

Approved: March 10, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:08 a.m. on March 9, 1994 in Room 519-S of the Capitol.

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

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

Conferees appearing before the committee: Charles Warren, KS. Inc.
Alan Cobb, Kansas Association of Small Business
Bernie Koch, Wichita Chamber of Commerce
Lyle Butler, Second Vice President, Kansas Industrial
Developer's Association
Chris McKenzie, League of Kansas Municipalities
Bob Corkins, KCCI
Dale Levering, Southeast Kansas Regional Planning
Commission
Don Seifert, City of Olathe

Others attending: See attached list

APPROVAL OF MINUTES

Senator Sallee moved to approve the minutes of March 8, 1994. The motion was seconded by Senator Reynolds. The motion carried.

FISCAL NOTES AND MEMORANDUM

Senator Langworthy called the attention of the committee to the Fiscal Notes for **HB 2555, HB 2556, HB 2557** and a memorandum from Jim Conant, Alcoholic Beverage Control Division concerning **HB 2613** and the cost of two LCI II positions. (Attachment 1)

HB 2555--PROPERTY TAX EXEMPTIONS FOR ECONOMIC DEVELOPMENT PURPOSES; PROCEDURES AND REQUIREMENTS

HB 2556--KANSAS INC. TO PREPARE ANNUAL REPORT EVALUATING COST EFFECTIVENESS OF ECONOMIC DEVELOPMENT TAX INCENTIVES

HB 2557--COST-BENEFIT ANALYSIS FOR TAX EXEMPTIONS

Proponents

Charles Warren, President, KS, Inc., explained **HB 2555**, **HB 2556** and **HB 2557** to the committee and told of the amendments put on in the House Taxation Committee and also in the House Committee of the Whole. (Attachment 2, 3, and 4) **HB 2555** would eliminate the ability of cities and counties to grant property tax exemptions through the issuance of industrial revenue bonds (IRBs) for those retail firms classified under standard industrial classification coded (SIC) 52 through 59. **HB 2556** would require Kansas Inc. to submit an annual report evaluating the cost effectiveness of various economic development tax incentives, including certain income tax credits and sales tax exemptions to certain Legislative committees. **HB 2557** would require Kansas Inc., subject to appropriations, to develop, adapt, or adopt a uniform cost-benefit model for purposes of statewide data collection and for evaluating industrial revenue bond (IRB) and economic

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:08 a.m. on March 9, 1994.

development property tax exemptions (EDX).

Kansas Inc. requested an amendment to **HB 2555** on line 38, page 3, after the word "taxation" to add the sentence "This restriction shall not apply if the facility is used exclusively to house the headquarters or back office operations of a retail enterprise identified under the standard industrial classification codes, major groups 52 through 49." They also requested an amendment defining the term "headquarters or back office operations".

Alan Cobb, Kansas Association for Small Business, expressed their support for the House Committee amendments to **HB 2555** and the House Floor amendments for **HB 2557**. (Attachment 5) He spoke of the fees charged in Wichita for the application and to each company requesting an abatement. He also told of a company whose cost ratio came out to .8 to 1., and he said it certainly seems that this was exactly the kind of company for which constitutional abatements were originally intended to assist.

Bernie Koch, Wichita Area Chamber of Commerce, said the ability to delay payment of property taxes for up to ten years has been an important economic development tool in their region. (Attachment 6) He said the bulk of abated property in Wichita and Sedgwick County has been machinery and equipment. Abatements give Kansas the ability to compete with lower property taxes in other states. He applauded the removal of the provision for the Board of Tax Appeals to approve all tax abatements. Sometimes state agencies do not move fast enough to get answers to prospects quickly. He also said, although it should not be common practice, there are times when property already on the tax rolls should be eligible to be abated. Mr. Koch also asked that Wichita and other communities not be mandated to use a uniform cost-benefit model--one size does not fit everyone. He included several graphs and charts in his testimony.

Lyle Butler, 2nd Vice President, Kansas Industrial Developers Association, said his group supports **HB 2555**. (Attachment 7) He also recommended the amendment recommendation of Kansas Inc. This amendment will insure that Kansas can compete with other areas of the country.

Senator Bond moved to add the amendment recommended by Kansas Inc. The motion was seconded by Senator Reynolds. The motion carried.

Chris McKenzie, League of Kansas Municipalities, said with the exception of the restrictions contained in Section 1, the League recommends approval of **HB 2555**. (Attachment 8) He said when the bill was in the House Taxation Committee the League appeared in opposition because many of the provisions were objectionable to the cities of Kansas. The League also supports the amendment recommended by Kansas Inc. Mr. McKenzie said he appeared today in support of **HB 2557** as amended. (Attachment 9) He strongly recommended against reinserting language which would be another unfunded mandate in lines 19-23. Local officials need to have flexibility in making abatement/exemption decisions.

Bob Corkins, KCCI, supported **HB 2555** but with a single reservation. (Attachment 10) KCCI's concern is with the proposed reduction in the scope of projects eligible for industrial revenue bond tax incentives. He said new major retail outlets are desirable for many communities. Kansas should continue allowing full IRB incentives for prospective retail outlets and headquarters.

Dale Levering, Southeast Kansas Regional Planning Commission, spoke on **HB 2557**. He said his area of rural Kansas needs some guidance to make better decisions. They need a model so they can collect better data. To get ahead they need to get started and they need to use the sales tax and property tax more wisely. The model recommended in this bill will be a boon to their area.

Opponents

Don Seifert, Acting Director, Administrative Services, City of Olathe, expressed concerns about **HB 2555**. (Attachment 11) The bill would eliminate the ability of cities to grant property tax exemptions through IRBs for retail firms classified under SIC codes 52 - 59. He said his city believes that tax abatement decisions are best made by local governing bodies. He also expressed concern about corporate headquarters of retailers and their classification. The city of Olathe does agree with other provisions of **HB 2555**. On **HB 2557**, Mr. Seifert said with the mandate removed by the House, the city of Olathe fully supports the bill. (Attachment 12)

The hearing was closed on **HB 2555**, **HB 2556** and **HB 2557**.

The meeting adjourned at 12:00 noon.

The next meeting is scheduled for Thursday, March 10, 1994.

DATE: March 9, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Mikel Miller	Topeka	KS Inc
Lyle Butler	Dodge City	KIDA
RAW COBB	Wichita	KS. Assoc. For Small Business
Bernie Koch	Wichita	Wichita Chamber
Don Seifert	Olathe	City of Olathe
Myrna Stringer	Olathe	League of Women Voters
Laura Meyer	Overland Park	Sprint
Ken Baker	Topeka	Beck Aircraft
Bill Spence	Wichita	Boeing
DALE LEVERING	Chanute, KS	Economic Developer for SE KS.
BEV BRADLEY	Topeka	KS Assoc of Counties
Michelle Clum	"	att. Jon Small
Jordan T. Hamer	Topeka	CPA/K
Bob Corkins	"	KCCI
R. R. Rice	"	Cessna
Bob Williams	"	KS Pharmacists Assoc

STATE OF KANSAS



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Department of Revenue
Division of Alcoholic Beverage Control

MEMORANDUM

TO: Senator Audrey Langworthy, Chairperson
Senate Committee on Assessment & Taxation

FROM: Jim Conant, Chief Administrative Officer
Alcoholic Beverage Control Division

DATE: March 8, 1994

SUBJECT: House Bill 2613

In the March 7 hearing on House Bill 2613, additional information was requested regarding the costs associated with hiring and equipping additional enforcement personnel. The Department believes that an additional 2 Liquor Control Investigator (LCI) II positions will allow us to maintain an acceptable level of responsiveness to the law enforcement community if House Bill 2613 is enacted. These positions would assist in enforcement of the tax on illegal drugs through financial investigations and seizure of assets of drug tax violators in order to satisfy drug tax liabilities. It is projected that drug tax collections would increase a minimum of \$150,000 per LCI II position.

Costs for the additional positions are as follows:

	<u>FY 1995</u>
2 LCI II positions @ \$32,784 ea. (includes benefits)	\$65,568
Mileage for LCI II positions (18,000 miles ea.)	6,840
Subsistence (30 nights ea.)	<u>4,200</u>
ANNUAL COSTS	\$76,608
One-time equipment costs for 2 LCI II positions*	11,590
TOTAL	\$88,198

*Equipment includes standard items for law enforcement activity including radios, scanners, sirens, bullet-proof vests, fire arm, and miscellaneous.

If these positions are added, and collections increase as projected by at least \$300,000, the additional deposits to the state general fund (\$75,000) would approximately equal the cost of the new positions. Please advise if any additional information is needed.

Senate Assess + Tax
March 9, 1994
attach 1-1

**SENATE COMMITTEE ON ASSESSMENT AND TAXATION
THE KANSAS LEGISLATURE**

**PROPOSED AMENDMENTS TO IRB AND EDX
PROPERTY TAX ABATEMENT LAWS**

HB 2555

TESTIMONY OF:

**Charles R. Warren
President,
Kansas Inc.**

March 9, 1994

*Senate Assess + Tax
March 9, 1994
attach 2-1*

INTRODUCTION

As you will recall, Kansas Inc. released the State's new economic development strategy, "A Kansas Vision" in February of 1993. To implement the strategy, Kansas Inc. assembled six "Action Planning Committees" whose members are legislators, cabinet officials, community leaders, men and women with expertise in business, education, technology, and finance, and the state's best economic development professionals. These committees have been responsible for developing specific recommendations and proposals. One of the committees is the Business Tax and Incentives Committee. Please see Attachment 1 for a list of that committee's membership.

During the 1993 Interim Session, Kansas Inc. worked with the House Tax Committee leadership and its own Business Tax and Incentives Committee to develop a collection of recommendations that could improve the accountability and targeting of economic development tax incentives. Those ideas were brought before this committee in Interim Session in September and, as a result, three bills were drafted, one of which is H.B. 2555.

In October, those initial recommendations were brought before the Action Planning Committee on Business Tax and Incentives. Committee members debated the original set of ideas and reached a consensus on those that they believed were appropriate. Attachment 2 represents the outcome of that meeting and the recommendations of the committee.

In December, the recommendations of the Action Planning Committee on Business Tax and Incentives, along with the recommendations of the 5 other Action Planning Committees, were brought before the Kansas Inc. Board of Directors. The Board of Directors voted to support the committees' recommendations as part of the 1994 Kansas Inc. legislative agenda to implement "A Kansas Vision."

Kansas Inc. and the Action Planning Committee on Business Tax and Incentives support the following provisions of House Bill 2555:

- 1. The proposed amendment requiring that a cost-benefit analysis be performed as a part of the IRB abatement granting process.**
- 2. The proposed amendment requiring that a public hearing be required when granting IRB abatements as is currently required for EDX abatements.**

Performing a cost-benefit analysis and holding a public hearing is already required of communities granting EDX abatements (Attachment 2). By setting down these requirements, lawmakers acknowledged the value in requiring local governments to perform a cost-benefit analysis and hold public discussion of those findings. These original requirement were legislated to improve the decision making process at the local level and are in the best interest of both the local government and the state. We support this amendment which would require local governments to perform these two measures when granting IRB abatements.

During the 1993 Interim, The House Tax Committee heard testimony on the need for a uniform cost-benefit model to be used by local governments in their decision making process for the granting of property tax abatements and exemptions. HB 2557 would require Kansas Inc. to develop a uniform cost-benefit model for voluntary use by cities and counties in evaluating IRB and EDX abatements.

- 3. The proposed amendment requiring that the cost-benefit analysis currently required as part of the EDX abatement granting process also include the effect of the abatement on state revenues.**

Under current practice, most local governments restrict their analysis of the costs and benefits of a proposed EDX abatement to projecting the gains or losses in local tax revenues only. Because of school finance reform and the shifting of school financing from the property tax to sales and income taxes, it is appropriate to evaluate the impact of local property tax abatement decisions on state general fund revenues.

- 4. The proposed amendment to require counties to submit an annual report on all exempt real and personal property to the Property Tax Valuation Division. We also support the requirement for the Director of PVD to issue an annual report to both standing committees on taxation at the beginning of each regular session.**

Although some IRB and EDX abatement numbers are available through the State Board of Tax Appeals (SBOTA), the data only reflect the maximum amount of bond authorizations and not necessarily the value of the exempt property. The information SBOTA can provide only reflects the year in which the bond allocation or EDX exemption was approved and does not reflect any subsequent changes in valuation. In addition, given available data, it is impossible to account for the fact that the actual amount of bonds issued may have been less than the amount authorized.

Current law requires owners of IRB and EDX abated property to file an annual exemption

claim with their city or county clerk. Appraisers are also required by that same law to appraise all exempt property annually. The clerk of the city or county then uses those appraisals to determine whether the property continues to meet all terms and conditions for granting the exemption originally. Although the city or county are required to conduct these annual exemption claim surveys, that information has not been reported and compiled by PVD or the Legislature. Requiring the counties to formally report this information will provide quantitative data currently not available to guide state lawmakers in future decisions concerning property tax policy.

Proposed Amendment

Kansas Inc. requests that the following language be added.

On line 38, page 3, after the word "taxation." add the sentence "This restriction shall not apply if the facility is used exclusively to house the headquarters or back office operations of a retail enterprise identified under the standard industrial classification codes, major groups 52 through 59, inclusive."

This amendment would allow local authorities to grant IRB abatements to the national or regional headquarters of a fast food chain for example, or a catalog orders processing center or distribution facility of a department store.

For the purposes of defining the term "headquarters or back office operations, " we suggest the following:

"Headquarters or back office operations" means a facility from which the enterprise is provided direction, management, or administrative support of transactions made by that enterprise. Headquarters or back office operations shall also mean a facility from which distribution or warehousing functions are provided in support of transactions made by the enterprise.

Conclusion

The capacity of local governments to provide abatement of property taxes on new or expanding firms must be preserved, and the authority of local government to make these judgments retained. At the same time, the Kansas Inc. and the Action Planning Committee recognize the need to ensure that the tax abatement process and system is used in a credible fashion, and meets appropriate standards of accountability. Requirements for local governments to undertake cost-benefit analysis on abatement decisions, to conduct public hearings, to monitor compliance, and to subject tax abatement projects to periodic evaluation are recognized as important measures that will increase accountability.

The Committee urges the continuation of policies which provide flexibility and discretion to local government in deciding on individual abatement and exemption projects based on their merit and specific circumstance. Kansas Inc. and the Action Planning Committee oppose enactment of state measures that would limit the eligibility of projects for abatement and that would subject local abatement decisions to state review and approval.

REPORT OF THE ACTION PLANNING COMMITTEE ON
BUSINESS TAXES AND INCENTIVES
KANSAS INC.

INTRODUCTION

"A Kansas Vision" calls for "a stable and competitive tax environment that encourages businesses to invest in people, equipment, and machinery." To this end, the Committee calls for tax policies that reward rather than discourage investment by Kansas firms. Existing tax policy places an undue burden on existing, mature firms and discriminates unfairly against the manufacturing, construction, and oil and gas industries of Kansas. Existing incentives for industrial recruitment must be maintained in an ever increasingly competitive environment.

The capacity of local governments to provide abatement of property taxes on newly locating or expanding firms must be preserved, and the authority of local government to make the judgments on abatement decisions retained. At the same time, the Committee recognizes the need to ensure that the tax abatement process and system is used in a credible fashion, and meets appropriate standards of accountability. Requirements for local governments to undertake cost-benefit analysis on abatement decisions, to conduct public hearings, to monitor compliance, and to subject tax abatement projects to periodic evaluation are recognized as important measures that will increase accountability.

The Committee urges the continuation of policies which provide flexibility and discretion to local government in deciding on individual abatement and exemption projects based on their merit and the specific circumstances. The Committee opposes enactment of state measures that would limit the eligibility of projects for abatement, that would subject local abatement decisions to state review and approval, and that would require "clawbacks" or repayment of abated taxes if originally projected job and investment goals are not met.

The Committee recommends the expansion of specific, state government tax credits and incentives to selected service sector firms. The service sector is now the most rapidly growing industrial sector in Kansas, and continues to be the source of new job growth for our state. The service sector and other non-manufacturing firms deserve the recognition and encouragement of state government through its tax policies and incentive programs. The Committee also recommends that state tax credits and incentives be subjected to periodic evaluation and that the provision of data and information for that purpose be made available to Kansas Inc.

Listed below are the recommendations of the Committee regarding state and local businesses taxes and incentives. These recommendations have been discussed and debated by the Committee and, unless otherwise noted, are endorsed by the members of the Committee.

BUSINESS TAX & INCENTIVES COMMITTEE RECOMMENDATIONS

ENHANCE THE ACCOUNTABILITY AND EFFECTIVENESS OF BUSINESS TAX INCENTIVES

1. Require governing bodies wishing to grant IRB property tax abatements to follow the same procedures as set forth in statute for EDX abatements. Those requirements are:

(a) Develop and adopt official policies and procedures for the granting of such exemptions including:

(1) The required preparation of an analysis of the costs and benefits of each exemption prior to the granting of such exemptions;

(2) a procedure for monitoring the compliance of a business receiving an exemption with any terms or conditions established by the governing body for the granting of the exemption;

(b) conduct a public hearing on the granting of such exemption. Notice of the public hearing shall be published at least once seven days prior to the hearing in the official city or county newspaper, as the case requires, and shall indicate the purpose, time and place thereof. In addition to such publication notice, the city or county clerk, as the case requires, shall notify in writing the governing body of the city or county and unified school district within which the property proposed for exemption is located.

2. *Fund the development, testing, reproduction of, and training for the operation of, a cost-benefit analysis model for use by governing bodies in performing the mandatory cost-benefit analysis. The model should include the capacity to analyze the effect of IRB and EDX property tax abatements on state revenues.*

Legislation to appropriate funds for this project should stipulate: (1) that the model consist of PC compatible software, including tutorials and embedded help explanations; (2) that competitive bids be taken for the development of the model, with the competitive request for proposal being prepared under the leadership of the League of Kansas Municipalities; (3) that a committee composed of representatives from the public sector, the Kansas League of Municipalities, and the ultimate users of the model, be formed to approve the request for proposals and to select the contractor.

3. Require counties to file an annual report to the Property Valuation Division (PVD) on exempt property and IRB exemptions and EDX abatements. PVD would issue an annual report to legislative committees on the amount of exempt IRB and EDX valuation.

Information from these reports would be used to evaluate the effectiveness of property tax exemptions and provide quantitative data currently not available to guide state lawmakers in future decisions concerning property tax policy.

4. Provide Kansas Inc. access to the above annual reports to allow for evaluation of the use of IRB exemptions.
5. Enable the Department of Revenue to provide Kansas Inc. with specific and detailed information on state income tax credits and sales tax exemptions claimed. Kansas Inc. would use this information to perform annual evaluations of their effectiveness.

The Department of Revenue would be required to release information regarding the following: 1) Income Tax Credits -- Kansas Venture Capital, Local Seed Capital Pools, Research & Development Income Tax Credit, Job & Investment Tax Credit, High Performance Incentives Program; 2) Sales Tax Exemptions-- Kansas Enterprise Zone Act, High Performance Incentives Program.

TARGET ASSISTANCE AND INCENTIVES TO BUILD ON THE STATE'S COMPETITIVE ADVANTAGE

6. Extend the existing R&D Tax Credits for an additional two years and undertake an evaluation of its effectiveness to provide the legislature recommendations for continuation or modification of the program. (Currently expires 12/93)
7. Expand eligibility under Senate Bill 73, High Performance Firms Incentive Program, to include export-oriented service sector firms and other non-manufacturing export-oriented firms.

Many of the same arguments for the use of tax incentives for manufacturing can also be applied to these export-oriented service sector firms and other non-manufacturing export-oriented firms. Service sector jobs have contributed the most to Kansas employment gains in recent years (67% of private employment growth between 86-92), and some service firms pay wages comparable to those paid in manufacturing. Export-oriented service firms that derive over 50% of their sales from out-of-state add substantially to the wealth and income of the state.

The Senate Tax committee has asked that Kansas Inc. present a draft definition of "export-oriented service sectors firms" and a listing of other non-manufacturing export-oriented firms that would be included under this new eligibility.

8. Expand the eligibility for venture capital tax credits to include investments in export-oriented service sector firms, other non-manufacturing export-oriented firms and non-manufacturing high technology companies.

Current legislation restricts Kansas Venture Capital companies from investing in service sector firms, as well as oil and gas exploration and development, real estate development, banking or lending operations, or retail establishments.

9. Reduce, over a period of 3 years, the severance tax on natural gas to 4.3%, the same rate applied to oil.

The House Tax Committee has recommended a bill to accomplish this to the full House.

10. Repeal the 2.5% sales tax on utilities consumed in manufacturing and production enacted along with school finance reforms.

11. Repeal the 2.5% sales tax on gross receipts received from the service of installing or applying tangible personal property in connection with the original construction of a building or facility or the construction, reconstruction, restorations, replacement or repair of a bridge or highway.

Note: Gary Reeser, Governor's Liaison, as well as Senator Paul Feleciano indicated that they could not support recommendations 9-11.

Senator Audrey Langworthy indicated that her support for recommendations 9 and 10 was contingent on the repeal of the sales tax on construction (recommendation 11).

Jill Docking indicated that her support for recommendations 9-11 were contingent on the development of new revenue producers or cuts in program spending.

Marvin Wynn and Jill Docking recommended that bond council be consulted in the case of recommendation 1, to ensure the new requirements would not impair bond issuance.

Attachment 2

79-251. Limitations upon authority to grant property tax exemptions pursuant to section 13 of article 11 of constitution. Prior to the granting of an exemption for any property from ad valorem taxation pursuant to the provisions of section 13 of article 11 of the Kansas constitution, the board of county commissioners of any county or the governing body of any city, as the case requires, shall be required to do the following:

(a) Develop and adopt official policies and procedures for the granting of such exemptions including:

(1) The required preparation of an analysis of the costs and benefits of each exemption prior to the granting of such exemption;

(2) a procedure for monitoring the compliance of a business receiving an exemption with any terms or conditions established by the governing body for the granting of the exemption; and

(b) conduct a public hearing on the granting of such exemption. Notice of the public hearing shall be published at least once seven days prior to the hearing in the official city or county newspaper, as the case requires, and shall indicate the purpose, time and place thereof. In addition to such publication notice, the city or county clerk, as the case requires, shall notify in writing the governing body of the city or county and unified school district within which the property proposed for exemption is located.

History: L. 1990, ch. 345, § 1; July 1.

79-252. Condition of granting property tax exemption for personal property pursuant to section 13 of article 11 of constitution. No board of county commissioners of any county or the governing body of any city shall exempt any tangible personal property of a business pursuant to section 13 of article 11 of the Kansas constitution, whether such personal property is in the state of Kansas and subject to ad valorem taxation or has been exempted from taxation pursuant to section 13 of article 11 of the Kansas constitution, except that, if the board of county commissioners or governing body of a city makes a factual determination that such an exemption is required to retain jobs in the state of Kansas, an exemption may be granted for such tangible personal property.

History: L. 1990, ch. 345, § 2; July 1.

**SENATE COMMITTEE ON
ASSESSMENT AND TAXATION**

THE KANSAS LEGISLATURE

**EVALUATION OF STATE OF KANSAS
BUSINESS TAX INCENTIVES**

HB 2556

TESTIMONY OF:

**Charles R. Warren
President,
Kansas Inc.**

March 9, 1994

*Senate Assess + Tax
March 9, 1994
attach 3-1*

Kansas Inc. Testimony
HB 2556
March 9, 1994

The purpose of House Bill 2556 is to enable the Department of Revenue to provide Kansas Inc. access to information on the recipients of state income tax credits and sales tax exemptions so that a continuing analysis and evaluation of the effectiveness of these economic development incentives can be undertaken.

In recent years, legislators have consistently asked for hard evidence about the effectiveness of the business incentives they have created. Currently, there is no way, other than through anecdotal examples, to determine whether or not these tax credits and exemptions have achieved their intended purposes. As economic development professionals, we cannot quantitatively support the argument that state incentives have helped attract firms to Kansas, have led to the retention of Kansas companies, or have created or retained jobs in the state. Of course, neither is there any evidence to support the argument that these incentives do not work. We simply do not know the consequences of state tax incentives. The reason for our ignorance is that we do not have access to the data or information about the recipients of the incentives that would enable us to answer those questions. We have received from the Kansas Department of Revenue, from time to time, data on the aggregate dollar amounts of tax credits or exemptions that have been granted. We do not have any data on the specific firms that have used the credits or exemptions, or any information on the jobs that have been created or retained by those firms.

Data on the individual firms or companies that have benefitted from income tax credits is confidential by Kansas statute. This data is reported on the income tax returns of individuals and companies and may not be disclosed by the Department of Revenue to persons outside of the Department. House Bill 2556 would authorize the Department to release selected information from income tax returns to Kansas Inc. for the purpose of evaluation.

Our objective is to ensure that state business incentives are effective and efficient tools in accomplishing the broader goals of increasing jobs and incomes. We believe that it is essential for our incentive programs to be credible and defensible. It is important to periodically analyze and evaluate the utility of these incentives. Feedback through evaluation can lead to refinements in state incentives to make them more effective, or if the costs do not justify the tax benefits that the state provides, periodic evaluation can lead to recommendations to eliminate specific tax incentives.

If H.B. 2556 is enacted, Kansas Inc. will work with the Department of Revenue to obtain a limited amount of selected data on the recipients of these incentives to compile a data base that will enable us to analyze and evaluate the incentives. To conduct this analysis, we need to know the names, addresses, or current locations of the firms that obtained the credits and exemptions, and the dollar amounts of the incentives granted to each individual firm or taxpayer.

It is our intent to develop a methodology and plan for the evaluation of these incentives. We plan to seek the assistance of an outside consultant to prepare an evaluation plan. That plan will need to include a method of gathering information about the companies that have received incentives, including their current conditions and level of employment. This information would be collected through surveys and interviews conducted by Kansas Inc. staff. The results of the evaluations would be presented to the taxation and economic development committees of the Kansas Legislature with any recommendations for program modifications or terminations.

H.B. 2556 does impose an added responsibility on Kansas Inc. There would be a fiscal impact of modest proportions in the first year (FY 1995), and more significant in later years. However, it is difficult to estimate the exact amount of that impact beyond the first year. We do not know how many companies currently benefit from these incentives making it difficult to judge the extent of the workload that would be required. I would estimate that additional budget expenditures, beyond our current FY 1995 request, of \$12,500 would be necessary for Kansas Inc. to fulfill this responsibility. Those additional expenditures would consist of:

Consultant Contract for Evaluation Plan	\$7,500
Operating expenses, including postage, duplicating, and supplies.	5,000
Total	\$12,500

As amended by the House Committee on Taxation, Kansas Inc. employees and its agents are subject to the confidentiality and penalty provisions currently applicable to Department of Revenue employees. We will not disclose or furnish any external reports containing data or information on individual firms or taxpayers, nor do we intend to provide information that would lead to the identification of any single taxpayer or business.

I urge your support of H.B. 2556. This bill will enable Kansas Inc. to provide the legislature the information it has long demanded and will enable us to ensure that our tax expenditures for incentives are effective in achieving our economic development goals.

**SENATE COMMITTEE ON ASSESSMENT AND TAXATION
THE KANSAS LEGISLATURE**

**PROPOSAL TO DEVELOP A UNIFORM COST-BENEFIT MODEL
FOR KANSAS LOCAL GOVERNMENTS**

HB 2557

Testimony of:

**Charles R. Warren
President,
Kansas Inc.**

March 9, 1994

*Senate Assess + Tax
march 9, 1994
attach 4-1*

**PROPOSAL TO DEVELOP A UNIFORM COST-BENEFIT MODEL
FOR KANSAS LOCAL GOVERNMENTS
HB 2557**

During the 1993 Interim, The House Tax Committee received testimony on the need for a uniform cost-benefit model to be used by local governments in their decision making process for the granting of property tax abatements and exemptions. Under current law, a cost-benefit analysis must be conducted by local government prior to the granting of an abatement of property taxes under the constitutional amendment. Under House Bill 2555, this requirement would be extended to exemptions granted for property financed with an industrial revenue bond. While there is a requirement for a cost-benefit analysis, state law does not identify the methodology or form to be used when conducting such analysis. Local governments have been left to their own resources to conduct such analysis.

Currently, cost-benefit models of various types are being utilized in Kansas. Most local governments have relied upon methodologies developed by Dr. David Darling, Kansas State University, and refined by the Institute for Public Policy and Business Research at the University of Kansas. The models being used range from very sophisticated, computer based programs to manual forms containing limited information on costs and benefits to localities.

Kansas Inc. recommends that H.B. 2557 be enacted to provide state funding for the development of a cost-benefit methodology or model for use by local governments to analyze local property tax abatements. The bill would enable the following process to be undertaken:

1. An appropriation of funds from the Economic Development Initiatives Fund for the development, testing, and reproduction of the model to be distributed free-of-charge to Kansas cities and counties. The model should consist of software and user manuals. It should be capable of being used in a personal computer environment and include tutorials and embedded help explanations.
2. The development of a Request for Proposals (RFP) to solicit competitive bids from private firms, consultants, non-profit organizations or universities for the development of a cost-benefit model.
3. The specifications of the model and the work of the contractor should be guided and approved by a six member Committee On Tax Abatement Methodology appointed by the Governor and composed of the following members:
 - a. The President of Kansas Inc.
 - b. The Director of the Division of Property Valuation, or a designated member of its staff.
 - c. The Chairman of the Board of Tax Appeals, or a designated member of its staff.
 - d. A municipal official who is a member of The League of Kansas

- Municipalities nominated by its board of directors.
- e. A county government official who is a member of the Kansas Association of Counties nominated by its board of directors; and,
 - f. A person who is active in local economic development and industrial recruitment, nominated by the Commanding General of the Kansas Cavalry.

This committee would approve the final model prepared by the contractor and certify it for use by local governments and in the approval process of the Board of Tax Appeals.

An Appropriation of \$100,000 from the EDIF for Fiscal Year 1995 should be made to Kansas Inc. for the following purposes:

1. A contract of \$40,000 to the Kansas League of Municipalities for the development of the RFP, specifications for the model, and a plan for its pilot testing among local government users. The League would also be responsible for training and technical assistance to local governments in use of the model. The contract should include necessary funds for staffing and support of the committee, including per diem and travel for non-state members.

The above activities will be supervised by the Committee on Tax Abatement Methodology.

2. A contract not to exceed \$60,000 to prepare the cost-benefit model.

All expenditures and contracts from the appropriation would require prior approval of the Committee.

Advantages of a uniform cost-benefit model

A uniform cost-benefit model for use by local governments statewide would provide several advantages to the state and its localities. It would:

- a. ensure that cities and counties include all appropriate and relevant factors in their analysis of costs and benefits of granting abatements.
- b. enable both large and small local governments to analyze the impact of tax abatements in a cost-effective and efficient manner.
- c. provide a common format for review and analysis of local property tax abatements by the Board of Tax Appeals, the legislature, and other state officials.
- d. enable statewide evaluation of the effectiveness of local property tax abatements by providing common data on estimated costs and benefits for firms receiving abatements or exemptions.

LAW OFFICES OF
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March 9, 1994

Madam Chair, members of the committee, I am Alan Cobb, representing the Kansas Association for Small Business, a group of over 100 manufacturing companies located throughout Kansas.

I to wish express our support for the House Committee amendments to HB 2555 and the House Floor amendments for HB 2557. Our Association had concerns regarding the requirement of a positive cost/benefit analysis before a Constitutional tax abatement can be granted.

Recently I assisted a company in Wichita through the entire tax abatement procedure. The company is Brittain Machine Co., an aircraft component parts manufacturer that began their expansion with 120 employees.

At the time the KU Cost/Benefit analysis was run, Britain had hired 50 new employees at an average annual salary of \$25,860. Their planned capital investment was \$500,000 in real estate and \$3.67 million in new equipment and machinery. Despite these impressive numbers, the benefit to cost ratio came out to .8 to 1. According to this complex economic model with over 200 variable inputs, this expansion nonetheless had more costs than benefits. It certainly seems that Britain Machine is exactly the kind of company for which Constitutional abatements were originally intended to assist. It does not seem prudent to base economic development solely on the result of a model that may not be truly indicative of the project's feasibility.

Perhaps the greatest drawback of the KU Model is the noticeable lack of statewide benefits as a statistical input. I believe a model accounting for statewide costs and benefits rather than focusing solely on the local impact resulting from Britain expansion would have yielded a different result. We certainly support the additional requirement contained in HB 2555, namely requiring a cost/benefit model to account for the effect of the exemption on state revenue.

Cost/benefit models serve as a useful and important tool for local government officials as they determine the merits of an individual tax abatement application. However, to base a decision whether to grant an abatement solely on the outcome of one economic model forces the local official to take a myopic view when considering economic development projects.

As mentioned the KASB supports the House Floor amendments to HB 2557. Currently the City of Wichita uses the KU Cost Benefit Model and charges each company requesting an abatement \$950 to run the KU Model. This is in addition to a \$500 application fee. Our fear is that municipalities that currently charge for a cost benefit model being used would then in addition charge for the costs associated with running the Kansas Inc. model.

*Senate Assess + Tax
March 9, 1994
attach 5-1*

Testimony on HB 2555, 2556, and 2557
Bernie Koch
Wichita Area Chamber of Commerce
Senate Assessment and Taxation Committee
March 9, 1994

Senator Langworthy, members of the committee, I'm Bernie Koch with The Wichita Area Chamber of Commerce. I appreciate the opportunity to appear before you once again on the subject of tax abatements and to comment on the bills before you. This makes the fifth year in a row I've spoken to legislative committees on this subject.

The ability to delay payment of property taxes for up to ten years has been an important economic development tool for our region of the state, primarily for our strong manufacturing sector. However, tax abatements have also been used successfully to expand regional and national headquarters and to grow non-manufacturing businesses which have also contributed to job growth and retention.

The bulk of abated property in Wichita and Sedgwick County has been machinery and equipment. Encouraging investment in this technology makes our companies more productive, and thus more competitive in world markets.

Last year, I testified about a Harvard/MIT study of machinery and equipment investment in 65 countries over a 25 year period. I think the study's conclusion bears repeating:

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

Tax abatements are also effective because they level an uneven playing field as we compete with other states. Our property tax rates are higher than other states in the region and abatements give us a way to deal with that disadvantage.

I think it's also important to note that the economic recovery we are going through right now is more driven by new technology than the previous recoveries since World War II. A recent report by the Federal Reserve Bank of Kansas City takes note of this and concludes:

"In the long run, the estimated increase in productivity growth potentially implies faster long-run growth for both employment and output in the future."

In other words, if we are able to increase productivity of our workers through new technology, we can increase both jobs and the amount of products we produce. Tax abatements are an important tool to encourage the use of new technology.

Having said all that, I'll turn my attention to the bills you are considering today.

*Senate Assessment + Tax
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attach 6-1*

House Bill 2555 originally contained a provision whereby the State Board of Tax Appeals approved all tax abatements. That has been removed and we support that removal. Philosophically, it may make sense to have state approval, but in the real world of economic development prospecting and job creation, it just doesn't work. We have to be able to get an answer to prospects fast.

An ongoing problem for business has been slow response by some state agencies on matters where jobs were at stake. I know of one company wishing to expand by several hundred jobs which waited several months for a ruling by a state agency, a ruling which was critical to the decision to expand in Wichita or in another state. There's a very real fear that a slow bureaucracy can kill a deal.

The original 2555 also include a provision which said property already on the tax rolls cannot be abated. Although it shouldn't be common practice, there are times when it is appropriate.

Last year, Wichita partially abated existing property in a successful effort to keep the Excel Corporation regional office in Wichita rather than losing it to Nebraska. Not only did we keep that multi-million dollar payroll in the state along with the state income taxes and sales taxes that Excel employees pay, we also won an expansion of the company's facilities, which included many new jobs.

The loss of property taxes was far less than the potential loss of income and sales taxes if the company had moved to Nebraska. In other words, we gave up a little so we didn't lose a lot.

We agree that cost benefit analysis of tax abatements should include the impact on state revenues. In fact, we encourage this because we think the requirement will show the positive impact of abatements on the state.

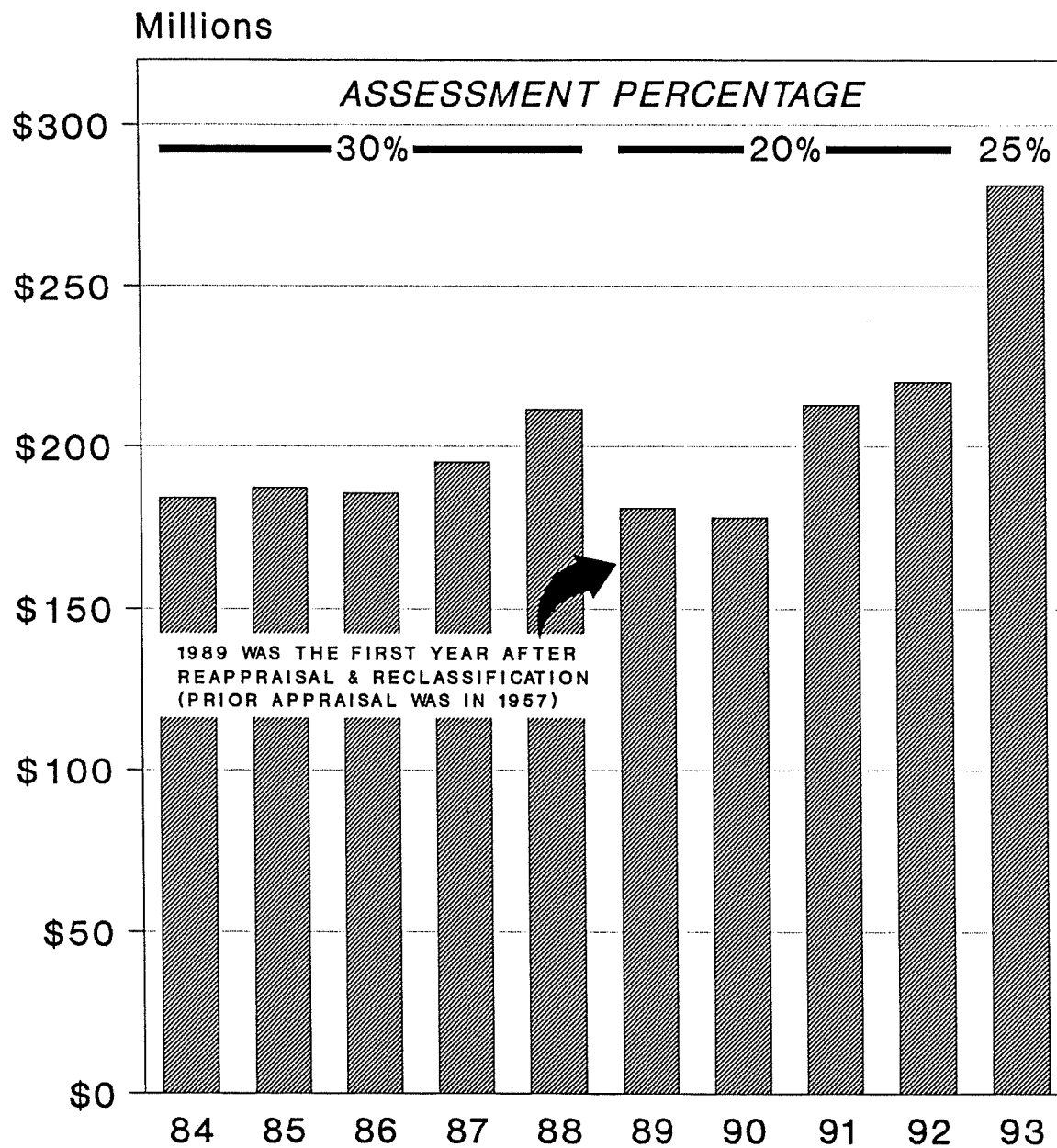
We have no problem with House Bill 2556, so long as the confidentiality requirements remain intact.

House Bill 2557, which requires Kansas Inc. to develop a uniform cost-benefit model, is not a problem as long as Wichita and other communities are not forced to use a model which is less sophisticated than the ones we're using already. One size does not necessarily fit all in this area.

I would like to conclude with an update on the Sedgwick County tax base. We are not abating away our wealth, as was claimed in previous years. The assessed valuation of property continues to grow. In fact, the fastest growing segment of assessed valuation is machinery and equipment, the area where most property tax abatements occur in Sedgwick County.

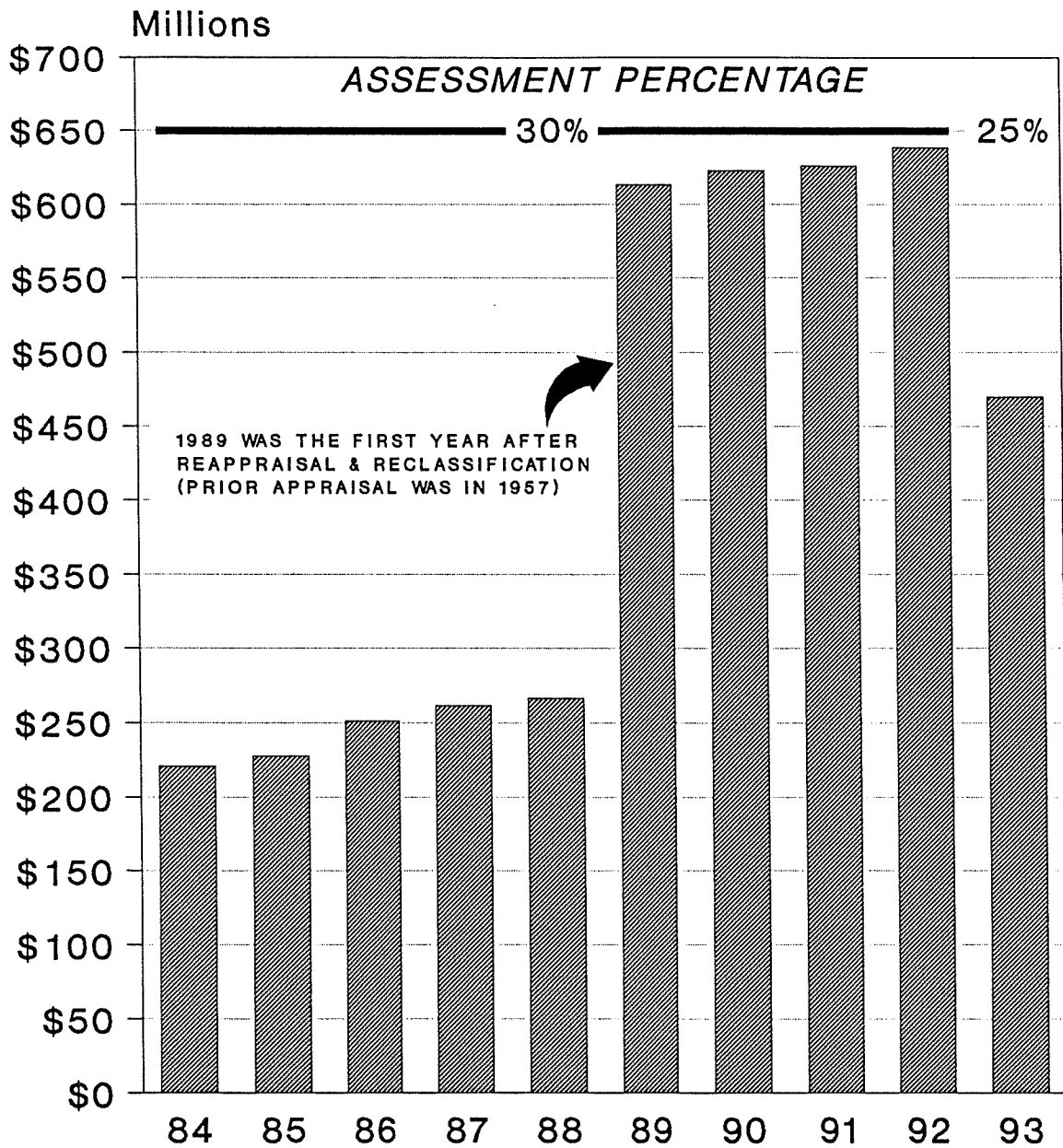
Thank you for your consideration.

ASSESSED VALUE OF COMMERCIAL/ INDUSTRIAL MACHINERY & EQUIPMENT SEDGWICK COUNTY



Source: Sedgwick County Clerk

ASSESSED VALUE OF COMMERCIAL/ INDUSTRIAL REAL PROPERTY SEDGWICK COUNTY



Source: Sedgwick County Clerk

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

	TOTAL PROPERTY TAX BASE	COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT		COMMERCIAL & INDUSTRIAL REAL PROPERTY		TOTAL COMMERCIAL & INDUSTRIAL PROPERTY	
		ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE
1984	\$1,339,610,776	\$183,930,207	13.73%	\$220,623,496	16.47%	\$404,553,703	30.20%
1985	\$1,394,266,112	\$187,085,820	13.42%	\$227,298,750	16.30%	\$414,384,570	29.72%
1986	\$1,448,022,385	\$185,445,528	12.81%	\$250,987,830	17.33%	\$436,433,358	30.14%
1987	\$1,494,160,620	\$195,126,906	13.06%	\$261,418,256	17.50%	\$456,545,162	30.56%
1988	\$1,537,513,579	\$211,576,704	13.76%	\$266,438,350	17.33%	\$478,015,054	31.09%
<hr/> <i>(1989 was the first year after reappraisal and reclassification)</i>							
1989	\$1,867,511,789	\$180,826,219	9.68%	\$613,043,418	32.83%	\$793,869,637	42.51%
1990	\$1,912,253,139	\$177,862,882	9.30%	\$622,574,204	32.56%	\$800,437,086	41.86%
1991	\$1,962,204,160	\$212,948,990	10.85%	\$625,921,336	31.90%	\$838,870,326	42.75%
1992	\$2,017,833,007	\$220,016,005	10.90%	\$638,151,101	31.63%	\$858,167,106	42.53%
<hr/> <i>(1993 was the first year during which both comm/indust machinery & equipment and comm/indust real property were assessed at 25%)</i>							
1993	\$2,007,037,441	\$281,394,061	14.02%	\$469,597,688	23.40%	\$750,991,749	37.42%

6-6

VALUE OF COMMERCIAL/INDUSTRIAL MACHINERY AND EQUIPMENT IN SEDGWICK COUNTY

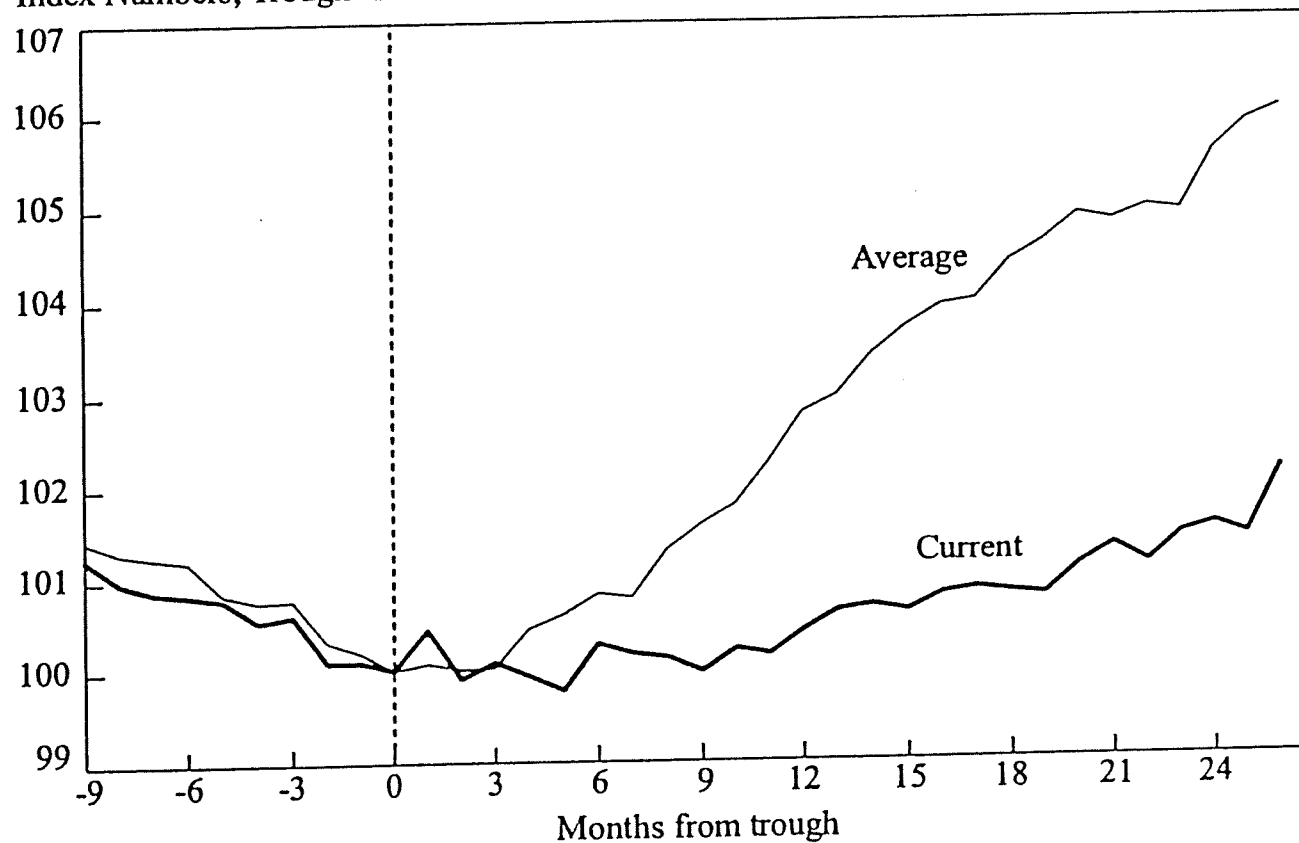
	<u>ASSESSED VALUE</u>		<u>TOTAL M&E VALUE</u>	<u>NET \$ CHANGE IN TOTAL M&E VALUE</u>	<u>NET % CHANGE IN TOTAL M&E VALUE</u>
1984	\$183,930,207	/ 30% =	\$613,100,690		
1985	\$187,085,820		\$623,619,400	\$10,518,710	+1.72%
1986	\$185,445,528		\$618,151,760	(\$5,467,640)	-0.88%
1987	\$195,126,906		\$650,423,020	\$32,271,260	+5.22%
1988	\$211,576,704		\$705,255,680	\$54,832,660	+8.43%
<hr/>					
1988 - 1/3 =	\$141,051,136	<i>(Assessment percentage lowered from 30% to 20% in 1989)</i>			
1989	\$180,826,219	/ 20% =	\$904,131,095	\$198,875,415	+28.20%
1990	\$177,862,882		\$889,314,410	(\$14,816,685)	-1.64%
1991	\$212,948,990		\$1,064,744,950	\$175,430,540	+19.73%
1992	\$220,016,005		\$1,100,080,025	\$35,335,075	+3.32%
<hr/>					
1992 + 1/4 =	\$275,020,006	<i>(Assessment percentage increased from 20% to 25% in 1993)</i>			
1993	\$281,394,061	/ 25% =	\$1,125,576,244	\$25,496,219	+2.32%

**THE TOTAL VALUE OF COMMERCIAL/INDUSTRIAL MACHINERY AND EQUIPMENT IN SEDGWICK COUNTY
 INCREASED BY ONLY 15.03% DURING THE FOUR YEAR PERIOD 1985-88 (USING 1984 AS THE BASE.)
 THE TOTAL VALUE INCREASED BY 55.98% DURING THE NEXT FOUR YEAR PERIOD (1989-92), FOLLOWING
 REDUCTION OF THE ASSESSMENT PERCENTAGE FROM 30% TO 20% (USING 1988 AS THE BASE.)
 THE TOTAL VALUE INCREASED BY ONLY 2.32% DURING 1993, FOLLOWING AN INCREASE IN THE
 ASSESSMENT PERCENTAGE FROM 20% TO 25% (USING 1992 AS THE BASE.)**

Chart 1

Total Employment

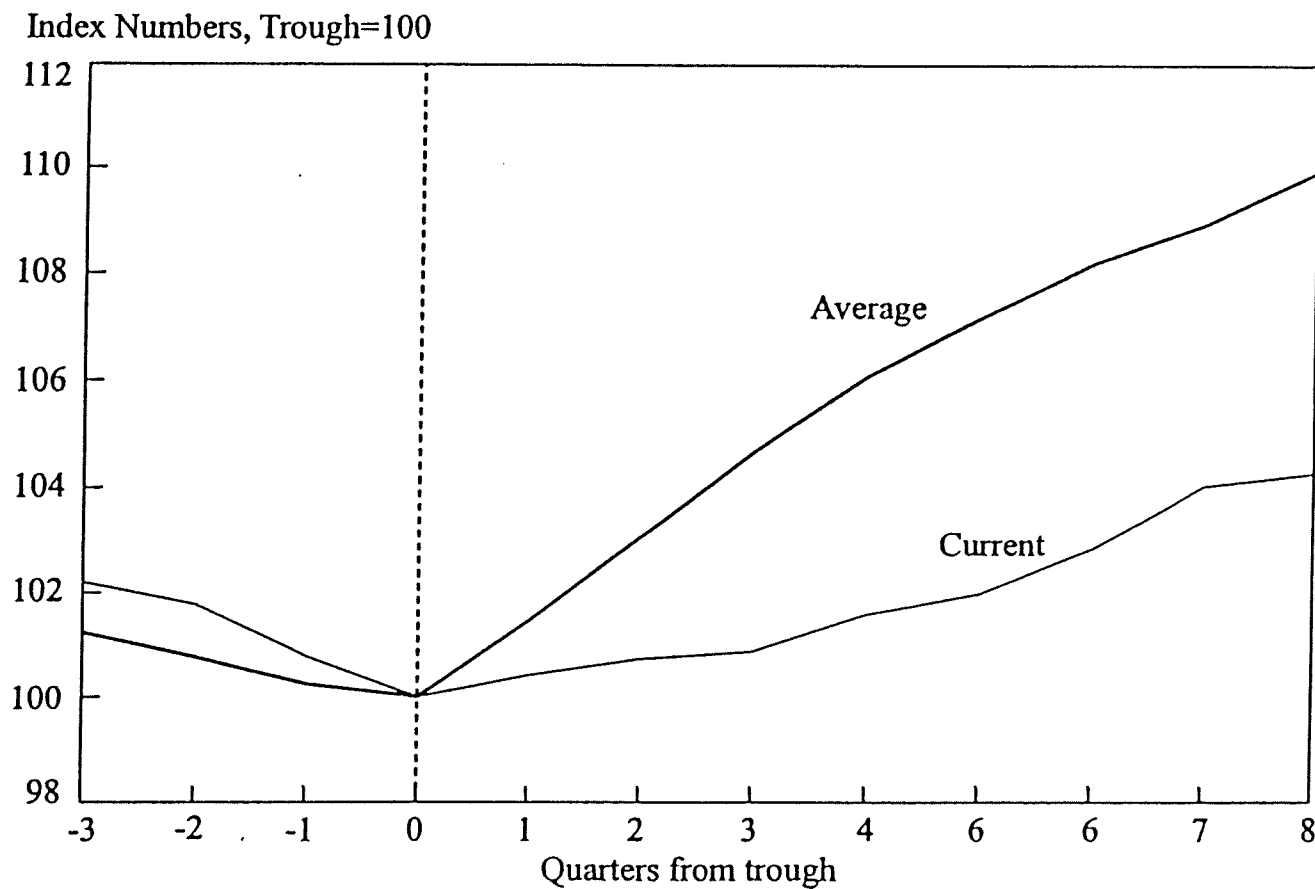
Index Numbers, Trough=100



Note: "Average" is for business cycles with troughs in May 1954, April 1958, February 1961, November 1970, March 1975, and November 1982. "Current" represents the current recovery, with a trough in March 1991.

Source: Bureau of Labor Statistics.

Chart 4

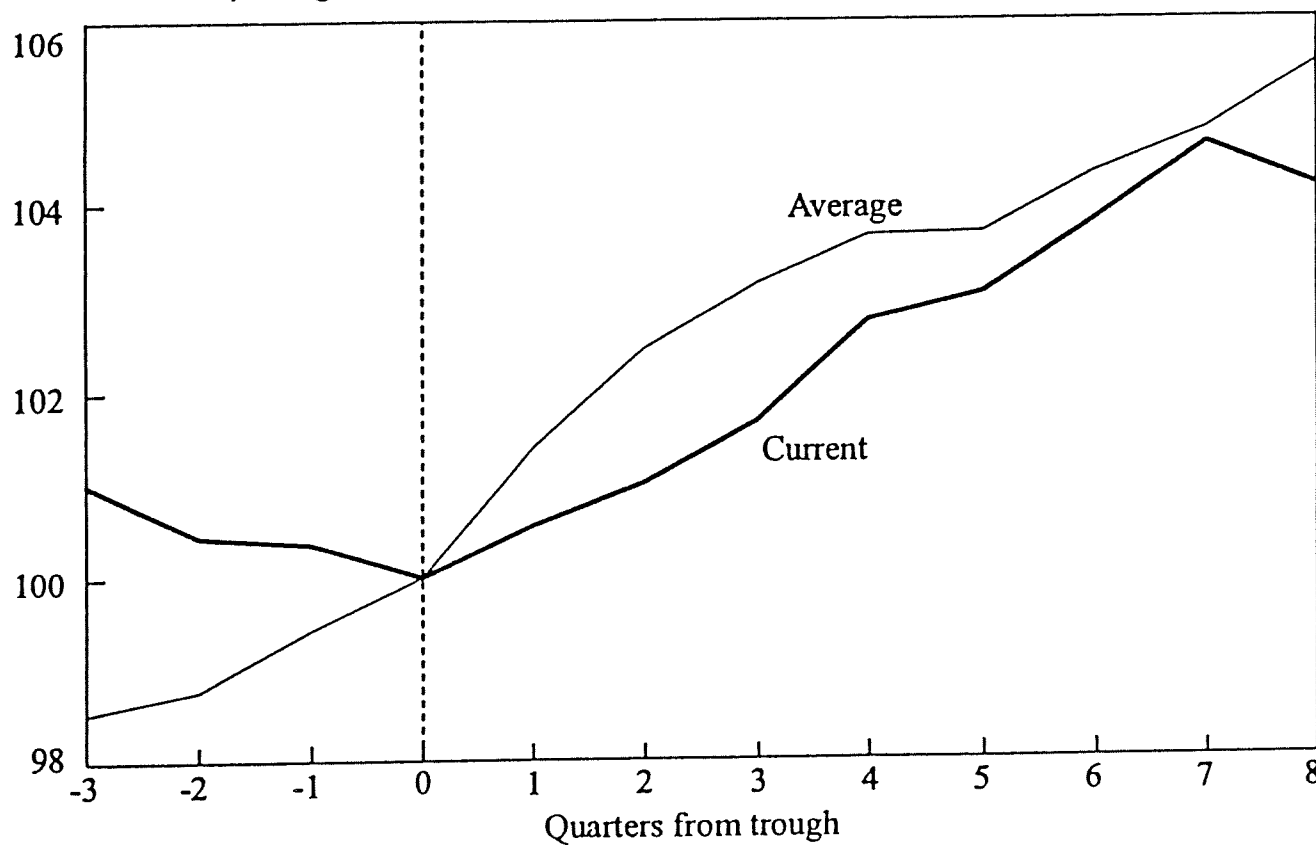
Real GDP

Note: "Average" is for business cycles with troughs in 1954:Q2, 1958:Q2, 1961:Q1, 1970:Q4, 1975:Q1, and 1982:Q4. "Current" represents the current recovery, with a trough in 1991:Q1.

Source: Bureau of Economic Analysis.

Chart 5
Productivity

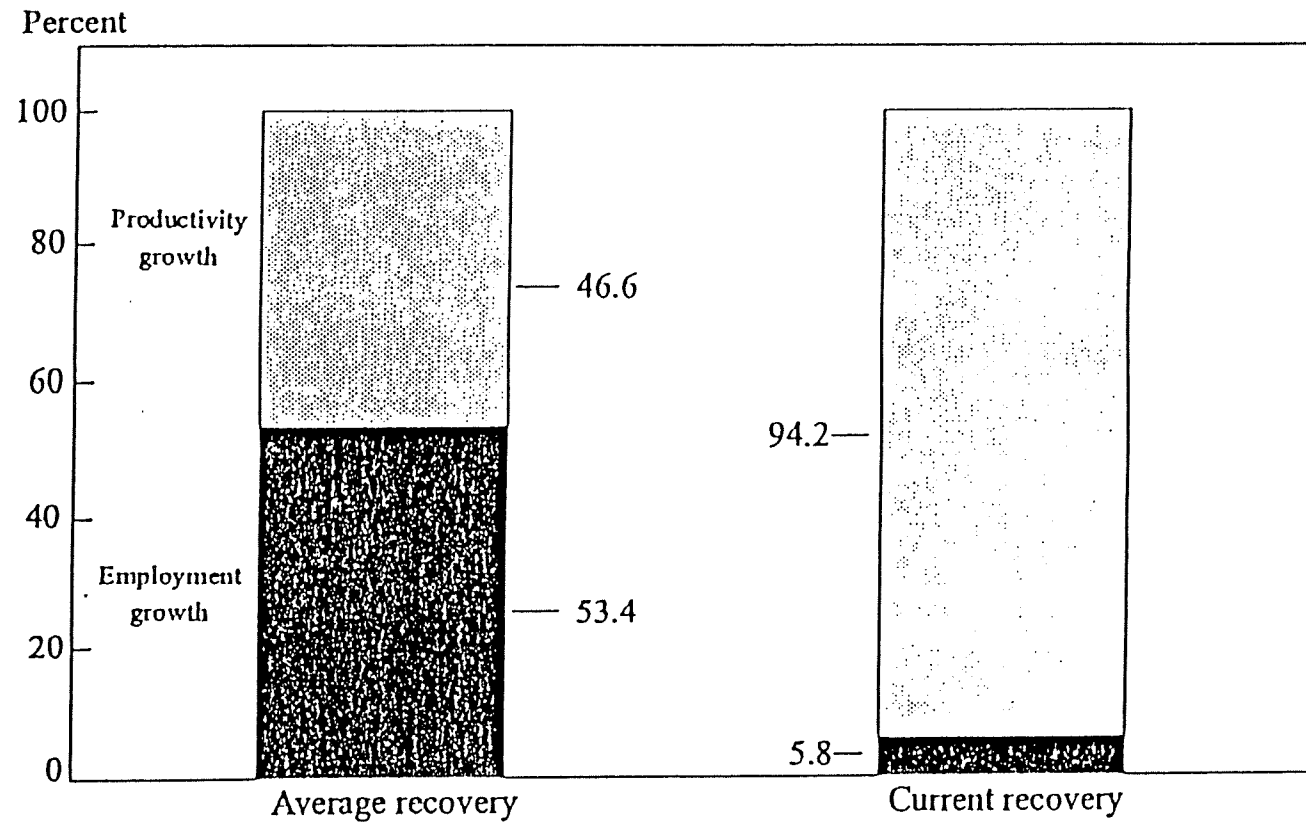
Index Numbers, Trough=100



Note: Productivity is measured as output/hour in the nonfarm business sector. "Average" is for business cycles with troughs in 1954:Q2, 1958:Q2, 1961:Q1, 1970:Q4, 1975:Q1, and 1982:Q4. "Current" represents the current recovery, with a trough in 1991:Q1.

Source: Bureau of Labor Statistics.

Chart 6

Contribution of Employment and Productivity to Output Growth

Note: "Average recovery" represents the first eight quarters of recoveries beginning in 1954, 1958, 1961, 1970, 1975, and 1982. "Current recovery" represents the first eight quarters of the recovery beginning in 1991.

Source: Bureau of Labor Statistics.

House Committee on Taxation

March 9, 1994

Testimony on Proposed Amendments to HB 2555

Presented by: Lyle Butler

2nd Vice President, Kansas Industrial Developers Association (KIDA)

Madam Chairman and members of the Committee, I am Lyle Butler, President of the Dodge City/Ford County Development Corporation. Today, I am here representing the Kansas Industrial Developers Association to support HB 2555.

KIDA concurs with Kansas, Inc. that the following language be added:

On Line 38, Page 3, after the word "taxation," add the sentence "This restriction shall not apply if the facility is used exclusively to house the headquarters or back office operations of a retail enterprise identified under the standard industrial classification codes, major groups 52 through 59, inclusive."

This amendment would allow local authorities to grant IRB abatements to a national or regional headquarters of a fast food chain, a catalog order processing center, or a distribution center of a department store.

KIDA's support of this amendment is to insure that Kansas can compete effectively with other areas of the country for retail headquarters and back office operations.

On behalf of the KIDA Board, I appreciate this opportunity to express our views and ask for your consideration of our views and ask for your consideration of our concerns as you proceed.

*Senate Assess + Tax
March 9, 1994
attach 2-1*



**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: Senate Assessment and Taxation Committee

FROM: Chris McKenzie, Executive Director

DATE: March 9, 1994

RE: House Bill 2555

Thank you for the opportunity to appear today and offer some comments concerning HB 2555. The League appeared in opposition to the bill in the House Committee because many of the provisions that have now been removed in Committee were objectionable to the cities of Kansas. We did, however, make clear our support for the cost-benefit requirements of what is now New Section 4 and the requirements of both that section and Section 3 to assess the effects of exemptions and abatements on state revenues.

While the League appreciates the changes that the House Committee made to the bill, we do have a continuing concern about the elimination of the eligibility of retail businesses for IRBs. A special study of IRB property tax abatements completed by the League in August, 1992 indicated that between 1987 and 1992 only 31 (or 11%) of the 289 IRB issues which involved tax abatements were not directly related to manufacturing, research and development, or storing of goods or commodities which are sold or traded in interstate commerce. In other words, the widespread perception among some critics of IRB-related tax abatements that retail and service sector businesses were receiving significant tax abatements was found to be unsupported. While most cities today would not grant a tax abatement for retail purposes, most would want to retain the discretion to deal with the exceptional case that may come along that could prove worthwhile to their community.

Secondly, the City of Olathe has brought to our attention the fact that the current wording of the bill would exclude retail warehouses. I understand Kansas, Inc. will be recommending an amendment to the bill to address this concern and a similar one about corporate headquarters for retail businesses. We would support such amendments.

RECOMMENDATION: With the exception of the restrictions contained in Section 1, the League recommends approval of HB 2555.

Thank you very much.

*Senate Assess + Tax
March 9, 1994
attach 8-1*



**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: Senate Assessment and Taxation Committee

FROM: Chris McKenzie, Executive Director *Chris McKenzie*

DATE: March 9, 1994

SUBJECT: House Bill 2557

I appear today in support of HB 2557. The experiences of cities with cost-benefit studies for constitutional exemptions has been positive, and we believe the quality of local decisions about exemptions has been improved. On the other hand, there is considerable variation in the type and quality of cost-benefit studies being performed across the state. At times it has been necessary to complete them under considerable time pressures since a city may not have developed a method until a business expansion opportunity presented itself.

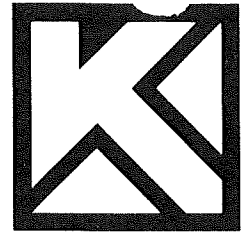
Consequently, we believe the goal of quality local decision making on abatements and exemptions would be advanced by the development of a "model" cost-benefit model by the state of Kansas. Further, such a "model" model should be widely disseminated with manuals and software immediately usable on most city clerks' computers. Ongoing training in the use of such a methodology is critical to its success as well.

The League supports HB 2557, as amended. We would strongly recommend against reinserting lines 19 - 23 since we believe such language would turn this measure into yet another unfunded mandate. In its current form HB 2557 will do much to promote a positive state-local partnership in the tax abatement/exemption area. In the final analysis, local officials need to have flexibility in making abatement/exemption decisions. HB 2557 advances this goal as well. This approach also would be consistent with the recommendations of the Action Planning Committee on Business and Tax incentives of Kansas, Inc.

RECOMMENDATION: We recommend approval of HB 2557.

*Senate Assessment & Tax
March 9, 1994
attach 9-1*

LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

HB 2555

March 9, 1994

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment & Taxation

by

Bob Corkins
Director of Taxation

Madam Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I appreciate the opportunity to speak today. In short, KCCI supports the overall accountability goal regarding the property tax exemption practices addressed in HB 2555, but with a single reservation upon which I'll elaborate in a moment.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

The basic "cost"/benefit analysis which local officials should conduct whenever IRB development exemptions come before them, and which they are now required to perform before

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attach 10-1*

g...ting a constitutional "EDX" abatement, are certainly justified in KCCI's view. Economic development initiatives can and should pass this sort of a short term or long term "cost"/benefit analysis, otherwise they should not be undertaken.

KCCI's concern is with the proposed reduction in the scope of projects eligible for industrial revenue bond tax incentives. New major retail outlets, for example, are often sought and highly desired by many communities. To deny local officials in Kansas this IRB tool places them at a disadvantage in competing against other states -- states which appreciate the economic contribution of retailers and other service providers by allowing competitive incentives. At a minimum, Kansas should continue allowing full IRB incentives for prospective retail headquarters, a policy decision which would require a slight amendment to the current version of the proposal being considered today.

No facts substantiate any abuse of current local authority. The balance of the provisions in HB 2555 would simply increase the comfort level of some units of government with the abatement decisions of others. If Kansas ensures that all these future tax incentives show a net benefit to the general public and all affected levels of government, there should be no rationale for curtailing their availability.

Thank you for your time and consideration.



MEMORANDUM

TO: Members of the Senate Assessment and Taxation Committee

FROM: Don Seifert, Acting Director, Administrative Services *DS*

SUBJECT: HB 2555 - Restriction of Property Tax Exemptions with Industrial Revenue Bonds

DATE: March 9, 1994

On behalf of the city of Olathe, thank you for the opportunity to appear today to express concerns about this bill. HB 2555 would eliminate the ability of cities to grant property tax exemptions through the use of industrial revenue bonds for retail firms classified under SIC Codes 52 through 59. The city of Olathe has a standing policy position opposing legislation that would restrict the use of this economic development tool. The city believes that tax abatement decisions are best made by local governing bodies. We believe most communities have used IRB tax abatement authority in a responsible manner.

I would also like to call the Committee's attention to another concern about this bill. It appears the retail exclusion in HB 2555 could extend beyond pure retail establishments. As indicated in the attached language from the SIC Manual, "distribution centers for chain store warehouses are considered auxiliary to the retail establishment served and are classified on the basis of the activity carried on by such retail stores." How would corporate headquarters of retailers be classified? It would be unfortunate for Kansas to fail in the competition for a major distribution center or headquarters project for a retail chain because of confusion over this language.

The city is in complete agreement with other provisions of HB 2555 requiring cost/benefit analyses and public hearings prior to granting tax abatements through IRBs. These requirements are good public policy and have long been part of Olathe's tax abatement review procedure.

Thank you again for the opportunity to comment about this bill.

rc

Attachment

*Senate Assess + Tax
March 9, 1994
attach 11-1*

DIVISION G

Retail Trade

The Division as a Whole

This division includes establishments engaged in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods. In general, retail establishments are classified by kind of business according to the principal lines of commodities sold (groceries, hardware, etc.), or the usual trade designation (drug store, cigar store, etc.). Some of the important characteristics of retail trade establishments are: the establishment is usually a place of business and is engaged in activities to attract the general public to buy; the establishment buys or receives merchandise as well as sells; the establishment may process its products, but such processing is incidental or subordinate to selling; the establishment is considered as retail in the trade; and the establishment sells to customers for personal or household use. Not all of these characteristics need be present and some are modified by trade practice.

For the most part, establishments engaged in retail trade sell merchandise to the general public for personal or household consumption. Exceptions to this general rule are lumber yards; paint, glass, and wallpaper stores; typewriter stores; stationery stores; and gasoline service stations which sell to both the general public for personal or household consumption and to businesses. These types of stores are classified in Retail Trade even if a higher proportion of their sales is made to other than individuals for personal or household consumption.

However, establishments that sell these products only to institutional or industrial users and to other wholesalers and establishments that sell similar merchandise for use exclusively by business establishments are classified in Wholesale Trade.

Establishments primarily engaged in selling such merchandise as plumbing equipment; electrical supplies; used automobile parts; and office furniture are classified in Wholesale Trade, even if a higher proportion of their sales is made to individuals for personal or household consumption.

Buying of goods for resale to the consumer is a characteristic of retail trade establishments that particularly distinguishes them from the agricultural and extractive industries. For example, farmers who sell only their own produce at or from the point of production are not classified as retailers.

Processing incidental or subordinate to selling often is conducted at retail stores. For example, restaurants prepare meals, and meat markets cut meat. Separate establishments selling merchandise for personal or household consumption

which has been manufactured by other establishments of the same company are classified in Retail Trade.

* Chain store warehouses are considered auxiliary to the retail establishment served and are classified on the basis of the activity carried on by such retail stores.

Establishments primarily engaged in the retail sale of used motor vehicles, trailers, and boats are classified in Major Group 55; those selling used mobile homes are classified in Industry 5271; those selling used automobile parts are classified in Wholesale Trade, Industry 5015; and those selling all other used merchandise are classified in Industry Group 593. Establishments primarily engaged in nonstore retailing are classified in Industry Group 596.



MEMORANDUM

TO: Members of the Senate Assessment and Taxation Committee
FROM: Don Seifert, Acting Director, Administrative Services *DS*
SUBJECT: HB 2557 - Uniform Cost Benefit Analysis Model for Property Tax Exemptions
DATE: March 9, 1994

In its current form, the city of Olathe supports HB 2557 which would require Kansas Inc., to develop a uniform cost benefit analysis model for evaluating local property tax exemptions. Olathe's local policy requires fiscal analysis of both IRB and EDX exemptions. The city applauds the development of a uniform model, and would certainly consider any methodology that might improve its current procedure. However, we believe it would be premature to mandate use of a product no one has seen.

With the mandate removed by the House, the city fully supports this bill. Thank you for the opportunity to comment.

rc

*Senate Assess + Tax
March 9
attach 12-1*