,325)</u>	<u>\$ (26,436)</u>	<u>\$ (78,062)</u>

\* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

6653/cc

*Senate Assessment + Tax*

*Oct 1, 1993*

*attach 5-1*

## **Background**

The original S.B. 324 would have amended K.S.A. 1992 Supp.79-1466 and 79-1467 to clarify that appraisal rolls consist of appraisal information rather than property records and to limit properties required to be on the exempt property rolls to those which are required to be appraised by the county appraiser.

On June 14, 1993, the House Committee recommended the substitute bill, which struck the original provisions and replaced them with the severance tax reduction.

Earlier in 1993, the Governor had vetoed two "economic development trifecta" bills which contained, among other provisions, similar reductions in the severance tax on natural gas.

SESSION OF 1994

SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR  
SENATE BILL NO. 191

As Recommended by House Committee on  
Taxation

**Brief\***

House Sub. for S.B. 191 would establish, beginning in 1995, a new tax system starting in 1995 for recreational vehicles, which include those motorized vehicles and trailers "designed primarily as living quarters for recreational, camping, vacation, or travel use." The bill would remove such vehicles from the motor vehicle tax and personal property tax systems and impose a new tax as follows:

<u>Age of Vehicle</u>	<u>Base Amount</u>		<u>Plus: The Amount of the Weight Factor (Below) Times Each 100 Pounds of Weight</u>
0-5 years	\$70.00	plus	\$0.90
6-10 years	\$50.00	plus	\$0.70
11 and over	\$30.00	plus	\$0.50

Currently, motorized recreational vehicles are subject to the motor vehicle tax imposed by K.S.A. 1992 Supp. 79-5101 *et seq.*, while pull-trailers and other types of recreational vehicles are assessed personal property taxes under Chapter 79, Article 3. Although the bill removes recreational vehicles from these tax systems, the revenue received from the new tax would continue to be distributed to all taxing subdivisions in a similar manner.

---

\* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

6662/cc

*Senate Assessment + Tax*

*Oct 1, 1993*

*attach. 6-1*

The bill contains an amnesty provision which would eliminate back taxes, penalties, and interest for persons who have not paid taxes for any tax year or any registration period commencing prior to January 1, 1995.

## Background

Based on data provided by the Department of Revenue, an estimated 14,153 motorized recreational vehicles were registered under the motor vehicle tax ("tax and tags") law in 1992. Those vehicles would pay approximately \$1.60 million in CY 1994 motor vehicle taxes under current law, a statewide average of \$113 per vehicle. (CY 1995 motor vehicle taxes, which are based on 1993 mill levies, cannot yet be estimated.) Under House Sub. S.B. 191, the new recreational vehicle tax paid by those motorized vehicles would be approximately \$1.15 million, an average of \$81 per vehicle. Using CY 1994 as a proxy for CY 1995, the fiscal note from the change in the system of taxing motorized recreational vehicles therefore would be a reduction of less than \$0.5 million statewide.

The Department of Revenue also calculated that the 26,175 pull-trailers and other recreational vehicles currently assessed personal property taxes would generate approximately \$2.6 million in CY 1995 receipts under House Sub. for S.B. 191, or an average of about \$99 per vehicle. Although the amount of tax collected from such vehicles now is not known on a statewide basis, one sample from Douglas County suggested that the average tax in 1992 for trailers was \$158. Another sample from Jewell County found that the 1992 average tax was about \$88. Projecting the Douglas County average statewide, the estimated amount of taxes collected on trailers in 1992 would have been about \$4.136 million (out of \$1.608 billion of property taxes statewide, \$228 million of which was from personal property). Using the Jewell County data to project the statewide 1992 average would suggest that \$2.3 million in taxes was collected from trailers.

Using the Douglas County 1992 sample data as a proxy for 1995 provides an estimated reduction in receipts from trailers of \$1.5 million, from \$4.1 million to \$2.6 million. Using the Jewell County data would suggest that there would be an increase of \$0.3 million statewide in receipts from trailers.

The fiscal notes presented above for CY 1995 do not assume any sort of increase in the sales of recreational vehicles to Kansas residents or in the number of vehicles registered in Kansas which may have been registered elsewhere previously.

The new property tax classification amendment, adopted by voters in 1992, authorizes the Legislature to implement a separate tax system for recreational vehicles. Proponents of this particular proposal said that the bill was patterned after a Texas law.

The Governor in 1993 vetoed H.B. 2088 and H.B. 2035, both of which would have implemented this recreational vehicle tax proposal starting in tax year 1994. Those bills also contained a number of other provisions relating to the "economic development trifecta."

The provisions of the original S.B. 191, which related to joint rural benefit fire district levies, were enacted as part of 1993 H.B. 2227. The House Committee on June 14, 1993 struck the original provisions of S.B. 191 and recommended the substitute bill with the recreational vehicle tax.

SESSION OF 1994

SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR  
SENATE BILL NO. 157

As Recommended by House Committee on  
Taxation

**Brief\***

House Sub. for S.B. 157 would reduce the assessment level from 30 percent to 12 percent starting in tax year 1994 on all taxable real property owned and operated by groups or organizations chartered pursuant to subsections 501(c)(3), 501(c)(4), 501(c)(8), and 501(c)(10) of the Internal Revenue Code. The reduction also would apply to certain taxable real property owned and operated by 501(c)(2) organizations if such property is leased to a 501(c)(8) organization.

**Background**

An amendment of Article 11, Section 1 of the *Kansas Constitution*, adopted by the voters in 1992, authorized the Legislature to determine which not-for-profit groups or organizations would be eligible to have their taxable real property assessed at 12 percent. The provision is not self-executing, so taxable real property owned and operated by such groups will continue to be assessed as "all other" at 30 percent unless included by law in this new subclass of property.

All property "used exclusively" for literary, educational, scientific, religious, benevolent, or charitable purposes is already totally exempt from property taxation.

The federal Internal Revenue Code defines the subsections referenced in the bill as follows:

501(c)(2) -- Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning

---

\* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

6657/cc

*Senate Assessment + Taxation*

*Oct. 1, 1993*

*attach. 7-1*

over the entire amount thereof, less expenses, to an organization which itself is exempt under this section.

501(c)(3) -- Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

501(c)(4) -- Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

501(c)(8) -- Fraternal beneficiary societies, orders, or associations -- (A) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system; and (B) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association of their dependents.

501(c)(10) -- Domestic fraternal societies, orders, or associations, operating under the lodge system -- (A) the net earnings of which are devoted exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes; and (B) which do not provide for the payment of life, sick, accident, or other benefits.

The original S.B. 157 would have amended K.S.A. 79-1478 to clarify that the Division of Property Valuation (PVD) currently assists counties in the "updating



of appraisal" rather than a reappraisal. The bill also would have required that all consultants hired by counties be on a list approved by PVD.

The House Committee on June 14, 1993, struck the original provisions and recommended the substitute bill containing the not-for-profit assessment level provisions.

The Governor on May 20, 1993, had vetoed H.B. 2035, which would have implemented the provisions of House Sub. S.B. 157 starting in tax year 1993. H.B. 2035 also contained a number of other provisions referred to as the "economic development trifecta."

SESSION OF 1994

SUPPLEMENTAL NOTE ON SENATE BILL NO. 230

As Amended by House Committee on  
Taxation

**Brief\***

S.B. 230 would, beginning with tax year 1994, authorize corporation income tax or financial institution privilege tax credits for contributions by business firms for the purpose of financing the provision of health care services.

"Health care services" are defined to include local health departments; city, county, or district hospitals; city or county nursing homes; preventive health care services; mental health services; indigent health care; physician or health care worker recruitment; health education; emergency medical services; rural health clinics, integration of health care services; home health services; and rural health networks.

The credit could not exceed 50 percent of the amount contributed, or 70 percent of the amount contributed by a firm in a rural community service. The contribution would be deductible at the federal level, but not at the state level. This treatment would be accomplished by adding the amount of the contribution to federal taxable income in computing Kansas taxable income for corporations, or subtracting the amount of the contribution from federal itemized deductions in determining Kansas itemized deductions for individuals. The credits would be limited to a total of \$5,000,000 per year. Any credits not used could be carried forward until used.

"Rural community" would mean a city with population of fewer than 15,000 located in a county that is not a part of a Standard Metropolitan Statistical Area (SMSA) as defined by the U.S. Department of Commerce. However, a city of fewer than 15,000 could be considered a rural community even though located in a county within an SMSA if a substantial number of persons within the community derive their incomes from agriculture. Also, if there is only one city in the county

---

\* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

*Senate Assessment & Taxation*

*Oct 1, 1993*

*attachment 8-1*

with population of more than 15,000, other communities will be considered rural even though located within an SMSA.

### **Background**

The original S.B. 230 would have authorized credits for contributions to "community service organizations." The House Taxation Committee amended the bill to limit the credits to contributions for health care services.

# MEMORANDUM

## Kansas Legislative Research Department

300 S.W. 10th Avenue  
Room 545-N – Statehouse  
Topeka, Kansas 66612-1504  
Telephone (913) 296-3181 FAX (913) 296-3824

September 16, 1993

**To:** Representative Keith Roe, Chairman  
**From:** Chris Courtwright, Principal Analyst  
**Re:** September 9-10 Actions of House Tax Committee

The House Committee on September 9 introduced three bills designed to improve the accountability and targeting of economic development tax incentives.

### **IRB and EDX Tax Exemptions**

The first bill would limit the property tax exemptions granted through the issuance of industrial revenue bonds (IRBs) to businesses engaged in manufacturing, warehousing, and research and development activities (the same purposes for which constitutional economic development (EDX) abatements may be granted). Tax-exempt IRBs apparently would be eliminated for some of the purposes currently authorized in K.S.A. 12-1740, including recreational, hospital, agricultural, and natural resource purposes. (Though language in the Committee report will encourage the Legislature to look at expanding the IRB purposes to include certain service-sector industries if a good definition of "high-paying, export-oriented services" can be crafted, there will be no such provision in the bill as introduced.)

All locally-granted property tax exemptions, IRBs and EDXs, would be required to have a cost-benefit analysis completed before the exemptions are approved by the State Board of Tax Appeals (SBOTA). (Current law requires a cost-benefit analysis only for EDX abatements.) The cost-benefit analyses would be required to include the effect of the exemptions on state revenues. SBOTA would be required to reject any exemption if the projected costs exceeded the projected benefits. SBOTA would have discretionary authority to reject other exemptions where projected benefits exceeded projected costs.

The counties would be required to provide exempt real and personal property rolls certified under K.S.A. 1992 Supp. 79-1466 and 79-1467 to the Property Valuation Division (PVD). Counties also would be required to send to PVD all annual filings for IRB and EDX exemptions required pursuant to K.S.A. 1992 Supp. 79-210a. PVD would be required to issue an annual report to the House Taxation Committee and the Senate Assessment and Taxation Committee on the amount of exempt IRB and EDX valuation.

*Senate Assessment + Taxation*

*Oct 1, 1993*

*attachment 9-1*

Cities and counties would be prohibited from exempting any property already on the tax rolls. This particular provision also is incorporated in 1993 S.B. 2.

Finally, cities and counties attempting to grant exemptions through the issuance of IRBs would be required to follow the same public hearing and notification procedures currently required for EDX abatements. K.S.A. 79-251 currently requires that local units must hold public hearings prior to granting EDX abatements after publishing notice of the proposed abatements in the official newspapers and notifying the affected school districts in writing.

#### **Uniform Cost-Benefit Model**

The second bill would require Kansas, Inc., subject to appropriations, to develop or adapt a uniform cost-benefit model for IRB and EDX property tax exemptions. The model would be made available, free of charge, to all cities and counties seeking to grant exemptions. The model would then become the mandatory cost-benefit methodology for all exemptions granted by local units. (Normal private-sector match requirements (K.S.A. 74-8009a) for appropriations to Kansas, Inc. would not apply with respect to the funding of the model.)

#### **Release of Certain Tax Data to Kansas, Inc.**

The Department of Revenue would be required under the third bill to release information to Kansas, Inc. regarding economic development income tax credits and sales tax exemptions. Kansas, Inc. would be required to evaluate the data and make annual reports to the tax and economic development committees regarding the cost-effectiveness of the credits and exemptions.

These brief descriptions reflect only my understanding of what will be in the bills after meeting with you on Friday afternoon. I cannot say with any more certainty or specificity what the actual legislation will look like, since it has not yet been drafted by the revisors.

In other activity, the Committee introduced a bill to authorize local airports to levy motor fuel taxes and asked for an Attorney General's opinion with respect to the constitutionality of H.B. 2535 regarding the statutory reclassification of certain telecommunications property.

STATE OF KANSAS

Mark A. Burghart, General Counsel  
Robert B. Docking State Office Building  
915 S.W. Harrison St.  
Topeka, Kansas 66612-1588



(913) 296-2381  
FAX (913) 296-7928

Department of Revenue  
*Legal Services Bureau*

**MEMORANDUM**

To: The Honorable Audrey Langworthy, Chairperson  
Senate Committee on Assessment and Taxation

From: Mark A. Burghart, General Counsel  
Kansas Department of Revenue

Date: October 1, 1993

RE: *Barker et al. v. State of Kansas et al.*

In *Barker et al. v. State of Kansas et al.*, military retirees are seeking the refund of state income taxes paid on military retired pay for tax years 1984-1991. The Kansas Department of Revenue has raised various defenses to the plaintiffs' claim for refunds. The purpose of this memorandum is to advise you of the major defense strategies which have been employed in the case. The memorandum also will identify the State's refund exposure under various scenarios. These estimates are based upon the best information available to the Department at this time.

Initially, it is important to note that the recent United States Supreme Court decision of *Harper v. Virginia Department of Taxation* specifically held that income tax refunds were *not* required as a matter of federal law. Rather, state law must be examined to determine the relief available to military retirees for the past tax treatment of military retired pay. The Court stated as follows:

"We do not enter judgment for petitioners, however, because federal law does not necessarily entitle them to a refund. Rather, the Constitution requires Virginia 'to provide relief consistent with federal due process principles.' *American Trucking*, 496 U. S. at 181 (plurality opinion). Under the Due Process Clause, U. S. Const., Amdt. 14, § 1, 'a State found to have imposed an impermissibly discriminatory tax retains flexibility in responding to this determination.' *McKesson Corp. v. Division of Alcoholic Beverages & Tobacco*, 496 U. S. 18, 39-40 (1990). If Virginia 'offers a meaningful opportunity for taxpayers to withhold contested tax assessments and to challenge their validity in a predeprivation hearing,' the 'availability of a predeprivation hearing

*Senate Assessment + Taxation*

*Oct 1, 1993*

*Attachment 10-1*

constitutes a procedural safeguard . . . sufficient by itself to satisfy the Due Process Clause."

The State's primary defenses are as follows:

1. Failure to Exhaust Administrative Remedies.

This defense is based on the companion cases of *Dean v. Kansas* and *Zarda v. Kansas* decided by the Kansas Supreme Court during the summer of 1992. These decisions dealt with the method by which the Kansas motor vehicle tax was computed. In the cases, plaintiffs had sought tax refunds totalling \$220,000,000. The Kansas Supreme Court ruled in both cases that the taxpayers had failed to exhaust administrative remedies and therefore, the district court lacked the necessary subject matter jurisdiction to grant tax refunds. Should the present district court action be dismissed for the same reason, it is possible that only those retirees who properly exercised their administrative appeal rights would be eligible to claim a refund. Preliminary figures indicate that approximately 20% of eligible retirees actually filed administrative appeals. Obviously such a ruling would substantially reduce the refund exposure in Kansas. Legal experts retained by the Department believe this to be perhaps the strongest argument in favor of the State of Kansas.

2. Predeprivation Remedy.

As previously noted the United States Supreme Court in *Harper* suggested that if state remedies were available to taxpayers that would have allowed the taxpayers to challenge a state tax without first paying the tax and the taxpayers chose not to pursue these remedies, then the taxpayers are not entitled to refunds. Kansas appears to provide at least three predeprivation remedies: (1) injunctive relief for assessment, collection or enforcement of invalid tax, (2) declaratory relief as to validity of tax statutes and the opportunity to petition for further relief to give effect to terms of the court's judgment; (3) taxpayer may withhold payment and appeal notice of assessment. A district court judge will determine whether these predeprivation remedies are adequate under constitutional guidelines.

There is very little case law which specifically addresses this particular issue and it is difficult to assess the chances of prevailing. However, the State's expert who is knowledgeable on the issue has stated that Kansas is perhaps the best postured of all of the states to advance this argument.

3. Limitation on Refunds.

In the event that the district court determines that as a general rule refunds are required, it will be the Department's position that only the *discriminatory* portion of the state tax would be required to be refunded. That is to say, only that portion of the state tax paid by military retirees

which exceeds the tax paid by state retirees on their retirement pay should be refunded. This argument recognizes that state retirees paid state income tax on their contributions to their pension plan, while military retirees did not. The Department has retained the public accounting firm of Ernst & Young to determine the proper refund percentage utilizing this theory. Preliminary computations indicate that refunds could be reduced anywhere from 15% to 29% depending on years of service. The average reduction in the refunds would be approximately 22%.

4. Payment Alternatives.

In the event refunds are ordered, the State has argued that the refunds should be paid in installments over several years to minimize fiscal disruption. Defendants also have argued that credits or vouchers should be used to offset tax due in future years.

Judge Adrian Allen heard oral argument on these matters on September 16, 1993. Barring a settlement of the case, we expect a ruling from the District Court before the 1994 Legislature convenes.

Fiscal Note

Many commentators have viewed this case as an "all or nothing" proposition. This may be an overly simplistic assessment of the case. The fiscal impact to the State under a variety of scenarios is set forth below.

SCENARIO 1. ESTIMATED REFUNDS ASSUMING:

- (A) ALL RETIREES ACTUALLY PAID THE TAX
- (B) INTEREST TO SEPTEMBER 15, 1993
- 1984-1991 \$92.61 Million

SCENARIO 2. ESTIMATED REFUNDS TAKING INTO ACCOUNT:

- (A) NONCOMPLIANCE BY TAXPAYERS
- (B) INTEREST TO SEPTEMBER 15, 1993
- 1984-1991 \$85.00 Million

SCENARIO 3. ESTIMATED REFUNDS TAKING INTO ACCOUNT:

- (A) NONCOMPLIANCE BY TAXPAYERS
- (B) ADJUSTMENT FOR PREVIOUSLY-TAXED CONTRIBUTIONS
- (C) INTEREST TO SEPTEMBER 15, 1993
- 1984-1991 \$62.66 Million

SCENARIO 4. ESTIMATED REFUNDS TAKING INTO ACCOUNT:

- (A) ONLY FOR 1989-1991
- (B) NONCOMPLIANCE BY TAXPAYERS
- (C) ADJUSTMENT FOR PREVIOUSLY-TAXED CONTRIBUTIONS
- (D) INTEREST TO SEPTEMBER 15, 1993
- 1989-1991 \$20.29 Million



The Honorable Audrey Langworthy  
October 1, 1993  
Page 4

SCENARIO 5. ESTIMATED REFUNDS FOR THOSE FILING ADMINISTRATIVE  
APPEALS:  
(A) ASSUMES ONLY 20% APPEALED  
(B) ADJUSTMENT FOR PREVIOUSLY-TAXED CONTRIBUTIONS  
(C) INTEREST TO SEPTEMBER 15, 1993  
1984-1991 \$14.19 Million

I would be happy to respond to any questions you might have.