Approved: March 21, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:10 a.m. on March 17, 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: Donald E. Lilya, Plant Manager, Goodyear
Hugh Zimmer, Zimmer Co.
Arlin Meats, Mgr., Westridge Mall
Gary Muza, Town Crier Bookstores
Bruce Cook, Lemstone Books
Bryon Schlosser, McBiz Corporation
Jerry Fogel, J. P. Fogel & Co.
Jack Fox, J. C. Nichols Co.
Sam Alpert, Heartland Apartment Association

Others attending: See attached list

APPROVAL OF MINUTES

Senator Tiahrt moved to approve the minutes of March 16, 1994. The motion was seconded by Senator Sallee. The motion carried.

SCR 1624--CONSTITUTIONAL AMENDMENT DECREASING COMMERCIAL AND INDUSTRIAL ASSESSMENT RATE

Gordon Garrett, Commercial Property Association of Kansas, presented written testimony. (Attachment 1) (Part of the testimony regarding all the counties of Kansas is on file in the secretary's office, 143-N.)

Mary Birch, Overland Park Chamber of Commerce, and Jacque Oaks, Kansas Independent Automobile Dealers Association, also presented written testimony. (Attachments 2 and 3)

Donald A. Lilya, Plant Manger, Good Year, Topeka Plant, said he would like to re-emphasize the fact that high taxes on business and industry are a detriment to the growth of Kansas in the future.(Attachment 4 He said there are many favorable indicators in Kansas but the negative indicator is the tax liability of doing business in the state. The Topeka Goodyear Plant is the highest taxed of the 8 goodyear plants in North America, and is paying almost half of the total tax burden of the manufacturing facilities. He said he had heard the remark in the Goodyear Corporate Office "Why are we doing business in Kansas?" He feels that there will never again be another General Motors, Boeing or Goodyear Plant locate in Kansas because of the tax penalties.

Hugh Zimmer, Zimmer Co., said he has had a commercial real estate development company for about 30 years. He has developed over 1,000 acres in Johnson County and also over 1,000 acres in Missouri. From the mid 1960's until the late 1980's the economic environment along the Kansas side of the border was outstanding. In the last two years, the new industrial businesses that have come into Wyandotte and Johnson County have come into Kansas because of tax abatements or bond issues. This was the competitive tool which got them in the state. At the present time, he said he is ready to start four industrial parks in Liberty, Missouri. He is not starting any developments in Johnson County at all. The tax situation is way out of line when you compare Kansas and Missouri. He urged the committee to give very serious consideration to **SCR 1624.** Over the years it would be very good for Kansas.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:10 a.m. on March 17, 1994.

Arlin Meats, Mall Manager, West Ridge Mall, spoke from a prepared statement. (Attachment 5) He said he was concerned with the uniformity of classification as well as the assessed valuation by the county. When West Ridge Mall was planned, the real estate taxes were established at $2.25 per square foot for the proposed tenants. This has now risen to $7.40 per square foot. Retailers require fair taxation at or near national averages and taxes that are consistent--not going up and down like a "yo-yo". He also spoke of a major vacant lot which exists on Wanamaker. Development has not happened and it should have by this time. There also should have been office space built in that area. Excessive taxes only help fund government in the short term. In the long term, these high taxes erode the tax valuation base, employment levels and sales tax base for the entire state. He said the tenants of West Ridge Mall cannot survive with the present tax rates. He answered questions concerning the assessed valuation in the years 1991, 1992, 1993 and now in 1994. He said the original valuation was $46 million, it was lowered to $26 million and then raised back to $46 million. In a hearing before BOTA, the valuation was raised to $96 million.

Gary Muza, Town Crier Bookstore, Topeka, said he had opened Copperfields Hallmark in Westridge Mall. He said the taxes are outrageous on the Mall and will put everyone out of business. The retail businesses have been burdened with some of the highest taxes in the country. He moved in West Ridge when it first opened and he said they have only made a profit the last two years. He listed the increase in taxes per square foot and said it is very difficult to exist under the present conditions. He would like to expand, pay higher salaries to his employees and also pay more benefits but he said he cannot do so at the present time.

Bruce Cook, Lemstone Books, Topeka, addressed the imbalances and inequities in financing public service with public monies. (Attachment 6) He has been a school teacher for 24 years and he said he has difficulty reconciling the high levels of taxation that make it difficult to operate a business with the low level of pay for teaching. He spoke of how this is affecting his business. He said he and his wife run the store with the help of one part-time worker on a regular basis and two part-time workers on irregular schedules. He and his wife have not taken a salary since the store opened in 1989. The store has not performed at the level of sales projected prior to opening, but it has been able to expand and grow every year. He spoke of the property tax rates for his store compared to other Lemstone stores across the nation. He said the average in a store equal to his is $2.50 per square foot while he pays $7.22 per square foot. The increases in taxes will make it even more difficult for an owner such as himself to stay in business.

Bryon Schlosser, McBiz Corporation, passed a chart to the committee which shows the comparative costs of doing business in the McBiz Corporation across the nation. (Attachment 7) He said as a retailer, they made the decision to locate in Wichita and Topeka knowing the climate. They calculated the risk. If the corporation was in the business of manufacturing, the decision would never have been made to locate in Kansas. The property taxes in all of their other cities and states are lower than in Kansas. He spoke not only of the property taxes but also workers compensation.

Jerry Fogel, J. P. Fogel & Co., Kansas City, spoke of some property which they are trying to sell. Half of the property is in Kansas and half is in Missouri. The taxes in Kansas are projected to be $85 thousand while in Missouri the projected taxes are $45 - $50 thousand, The building has not sold. He also spoke of other businesses who would have liked to locate in Kansas but because of the taxes they are locating in Lee's Summit, Missouri and other parts of Missouri.

Jack Fox, J. C. Nichols, Co., Kansas City, urged the committee to support **SCR 1624.** He said the decrease in commercial and industrial assessment rates makes sense. He said he was speaking from a retailers point of view. Because of reclassification, Kansas taxes have increased more than two times that of taxes in Missouri. He said the increased tax rate comes right out of the profit of a small business.

Sam Alpert, Heartland Apartment Association, spoke from a prepared statement. (Attachment 8) He said apartment rents in Kansas have been flat for nearly ten years. This has been the result of several things--overbuilding and stagnated general economic conditions. He said in the past several months the situation has brightened but there is an absence of commercial development. Until existing businesses are provided with incentives to expand, little can be expected in the way of new multi-family housing of an affordable nature. He urged support of **SCR 1624** because apartment owners believe that tax relief would encourage a vibrant housing market for home owners as well as renters.

The hearing was closed on **SCR 1624.**

The meeting adjourned at 12:00 noon.

The next meeting is scheduled for Friday, March 18, 1994.

GUEST LIST

SENATE ASSESSMENT AND TAXATION COMMITTEE

DATE: March 17, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
BRYON SCHLOSSER	2231 SW WANAMAKER TOPEKA	McBIZ CORP
Donald LiLyA	P.O. Box 1069 TopEKA 66601	Goodyear - TopEKA
HUGH J ZIMMER	2321 GUILFORD SM 66206	Ann Dunlap Co
JERRY PAUL FOGEL	810 BALTIMORE K.C. Mo 64105	J.P. FOGEL & COMPANY
SAM ALPERT	310 WARD PARKWAY, K.C.Mo. 64112	HEARTLAND APT. ASSOC.
JACK FOX	310 WARD PKWY KC Mo. 64112	J.C. NICHOLS Co.

CPAK
Commercial Property Association of Kansas

Gordon T. Garrett
Vice President -
Legal Counsel

Samuel V. Alpert
Associate Director

LEGISLATIVE TESTIMONY

Date: March 17, 1994

To: Senate Committee on Assessment & Taxation

From: Gordon T. Garrett, Vice-President-Legal Counsel, CPAK

Re: Support for SCR #1624

Madame Chair, Members of the Committee; Thank you for giving us an opportunity to express our support for this bill.

To start our discussion of this Bill, let us point out three interesting, but startling facts.

(1) Under its current valuation, Topeka's West Ridge Mall would be the highest taxed mall per sq. ft. in the United States of America.

(2) The Oak Park Mall in Johnson County, valued by itself, would be the 65th largest county in Kansas.

(3) Goodyear Tire has eleven manufacturing plants in the United States. Topeka, Kansas pays 50% of the property taxes (including machinery and equipment) that the company pays in the entire country.

It is obvious that Kansas is still feeling some very harsh effects of reappraisal and classification. SCR #1624 helps to correct what is probably the two most egregious tax rates in Kansas and the ones that are the most detrimental to the Kansas economy.

Here are some of what we feel are the most compelling reasons to lower the assessment rate on commercial real property and on machinery and equipment.

1. Kansas, Inc.'s Economic Development Strategy p.32, says the largest weakness of the Kansas economy is the high tax burden placed on existing businesses in Kansas.

2. Economic development and economic growth and job creation will never proceed as it should in Kansas as long as the current tax burden on commercial real estate

214 S.W. 7th Street - Topeka, KS 66603 - 913-232-0486 - FAX 913-233-5659

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March 17, 1994
attach 1-1

and on machinery and equipment exists.

3. The burden of taxation on commercial real estate and machinery and equipment must be reduced to become more in line with other states in the region. Attached as Exhibit "A" is the current tax rates of Kansas and other states in the region (not updated recently). The two most noncompetitive areas are commercial real estate and machinery and equipment.

4. Our current tax rates discourage new construction of commercial buildings and new plants and equipment for industry. (Ex.) Topeka and class A office space. Class A office space in Topeka is 99% leased. However, talk to any developer and they will tell you with the current tax rate, they won't build anything new as you can't get enough rent to cover the taxes and then make any money.

5. There is little new commercial construction going on anywhere in Kansas. With no new construction of commercial real estate there is a loss of construction jobs and a loss of sales of construction materials used therein.

6. Because of a lack of construction of new commercial property and a lack of investment in new plants and equipment the tax base in Kansas is not expanding as it should. Because of this and the mill levy creep, the property taxes on homes and farms, etc. will inevitably go up.

7. High commercial real estate taxes will hasten the deterioration of our small and mid-size towns and their downtown core areas. Before 1989 there were some new commercial buildings being built in the rural areas - now there is almost none.

8. We need a strong commercial real estate component to spread out our tax base. Ex. Lee's Summit in Missouri. The booming Kansas City suburb of Lee's Summit is now on a crash program to recruit commercial construction and job creation. Reason: it takes seven $80,000 houses to fund one school child; the problem is five $80,000 house produces seven school children. This example shows why the commercial sector of the economy is very important. It adds to the tax base and employment, but doesn't demand a lot of services.

9. The property tax is the most egregious tax because it doesn't represent one's ability to pay.

10. With the current tax rate, it almost insures that any <u>new business or new business expansion</u> will demand some form of tax abatement.

11. The growth potential today for economic development comes from service sector firms. How can we be attractive to service sector firms with our property tax rates. In Kansas, in 1993, and projected for 1994, manufacturing, agriculture, and construction

and other areas have all lost jobs. The only job growth has been in the service sector area. With our tax rates we are discouraging the strongest growth sector of our economy. (Attached as Exhibit "B.")

12. If a service sector firm wants tax abatement, it is very difficult to do, as office buildings have multiple tenants. Therefore attractive tax rates for buildings that house service sector firms are going to be very important in the future.

FISCAL ALTERNATIVES FOR REPLACING LOSS IN TAX BASE

This phase down is not funded inside of the constitutional amendment, so there will have to be a companion fiscal bill. We have no desire to shift this base to any other property tax. We are trying to reduce the reliance on property tax, not merely shift it to another one. To replace the revenue is going to take bold and imaginative solutions.

1. There is no question that with lower taxes on commercial real estate and on machinery and equipment we will grow our way out of a significant part of the lost tax base. With commercial properties starting to fill up, and the manufacturing sector of the economy doing better than expected, with lower tax rates we probably would experience a boom of new construction and investment.

2. The growth of local government spending since 1980 has been in excess of 100%. Local government spending should not increase by the same % in the next decade as it has in the last. Perhaps now is the time for local governments to look seriously at cutting spending or at the least, dramatically slowing the rate of increase. Perhaps this phase down of tax rates that effect business will be the catalyst for much needed consolidation of local government units.

3. It's no great secret that agricultural land will be re-evaluated and that it will probably go up between 25 and 75 million dollars, statewide. If there is an increase in the taxes paid from agricultural land it would more than absorb this tax base loss in several and perhaps many of the smaller counties in Kansas.

4. Obviously a solution to this over-reliance on property taxes would be to replace it with appropriate adjustments in the sales tax and income tax.

5. We are looking at an urban question, as the lost tax base will be primarily in the urban counties. If a system could be devised that doesn't affect the school finance formula, maybe we should let each individual county determine how they want to replace the revenue, if at all. It effects each county differently. (Ex.) County option surtax on income - stays in the County. (Ex.) Local option sales tax - stays in the County.

Exhibit "A"
Supplied by Institute for Public Policy and Business Research
University of Kansas
Not updated since 1992
Effective Property Tax Rates
Tax as % of Market Value

State	Real Estate	Other
CO (1991)	Residential: 1.19% Comm., Indust.: 2.40%	Mach., equip.: 2.40% Inventory: exempt
IA (1991)	Residential: 2.10% Comm., indust.: 2.88%	Mach., equip.: .86% Inventory: exempt
KS (1991) estimated	Residential: 1.49% Comm., indust.: 3.73%	Mach., equip.: 2.50% Inventory: exempt
KS (1992) estimated	Residential: 1.26% Comm., indust.: 3.14%	Mach., equip.: 2.10% Inventory: exempt
KS (1993) estimated	Residential: 1.24% Comm., indust.: 2.68%	Mach., equip.: 2.68% Inventory: exempt
MO (1991)	Residential: .93% Comm., indust.: 1.95%	Mach., equip.: 1.67% Inventory: exempt
NE (1990)	Residential: 2.10% Comm., indust.: 2.11%	Mach., equip.: 2.31% Inventory: exempt
OK (1990)	Residential: .94% Comm., indust.: .93%	Mach., equip.: .93% Inventory: .93%

Kansas Employment Breakdown
Growth Rates

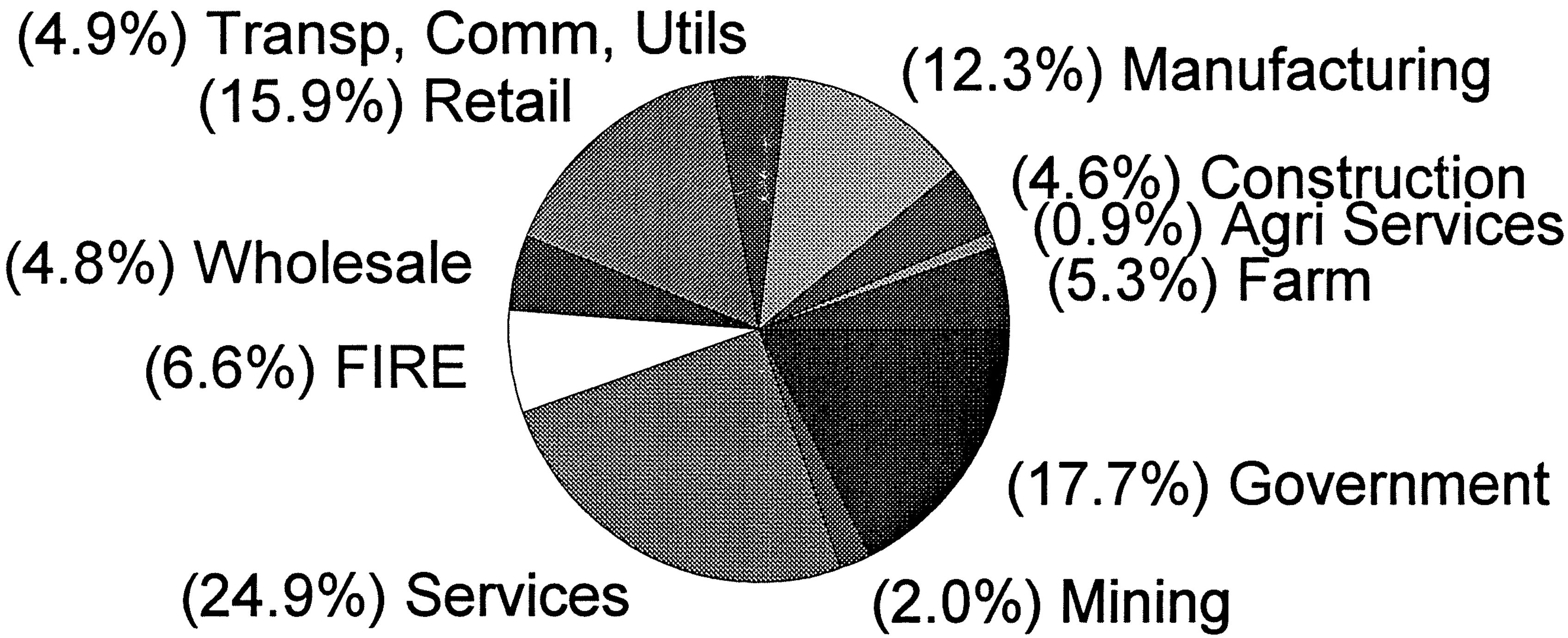
	1992	1993	1994
Mining	-8.1	-8.3	-6.2
Construction	6.7	2.5	1.4
Nondurable Goods	0.0	1.2	0.9
Durable Goods	-2.0	-2.9	-2.8
Transp. & Public Util.	-0.7	0.8	0.4
Wholesale & Retail Trade	1.2	2.2	0.7
Finance, Ins., & Real Est.	-0.8	0.5	-1.0
Services	4.2	2.6	3.8
Farm	-3.8	-6.2	-3.9
Government	3.4	2.7	1.0

EXHIBIT "B"

1-6

EXHIBIT "C"

Employment Composition
1992



Bureau of Economic Analysis, 1992 Data. Includes Proprietors

	ASSESSED VALUE		
	TAX YEAR	TAX YEAR	TAX YEAR
	1993	1995	1996
REAL PROPERTY-COMMERCIAL AND INDUSTRIAL	$2,698,166,834	$2,590,240,161	$2,482,313,487
LOSS IN REAL PROPERTY TAX BASE		($107,926,673)	($215,853,347)
PERSONAL PROPERTY-COMMERCIAL AND INDUSTRIAL			
MACHINERY AND EQUIPMENT	$1,076,534,383	$1,033,473,008	$990,411,632
LOSS IN PERSONAL PROPERTY TAX BASE		($43,061,375)	($86,122,751)
TOTAL TAX BASE LOSS		**($150,988,049)**	**($301,976,097)**
ASSESSMENT RATE	25.00%	24.00%	23.00%

	TAX YEAR 1997	TAX YEAR 1998	TAX YEAR 1999
REAL PROPERTY-COMMERCIAL AND INDUSTRIAL	$2,374,386,814	$2,266,460,141	$2,158,533,467
LOSS IN REAL PROPERTY TAX BASE	($323,780,020)	($431,706,693)	($539,633,367)
PERSONAL PROPERTY-COMMERCIAL AND INDUSTRIAL MACHINERY AND EQUIPMENT	$947,350,257	$904,288,882	$861,227,506
LOSS IN PERSONAL PROPERTY TAX BASE	($129,184,126)	($172,245,501)	($215,306,877)
TOTAL TAX BASE LOSS	**($452,964,146)**	**($603,952,195)**	**($754,940,243)**
ASSESSMENT RATE	22.00%	21.00%	20.00%

1-10

	TAX YEAR 2000	TAX YEAR 2001	TAX YEAR 2002
REAL PROPERTY-COMMERCIAL AND INDUSTRIAL	$2,050,606,794	$1,942,680,120	$1,834,753,447
LOSS IN REAL PROPERTY TAX BASE	($647,560,040)	($755,486,714)	($863,413,387)
PERSONAL PROPERTY-COMMERCIAL AND INDUSTRIAL MACHINERY AND EQUIPMENT	$818,166,131	$775,104,756	$732,043,380
LOSS IN PERSONAL PROPERTY TAX BASE	($258,368,252)	($301,429,627)	($344,491,003)
TOTAL TAX BASE LOSS	**($905,928,292)**	**($1,056,916,341)**	**($1,207,904,389)**
ASSESSMENT RATE	19.00%	18.00%	17.00%

	TAX YEAR	TAX YEAR
	2003	2004
REAL PROPERTY-COMMERCIAL AND INDUSTRIAL	$1,726,826,774	$1,618,900,100
LOSS IN REAL PROPERTY TAX BASE	($971,340,060)	($1,079,266,734)
PERSONAL PROPERTY-COMMERCIAL AND INDUSTRIAL		
MACHINERY AND EQUIPMENT	$688,982,005	$645,920,630
LOSS IN PERSONAL PROPERTY TAX BASE	($387,552,378)	($430,613,753)
TOTAL TAX BASE LOSS	**($1,358,892,438)**	**($1,509,880,487)**
ASSESSMENT RATE	16.00%	15.00%

OVERLAND PARK chamber of commerce

Kansas Senate
Assessment & Taxation Committee
Testimony
SCR 1624
Thursday, March 17, 1994

The Overland Park Chamber of Commerce strongly supports the concept of SCR 1624 a Constitutional Amendment concerning classification.

A. The ten year phase-down of the commercial real estate rate from 25% to 15% would gradually reduce commercial real estate to a more regionally competitive rate. Currently, commercial real estate taxes are by far the highest in the region.

B. For the most part, shifts to other classes would be offset by growth in overall assessed value over the ten year period.

C. Currently most communities are issuing abatements to basic industries putting them at a 12-15% rate. However, existing, small and non-basic businesses bear the load at 25%. It is imperative to preserve those businesses and that the commercial rate be reduced.

We realize this issue is quite possibly a multi year process. We urge its consideration and further study.

Thank you.

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attach 2-1

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P.O. Box 12125 • Overland Park, Kansas 66282-2125 • Fax 913/491-0393

ACCREDITED CHAMBER OF COMMERCE

TOTAL P.01

MEMBER K.I.A.D.A.

KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

Citizens Bank & Trust Building • 6th & Humboldt • Manhattan, Kansas 66502
Phone: 913-776-0044 FAX: 913-776-7085

March 17, 1994

To: Senate Committee on Assessment and Taxation

Subject: SCR 1624 -- Constitutional Amendment decreasing Commercial and Industrial Assessment Rate

From: KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

Madam Chairwoman and Members of the Committee:

I am Jacque Oakes representing the Kansas Independent Automobile Dealers Association, an organization of 216 used car dealers.

We are submitting written testimony in favor of SCR 1624 which would decrease commercial and industrial real property assessment from 25% to 15% at year 2004 by phasing it down 1% per year.

While it is true that the State of Kansas is showing satisfactory progress in its overall economic performance, we are concerned that this good trend should continue. We believe that SCR 1624 would greatly benefit all businesses by lowering property taxes and could help guarantee a healthy Kansas economy.

Kansas Independent Automobile Dealers Association is an organization of small used car dealers -- small businesses that we believe are the backbone and stability of the current trend of improved financial resources. Our used car dealers have experienced a better year with added sales of vehicles, and this bill would give additional assurance that it will continue.

We have confidence that SCR 1624 would keep Kansas on the right track of continued economic improvement. Please give this bill your positive consideration.

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Individually we struggle to be heard—Collectively we cannot be ignored.

GTK-52 (REV.'

The Goodyear Tire & Rubber Company

P. O. BOX 1069

TOPEKA, KANSAS 66601

PHONE (913) 295-7111
FAX (913) 295-7134

TESTIMONY ON SCR 1624

BEFORE THE SENATE ASSESSMENT AND TAXATION COMMITTEE

MARCH 17, 1994

BY DONALD E. LILYA PLANT MANAGER, GOODYEAR TOPEKA PLANT

TODAY I WOULD LIKE TO RE-EMPHASIZE THE FACT THAT HIGH TAXES ON BUSINESS AND INDUSTRY ARE A DETRIMENT TO THE GROWTH OF KANSAS IN THE FUTURE.

THERE ARE MANY FAVORABLE INDICATORS IN KANSAS, NAMELY WORK ETHIC, EDUCATIONAL SYSTEMS, AND AVAILABLE LABOR POOLS, ALONG WITH GOOD HIGHWAY SYSTEMS, PLENTIFUL SUPPLY OF UTILITIES, WATER, AND EVEN THE CLIMATE. THE NEGATIVE IS THE TAX LIABILITY OF DOING BUSINESS IN THE STATE OF KANSAS.

THE TOPEKA PLANT IS THE HIGHEST TAXED OF THE 8 GOODYEAR PLANTS IN NORTH AMERICA, AND IS 47% OF THE TOTAL TAX BURDEN OF THE MANUFACTURING FACILITIES. TOTAL TAX FOR THE GOODYEAR PLANTS IS $5.1 MILLION DOLLARS, AND THE TOPEKA PLANT'S SHARE IS $2.4 MILLION DOLLARS! WHEN YOU TOTAL ALL TAXES AND PERMITS TO OPERATE THE TOPEKA PLANT IT AMOUNTS TO NEARLY $9.0 MILLION DOLLARS FOR THE "PRIVILEGE" OF DOING BUSINESS IN KANSAS.

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GOODYEAR CORPORATE HAS INVESTED A LARGE AMOUNT OF MONEY IN TOPEKA FOR EXPANSION, NEW TECHNOLOGY, TRAINING, PROTECTING THE ENVIRONMENT AND FURNISHING HIGH PAYING JOBS. OUR ANNUAL PAYROLL INTO THE TOPEKA COMMUNITY IS $96.4 MILLION DOLLARS AND IS EXPECTED TO BE OVER $100 MILLION DOLLARS WHEN THE CURRENT EXPANSION IN PROGRESS IS COMPLETED. ISN'T THAT THE WAY TO CREATE A TAX BASE? THE PENALTY OF EXCESSIVE TAXES ON REAL ESTATE AND PERSONAL PROPERTY IS DEFINITELY A DRAG AND AN IMPACT IN DECISION MAKING FOR FUTURE INVESTMENTS AND ECONOMIC GROWTH.

DURING THE LATTER PART OF 1993, I HEARD THE QUESTION BEING RAISED FROM OUR CORPORATE OFFICES "WHY ARE WE DOING BUSINESS IN KANSAS"?

AS MEMBERS OF THE SENATE TAX COMMITTEE, THAT QUESTION SHOULD BE AN ALARMING ONE TO YOU, JUST AS IT WAS TO ME. IT SHOULD BE A WAKE UP CALL TO THE STATE OF KANSAS, AND MAKE YOU THINK SERIOUSLY ABOUT FUTURE LEGISLATION THAT SIGNALS AN ANTI-BUSINESS ATTITUDE.

AS RECENT AS LAST YEAR'S SESSION, A 2.5% TAX WAS PUT ON UTILITIES USED IN MANUFACTURING. THAT SEEMINGLY INNOCENT TAX, INCREASED THE COST TO THE GOODYEAR PLANT BY $300,000 DOLLARS -- ANOTHER NEGATIVE IMPACT.

I TRANSFERRED HERE IN 1984, AND HAVE ALWAYS FELT THERE WILL NEVER BE ANOTHER GENERAL MOTORS, BOEING OR GOODYEAR PLANT LOCATE IN KANSAS BECAUSE OF THE TAX PENALTIES.

I AM URGING YOU TO SERIOUSLY CONSIDER SC RESOLUTION NO. 1624 TO PHASE DOWN ASSESSMENT RATES ON COMMERCIAL AND INDUSTRIAL REAL ESTATE, AND PROPERTY TAX ON MACHINERY AND EQUIPMENT. THAT WOULD BE A TREMENDOUS STRIDE IN THE RIGHT DIRECTION TO ENCOURAGE BUSINESS AND INDUSTRY TO EXPAND AND/OR LOCATE IN THE STATE OF KANSAS.

THANK YOU FOR ALLOWING ME TO ADDRESS THIS IMPORTANT ISSUE.

LEGISLATIVE TESTIMONY
MARCH 17, 1994

TO: Senate Tax Committee

FROM: Arlin Meats, Mall Manager
West Ridge Mall

As property asset managers, West Ridge Mall supports uniform and equal basis of valuation and rate of taxation of all property. The problem we are concerned with is the uniformity of classification as well as the assessed valued by the county.

When West Ridge Mall was in the initial planning stages in 1987/88, real estate taxes were established at $2.25 per square foot for our proposed tenants. This was an acceptable level in comparison with similar shopping centers in our portfolio as well as other mall developers.

Retail tenants operate on very slim margins of profit, if there is a profit at all. Profit margins can be as low as 4% to 5% for a well-managed store. With the increased classification to 30% in 1991, along with the exceedingly high valuation, our real estate taxes increased from $2.25 per square foot up to $7.40 per square foot - a $5.15 per square foot increase, or 228%. These were the highest real estate taxes of any of our properties, even A & S Plaza in downtown New York City. Based on an average store of 2,000 square feet with average sales of $255 per square foot, this increased the cost of doing business by $10,200 and lowered desired profit down to the 2% range, or a 50% decrease!

Since the mall's opening in March, 1988, we have experienced an approximate 25% turnover in our tenants due to high operating costs and low profit margins or actual net losses. Granted, high real estate taxes did not cause all the tenant turnovers, but they were a major contributor.

Retailers require two things in real estate taxes. First, fair taxation at or near national averages. Secondly, taxes that are consistent and not going up and down like a "yo-yo" - mostly up - a 228% increase.

The real estate tax issue has affected us as property managers in many ways outlined in the following:

1. Many of our retailers are local and regional businesses based in Kansas. When taxes increase without a corresponding increase in sales, businesses have to reduce other expenses, or face going out of business

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(many have closed). The expense item which is always cut the most severely is labor. People are out of work because of excessive tax rates.

2. High tax rates have proven to be a significant barrier to the long-term development of real estate throughout the State of Kansas. The Wanamaker corridor has been underdeveloped by at least $75+ million over the past five years because of these tax rates. Though development seems extensive, there are many vacant parcels of land throughout the Wanamaker corridor which would have been developed many years ago, but national retailers have avoided Kansas because of its real estate taxes. This lost development is evidenced by vacant lots (excellent locations), vacant spaces within existing developments, and vacant peripheral lots.

   A major vacant lot exists between West Ridge Mall and Hypermart. That is unheard of! This property could accommodate at least a 200,000 square foot facility valued at $10 million +. Also, vacant land is available west of the mall which could accommodate additional peripheral development. Development should have passed beyond Wanamaker for office and small retail businesses three to five years ago, but it has not happened.

   Our company was originally going to develop the property on the east side of Wanamaker across from the Mall. It was scheduled to be twice as large as the existing development. We would have built additional small shops containing several thousand more square feet along with two to three additional department stores. This project was going to stretch all the way to 21st Street next to our West Ridge Plaza. Counting peripheral land, we would have spent at least $15-20 million more. The small shop space did not pencil out because of the taxes, therefore, it is now a smaller facility which was developed two to three years later.

   Based on a reasonable tax rate, these developments would have increased real estate tax revenues by $1.5 million not counting increases in sales tax, income tax, and a reduction in unemployment. Excessive taxes only help fund government in the short term. In the long term, these high taxes erode the tax valuation base, employment levels, and sales tax base for the entire state!

3. High tax rates decrease our ability to lease new stores. National companies who operate four to five different retail concepts have declined our lease proposals at West Ridge for one of their new stores based on getting "burned by taxes" on their current store.

4. Leasing at some of our other properties on a national level has been affected by "what's happened in Kansas". Tenants have demanded a cap on real estate taxes to protect their bottom line.

   In 1990, our taxes per square foot were the highest in the country. Even though some relief was provided in passage of the classification amendment, we are still in the top 10 malls out of 75 in real estate taxes per square foot. Based on current trends, our taxes will be higher than ever for 1994, thus returning to the position of being higher than Chicago, New York, Los Angeles, etc. The average real estate tax per square foot within our portfolio is about $2.25, and according to "Dollars and Cents of Shopping Centers" the national average is less than $2.00 for similar regional mall projects. Our taxes may very well be $8.78 or above for 1994!

Our tenants can not survive with this tax and West Ridge Mall can not survive. Classification of commercial property needs to be at 15%. With an acceptable assessed value in the $30.0 M. range, our real estate tax to our tenants would be $2.35 per square foot. This is where we need to be for positive growth.

Under our current tax statues, Kansas is advocating "de-economic" development of commercial property, not "economic" development for the future growth of the great State of Kansas.

TENANT "A"

Space B-1	2,000 square feet
Average Mall Sales (p.s.f.)	x $ 255
Annual Sales	$510,000

	Original		R/E Tax Increase		Varience	
	$	%	$	%	$	%
Annual Sales	510,000	100	510,000	100	-0-	
Less: Cost of Goods Sold	255,000	50	255,000	50	-0-	
Mark-up Gross Profit	255,000	50	255,000	50	-0-	
Less: Payroll						
Benefits						
Rent						
Insurance						
R/E Taxes	4,500	2.25 p.s.f.	14,700	7.40 p.s.f.	+10,200	+228
Advertising						
Utilities						
Total Expenses	234,600	46	244,800	48	+10,200	+4
Net Profit	20,400	4	10,200	2	-10,200	-50

LEGISLATIVE TESTIMONY

March 17, 1994

To: The Senate Tax Committee

From: Bruce Cook
Owner, Lemstone Books
West Ridge Mall
Topeka, Kansas

Senate Assess + Tax
March 17, 1994
attach 6-1

As the owner, with my wife Bobbi, of Lemstone Books at West Ridge Mall, I have acquired an understanding of the impact of the taxing policies upon retailers in Shawnee County, Kansas. As an educator with 24 years experience in teaching and administration in Kansas schools, I also understand the challenge of financing public service with public monies. My purpose today is to address the imbalances and inequities I see in the way that decision is being made and how that is affecting my business.

I am presently employed by Unified School District #450, as an instructor at Shawnee Heights Middle School and by Allen County Community College as an instructor in their continuing adult education program. This is in addition to the time spent working at or for Lemstone Books. The store is under the management of my wife. We have one part-time worker assisting us on a regular day-to-day basis and two part-time workers who work on irregular schedules. All other time at the store is filled by myself, my wife, or my father-in-law. For this, we have not taken a salary since we opened in 1989 and have paid many of the expenses of the store from our own resources.

Lemstone Books is a specialty store dealing in Christian books, Bibles, gifts, cards, and music. We are a franchise of Lemstone, Inc., Wheaton, Ill. The first Lemstone store opened in 1981 and today there are over 50 Lemstone stores throughout the United States. These stores are developed in all sizes of markets, primarily in enclosed malls, and are all locally owned. Although we have not performed at the level of sales projected prior to opening, we have been able to expand and grow our business every year of operation.

Specifically, I wish to address the impact of the property tax rates we have paid and do pay at Lemstone-Topeka. Our store occupies 1144 square feet at the mall, a small portion of which is storage and office space. In computing the average cost per square foot of our overhead due to property taxes we find the following. In calendar year 1991, our total overhead amounted to $38.65 per square foot. Of that amount $2.62 per square foot went to the payment of property taxes. In 1992, the overhead amount increased to $41.10 per square foot while the property tax assessment increased to $5.10 per square foot. Then in 1993 our overhead total increased to $41.67 per square foot with property taxes at the highest level of $7.22 per square foot. In percentage of total rent owed, property taxes have increased from a low of 4.3% of total rent paid per month in 1990 to a high of 17.5% in 1992 and 1993. The highest amount paid during 1992-1993 for property taxes was $689 per month for our 1144 square feet. Let me share with you some comparisons between our cost per square foot for property taxes in Topeka and those of stores recently sold or marketed by Lemstone, Inc. in other parts of the United States. These figures represent property tax levels in cities with populations ranging from 8500 to 1.6 million. States represented include Kansas, Arkansas, Maryland, Georgia, Florida, Illinois, Texas, and Pennsylvania. The cost of real estate taxes per square foot ranges from $1.00 per square foot to a high of $4.10 per square foot. Of the 17 markets researched, the average cost per square foot for real estate taxes was $2.40 per square foot or $2,746 per year in a store equal in size to mine. This compares to our high at $7.22 per square foot or a yearly cost of $8,260.

These increases in property tax are very hard to finance. Sales must increase or overhead costs in some other area must go down. Our personally controllable overhead we have consistently kept at very low levels through not hiring additional personnel, continually shopping for the lowest price for supplies, and just not buying many things needed to carry on business. Our sales, although growing, have not grown at the same pace that our taxes have. As difficult as it has been to cope financially with these increased costs, you can imagine the impact of the recent news that the mall has been appraised at a level nearly twice that of its highest mark in previous years. The impact of such action will make it even more difficult for an owner such as myself to stay in business.

As a public school teacher with 24 years experience in the classroom and administration, I appreciate and understand the financing difficulties that stem from the method of financing used in our state. Having worked that amount of time at an occupation that I believe is grossly undervalued by our society, I have a very difficult time reconciling the high levels of taxation that make it difficult to operate a business with the low level of pay given for what I consider to be an essential occupation to the health of our society.

I have spent 24 years trying to teach students in Kansas schools the uniqueness of American government and the opportunities it creates. The irony that that same government may tax me out of business does not escape me. I appreciate the opportunity to speak with you and thank you for your kind attention.

Lemstone BOOKS

February 28, 1994

Mr. Bruce Cook
Lemstone Books
1801 S.W. Wanamaker Rd.
Topeka, KS 66604

Re: Real estate taxes nationwide

Dear Bruce:

At your request I have worked with Jim Doyle, our sales manager, to determine real estate taxes per square foot on many markets that we have either recently sold or are currently marketing.

Glen Burnie, MD	$1.21/ft.	Atlanta, GA	$4.00/ft.
Dayton, OH	$2.75/ft.	Baltimore, MD	$2.45/ft.
Overland Park, KS	$2.60/ft.	Greensburg, PA	$1.08/ft.
Little Rock, AR	$2.25/ft.	Johnson City, TN	$1.30/ft.
-Pattysburg, MS	$1.00/ft.	Salisbury, MD	$3.00/ft.
Lexington, KY	$1.12/ft.	Rockford, IL	$2.15/ft.
Tampa, FL	$3.50/ft.	San Antonio, TX	$2.60/ft.
Houston, TX	$1.04/ft.	Philadelphia, PA	$3.96/ft.
-Woodlands, TX	$4.00/ft.	Merriville, IN	$1.76/ft.
		Doylestown, PA	$4.10/ft.

These are indicative of many markets around the country and I trust they will be helpful in your preparation for your testimony before the state legislature regarding property taxes at Topeka.

If I could be of any help please give me a call.

Yours truly,

Philip O. Darr
Vice President Development

POD\lm

A Division of Lemstone, Inc.
1123 Wheaton Oaks Court
Wheaton, Illinois 60187-3051
Telephone 708-682-1400
Fax 708-682-1828

COMPARATIVE COSTS OF DOING BUSINESS
MCBIZ CORPORATION D/B/A CHUCK E. CHEESE'S
1993

LOCATION	MEMPHIS I TN	MEMPHIS II TN	CHATTANOOGA TN	CHARLESTON SC	GREENVILLE SC	COLUMBIA SC	ROANOKE VA	ROCKFORD IL	WILMINGTON DE
T V COST/KIDS' POINT	$6.99	$6.99	$9.51	$8.89	$12.12	$10.32	$11.23	$9.16	$4.00
PERSONAL PROPERTY TAX	$1,771	$2,187	$953	$1,828	$2,823	$3,833	$4,907	$0	$0
REAL PROPERTY TAX	$8,792	$4,621	$10,080	$4,313	$15,958	$11,704	$10,036	*	$7,704
STATE SALES TAX RATE	6.00%	6.00%	6.00%	5.00%	5.00%	5.00%	3.50%	6.25%	0.00%
					(COUNTY FOOD & BEV SALES		4.00%)		
LOCAL SALES TAX RATE	2.25%	2.25%	1.75%	1.00%	0.00%	0.00%	5.00%	1.00%	0.00%
UNEMPLOYMENT TAX RATE	0.75%	0.75%	0.75%	1.30%	1.30%	1.30%	1.55%	1.90%	1.30%
UNEMPLOYMENT WAGE BASE	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000	$8,000	$9,000	$8,500
WORK COMP PREMIUM	$4.03	$4.03	$4.03	$3.57	$3.57	$3.57	$2.48	$3.66	$2.86
OTHER INSURANCE	$12,646	$12,556	$11,692	$7,854	$8,010	$7,615	$9,592	$10,383	$11,181
1993 LICENSES & FEES	$881	$993	$1,782	$5,738	$6,305	$4,177	$3,193	$2,628	$4,846
CORPORATE INCOME TAX	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	6.0%	7.3%	8.7%
LOCAL EARNINGS TAX									

LOCATION	YORK PA	HARRISBURG PA	LEXINGTON KY	BOISE ID	DES MOINES IA	CEDAR FALLS IA	CEDAR RAPIDS IA	DAVENPORT IA	WICHITA KS	TOPEKA KS	AVERAGE W/O KANSAS
T V COST/KIDS' POINT	$12.35	$12.35	$16.51	$4.83	$16.42	$5.27	$5.27	$8.64	$12.46	$6.57	$10.19
PERSONAL PROPERTY TAX	$0	$0	$819	$4,872	$18	$0	$18	$28	$8,770	$10,639	$1,415
REAL PROPERTY TAX	$5,976	$6,471	$3,478	$17,854	$12,884	$4,313	*	$6,127	$20,750	$39,150	$8,687 *
STATE SALES TAX RATE	6.00%	6.00%	6.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.90%	4.90%	5.04%
LOCAL SALES TAX RATE	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	0.00%	1.00%	1.00%	1.00%	0.90%
UNEMPLOYMENT TAX RATE	2.69%	2.69%	1.80%	2.30%	0.26%	0.26%	0.26%	0.26%	3.54%	3.54%	4.79%
UNEMPLOYMENT WAGE BASE	$8,000	$8,000	$8,000	$19,200	$13,100	$13,100	$13,100	$13,100	$8,000	$8,000	$9,594
WORK COMP PREMIUM	$6.07	$6.07	$5.28	$4.47	$2.63	$2.63	$2.63	$2.63	$3.37	$3.37	$3.78
OTHER INSURANCE	$7,148	$10,197	$7,461	$10,278	$6,606	$5,909	$6,836	$7,907	$8,779	$7,100	$9,051
1993 LICENSES & FEES	$2,929	$4,116	$1,976	$1,049	$2,686	$2,623	$2,449	$3,947	$890	$978	$3,078
CORPORATE INCOME TAX	12.25%	12.25%	4 - 8.25%	5.0%	6 - 12%	6 - 12%	6 - 12%	6 - 12%	4.5 - 6.75%	4.5 - 6.7	N/A
LOCAL EARNINGS TAX			2.0%								

*NOT INCLUDING LOCATIONS WHERE LANDLORD PAYS TAXES

Senate Assess + Tax
March 17, 1994
attach 7-1

Senate Assessment + Tax
March 17, 1994
attach 7-1

HEARTLAND
Apartment Association

P.O. Box 30097
Kansas City,
Missouri 64112
913-384-8600

March 16, 1994

TO: The Senate Tax Committee
FROM: Heartland Apartment Association
Samuel V. Alpert, Executive Director

Mr. Chairman and Members of the Committee:

For many years the real estate community has been splintered with respect to taxation issues. It is only recently that we are coming to realize that it is no longer a matter of specifically whose "ox is being gored" as the result of classification differences; but rather a shared general concern for and recognition of a viable and interactive tax base.

The relationship of rooftops to commercial development (and the reverse) is undeniable in today's economic climate; and owners of apartments throughout Kansas fully appreciate the need for a market conducive to commercial growth.

For the most part, apartment rents in Kansas have been flat for nearly ten years. This has been the result of a combination of factors including overbuilding and stagnated general economic conditions. Property values have been impacted further by federal tax reform, numerous unfunded public mandates, and tight credit markets.

The situation has brightened measurably during the past several months, but the absence of significant commercial development activity has dampened optimism for consideration of any new substantial multi-family housing development in the immediate future. While occupancies have improved, rent increases are still modest and will at best help to fund much needed deferred maintenance that has accumulated for many years. Until existing businesses are provided with incentives to expand and some new enterprise is attracted to Kansas, resulting in the generation of a significant number of new jobs, you can expect little in the way of new multi-family housing of an affordable nature.

Senate Assess + Tax
March 17, 1994
attach 8-1

It is of great concern to rental housing providers that little is being offered to keep Kansas competitive with its neighbors for commercial development and expansion. **I am here today to speak in support of Senate Concurrent Resolution 1624, because apartment owners believe that tax relief to commercial and manufacturing property owners is a sure-fire means by which to achieve an expanded tax base, which would encourage a vibrant housing market for home owners as well as renters.**

Your consideration is greatly appreciated.

Thank you,

Samuel V. Alpert
Executive Director

SVA/mc