

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Audrey Langworthy, Vice Chairperson at
Chairperson

11:00 a.m./~~7:00~~ on Thursday, February 23, 1989 in room 519-S of the Capitol.

All members were present except:

Senator Dan Thiessen, Chairman (excused)

Committee staff present:

Don Hayward, Revisor's Office
Chris Courtwright, Research Department
Tom Severn, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Wayne Sims, Executive Director of Wyandotte House, Inc.
Bruce Linhos, Executive Director KS. Ass'n of Licensed Private Child Care Agencies
Bud Cooper, Divisional Office, Salvation Army

Senator Audrey Langworthy, Vice Chairperson called the meeting to order, and she said the committee will address SBI176. She said it is a bill that she and Senator Bond had introduced, and is similar to a Missouri law, which has been on the books since 1978, called the "neighborhood assistance act". Aproximately \$29M in tax credits have been earned by Missouri businesses for community improvement projects throughout the State.

SBI176: AN ACT authorizing credits for certain expenditures or contributions for certain community improvement programs against income tax for certain businesses and the privilege tax on financial institutions.

The following conferees are proponents of SBI176.

Madam Chairperson called upon Wayne Sims, Executive Director of Wyandotte House, Inc. of Kansas City, Kansas.

Wayne Sims said Wyandotte House, Inc. is a non-profit organization that provides residential treatment for abused and emotionally disturbed youth, K-12. To meet the needs of these children they provide psychiatric, psychological, nursing, social work and special educational services, and provide youth service aides 24 hours a day.

They have to look to local business and corporations to assist with this deficit, and they believe that sector should be reinforced positively for their endeavors.

Mr. Sims offered to the committee some suggested substitute language. (ATTACHMENT 1)

After committee discussion and concerns regarding the language of the bill, Madam Chairperson asked staff member, Don Hayward to present the essence of the bill.

Don Hayward said the essence is in Section 3, and he reviewed this for the committee.

During committee discussion, a suggestion was made that the committee might want to put an aggregate cap in the bill in order to determine a maximum cost to the State.

Madam Chairperson recognized Bruce Linhos.

Bruce Linhos said private agencies find it increasingly difficult to raise charitable dollars for maintenance of facilities or for on-going program costs. Private not for profit agencies cared for more children last year than State Institutions at less than half the cost.

Member agencies in Missouri report that similar legislation has made a marked difference in their ability to raise charitable dollars. (ATTACHMENT 2)

Madam Chairperson recognized Bud Cooper.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 519-S, Statehouse, at 11:00 a.m. ~~4pm~~ on Thursday, February 23, 1989

Bud Cooper said SB176 would be a vehicle by which the Corporate business community could be enabled and encouraged to better the communities they profit from.

The Salvation Army in Kansas City has been the receiver of over \$700,000 the past few years. One of their projects is the "Transitional Living House" with work done mostly by Hallmark Corporation.

The State of Missouri is presently moving to raise their cap from \$8.7M to \$14M. (ATTACHMENT 3)

Madam Chairperson closed hearings on SB176 and turned attention to SB156

SB156:AN ACT relating to the sales taxation of farm and business machinery and equipment by certain local governmental jurisdictions.

Senator Martin made a motion to move SB156 favorable for passage.

Senator Fred Kerr asked Don Hayward if the committee could amend the amendment that the grain and feed dealers had to the farm machinery bill into SB156, and Don Hayward said yes, it could be done.

Senator Martin withdrew his motion.

Senator Fred Kerr moved to add the grain and feed dealers association amendment to SB156, seconded by Senator Montgomery. The motion carried.

Madam Chairperson said we received a memo from John Luttjohann, that the committee had requested at an earlier meeting. (ATTACHMENT 4)

Senator Francisco said last year Medicine Lodge was exempt from taxes on a festival button they had, and the Wichita River Festival Delegation would like to be exempt for their festival buttons for Wichita River Days.

After committee discussion..

Senator Francisco moved to amend SB156 to exempt Wichita from taxes for buttons to be sold for Wichita Festival Day, seconded by Senator Karr. The motion failed.

Senator Martin moved to pass SB156 as amended, favorably for passage, seconded by Senator Oleen. The motion carried.

The meeting adjourned at 11:48 a.m.

I am the Executive Director of Wyandotte House, Inc., a not-for-profit organization that provides residential treatment for abused and emotionally disturbed youth, emergency services to abused and neglected children, and special education services to emotionally and behaviorally disturbed children, grades K-12. This year, our agency will serve between 600 and 650 children and adolescents. Most of these young people will be referred to our agency through the state foster care system. These children come to us with many needs, requiring considerable professional care. As examples, last year 161 came to one of our programs from psychiatric facilities; 102 had attempted suicide at least one time. Two hundred and forty-five had been physically or sexually abused; 137 had an alcohol or drug abuse problem.

To meet the diverse needs of these children, we need to provide psychiatric, psychological, nursing, social work and special educational services, as well as provide youth service aides 24 hours a day. In turn, the state foster care system reimburses our agency, and other agencies like ours across the state, a per diem to compensate for these costs. The reimbursement rates statewide, however, amount to only 71 to 86% of actual allowable audited costs. We, as well as other agencies like ours, are not allowed to set a rate for our services that covers the cost of the services and the cost of adequately maintaining or replacing our existing facilities. As an outcome of this funding shortage, we must look to local business and corporations to assist us with our deficit funding needs for operational and capital needs.

Therefore, I'm here in support of Senate Bill No. 176, representing non-profit children's organizations around the state. I'm also here representing the many other 501(c)(3) organizations who could be the beneficiaries of this very worthwhile bill.

If the private for-profit sector is going to be called upon in greater proportion to provide philanthropic support of 501(c)(3) organizations, and they will be, then it is incumbent that that sector be reinforced positively for their endeavors.

It is for these reasons that I support Senate Bill No. 176. I would

hope, however, that I might be able to offer some substitute language that I believe would make the bill even more meaningful. I currently am involved in dialogue with representatives from several major Kansas corporations. They, unfortunately, are just now becoming aware of this bill, however, you will be hearing from them very shortly regarding their interest in this bill. The substitute language offered comes as a result of this dialogue.

The following substitute language is suggested:

- line 34 Replace the words "an impoverished area"
and 36: with the word "Kansas".

- line 38: Replace words "an impoverished area"
 with the word "Kansas".

- line 39: Replace the word "area"

- lines 41- Omit lines 41-43.
43:

- line 45: Replace the words "an impoverished area"
 Substitute the words "the State of Kansas".

- line 50: Replace the words "an impoverished area"
 Substitute the words "a neighborhood area".

- line 52: Replace the words "an impoverished area"
 Substitute the words "the State of Kansas".

- line 64: Replace the words "an impov-
line 65: Replace the words "erished area"
 Substitute the words "the State of Kansas".

- line 75 Omit the words "the impoverished area
and 76: selected".

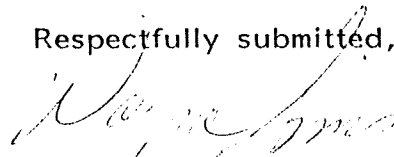
- line 77- Omit line 77 beginning with the words "The gov-"
82 through line 82.

- line 84: Omit the word "invested"
 Substitute the word "contributed".

- line 93: Replace the words "not, to, any, succeeding,
 taxable, year".
 Substitute the words "for the next 5 succeeding
 calendar or fiscal years until the full credit
 has been allowed. In no event shall the total
 amount of all tax credits allowed exceed five
 million dollars in any one fiscal year."

line 94- Omit lines 94 through 98.
98: Substitute words "The director of the department of Industrial development shall annually approve the proposal of the business firm; except that, no proposal shall be approved which does not have the endorsement of the agency of local government within the area in which the business firm is engaging in such activities which has adopted an overall community or neighborhood development plan. The proposal shall set forth the program to be conducted, the neighborhood area to be served, why the program is needed, the estimated amount to be invested in the program and the plans for implementing the program. The director of the department of development is hereby authorized to promulgate rules and regulations for establishing criteria for evaluating such proposals by business firms for approval or disapproval and for establishing priorities for approval or disapproval of such proposals by business firms with the assistance and approval of the director of the department of revenue.

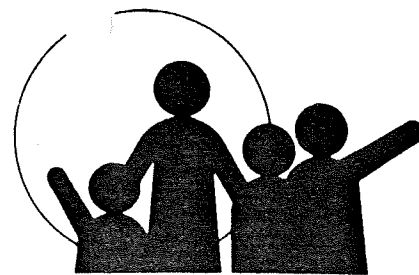
Respectfully submitted,



B. Wayne Sims
Executive Director

BWS/jp

KALPCCA



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TESTIMONY

SENATE ASSESSMENT AND TAXATION COMMITTEE FEBRUARY 23, 1989

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE THIS MORNING TO VOICE MY SUPPORT FOR SENATE BILL 176, THE NEIGHBORHOOD ASSISTANCE TAX CREDIT ACT..

THE KANSAS ASSOCIATION OF LICENSED PRIVATE CHILD CARE AGENCIES IS COMPOSED OF 34 MEMBER AGENCIES. ALL ARE CHARITABLE NOT FOR PROFIT ORGANIZATIONS. EACH CHILD CARED FOR MANIFESTED MORE SERIOUS PROBLEMS THAN COULD BE DEALT WITH EITHER IN THEIR OWN HOMES OR IN FAMILY FOSTER HOMES. THE PROBLEMS OF THESE CHILDREN RANGE FROM MODERATE TO SEVERE EMOTIONAL OR BEHAVIORAL DIFFICULTIES, WHICH HAVE RESULTED FROM HISTORIES OF ABUSE AND OR NEGLECT.

THE PROBLEM: PRIVATE AGENCIES FIND IT INCREASINGLY DIFFICULT TO RAISE CHARITABLE DOLLARS FOR MAINTENANCE OF FACILITIES OR FOR ON-GOING PROGRAM COSTS.

* PRIVATE NOT-FOR-PROFIT AGENCIES CARED FOR MORE CHILDREN LAST YEAR THAN STATE INSTITUTIONS, AT LESS THAN HALF THE COST. LAST YEAR PRIVATE AGENCIES PROVIDED MORE THAN HALF A MILLIONS DAYS OF SERVICE FOR CHILDREN IN THE STATES CUSTODY.

* NOT-FOR-PROFITS, AS THE TITLE IMPLIES, ARE NOT MOTIVATED BY PROFIT, BUT MUST FIND WAYS TO COVER THE ACTUAL COST OF PROVIDING A SERVICE. CURRENTLY THE REIMBURSEMENT STRUCTURE THROUGH SRS PROVIDES ONLY 78% OF ACTUAL COST ACROSS THE BOARD FOR SERVICES OUR MEMBERS PROVIDE TO CHILDREN IN THE STATES CUSTODY.

AT A TIME THE STATE IS FACED WITH AN INCREASING NEED FOR THESE SERVICES, WE SEE PRIVATE PROVIDERS FACED WITH DECISIONS OF WHETHER THEY CAN CONTINUE TO ALLOW THE DETERIORATION OF THEIR PROGRAMS AND FACILITIES IN ORDER TO SERVE THE STATES CHILDREN.

* THIS EROSION OF FUNDING FOR FOSTER CARE SERVICES CONTINUES IN A TIME WHEN CHARITABLE GIVING, WHICH ONCE HELPED OFFSET THIS DEFICIT, IS CONTINUALLY HARDER TO RAISE.

* LAST YEAR WE SAW ONE HOME IN THE STRAWBERRY HILL DISTRICT OF KANSAS CITY, KANSAS CLOSE. THIS AGENCY HAD SERVED CHILDREN IN THAT AREA FOR MORE THAN SIXTY YEARS. THE REASON, INABILITY TO COPE WITH A

Attachment 2

Senate Assessment and Taxation

Thursday, February 23, 1989

CONTINUALLY RISING DEFICIT WHICH HAD REACHED OVER \$200,000.

* MANY PRIVATE RESIDENTIAL AGENCIES BOARDS OF DIRECTORS ARE CONSIDERING DROPPING THEIR RESIDENTIAL PROGRAMS AND PROVIDING OTHER SERVICES WHICH ARE LESS COST PROHIBITIVE.

THE SIMPLE FACT IS THE STATE OF KANSAS IS LOSING PRIVATE RESOURCES FOR CHILDREN IN ITS CUSTODY, AT A TIME SRS IS PROJECTING HIGHER CASE LOADS. THE ONLY ALTERNATIVE WILL BE FOR THE STATE TO DEVELOP ITS OWN INSTITUTIONS TO CARE FOR THESE CHILDREN. CURRENTLY, THE CHEAPEST OF THE STATE INSTITUTIONS COST ALMOST TWICE AS MUCH AS THE PRIVATE SECTOR PROVIDES RESIDENTIAL SERVICES FOR. THE PRIVATE AGENCIES CURRENTLY PROVIDE THE STATE WITH MILLIONS OF DOLLARS OF CAPITAL INVESTMENT, THE BURDEN OF WHICH WOULD FALL TO THE TAX PAYER IF THE STATE OPERATED ITS OWN INSTITUTIONS.

THE SOLUTION TO THE PROBLEMS FACED BY THOSE PROVIDING RESIDENTIAL SERVICES TO CHILDREN ARE OBVIOUSLY TWO FOLD. WE ARE MOST HOPEFUL THAT THIS LEGISLATURE WILL TAKE STEPS TO ESTABLISH CONTRACT RATES WHICH FUND A MORE REASONABLE PROPORTION OF ACTUAL COSTS IN FOSTER CARE. THE SECOND PIECE OF THE SOLUTION RELATES TO LEGISLATION LIKE S.B. 176 WHICH ENCOURAGES AN INCREASED RELATIONSHIP BETWEEN THE BUSINESS COMMUNITY AND THE PRIVATE CHARITABLE SECTOR. I WOULD EVEN BE HOPEFUL THAT THE SCOPE OF THIS PIECE OF LEGISLATION COULD BE BROADENED BY NOT LIMITING ITS IMPACT TO ONLY, "IMPOVERISHED AREAS." I FEEL THIS TYPE OF POSITIVE PUBLIC/PRIVATE PARTNERSHIP SHOULD BE ENCOURAGED THROUGHOUT THE STATE.

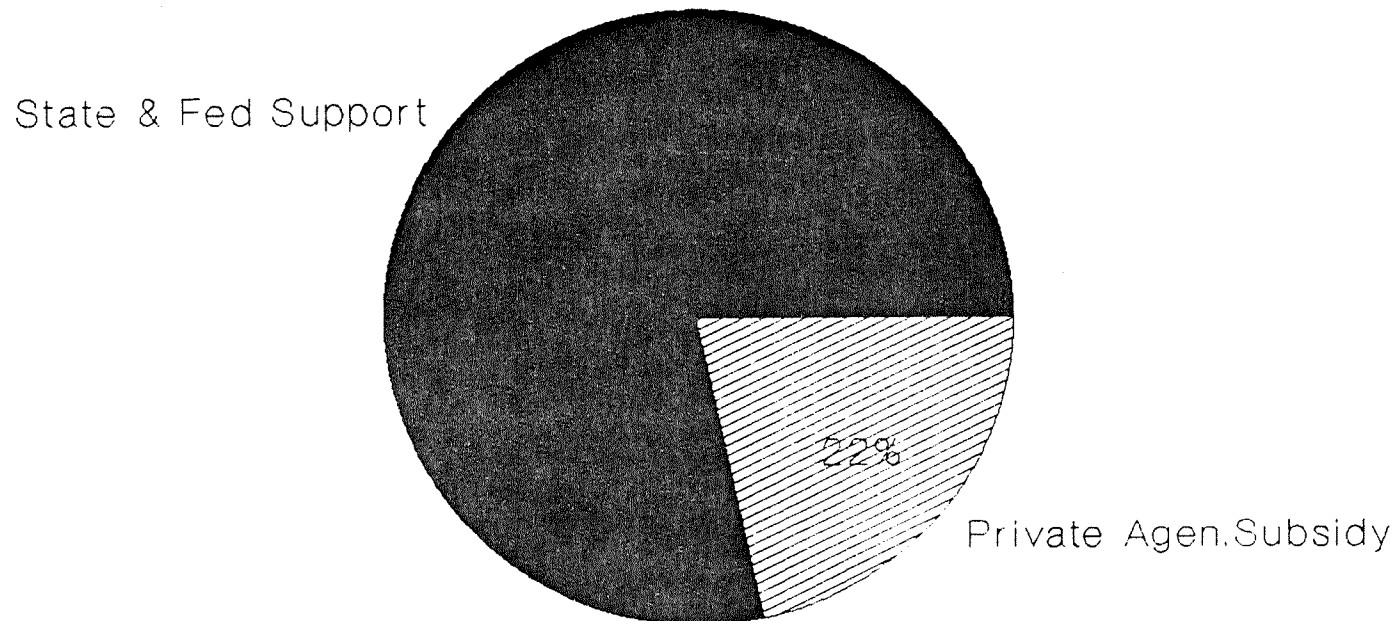
MEMBER AGENCIES IN KANSAS CITY MISSOURI REPORT TO US THAT SIMILAR LEGISLATION IN THAT STATE HAS MADE A MARKED DIFFERENCE IN THEIR ABILITY TO RAISE CHARITABLE DOLLARS. I BELIEVE WE WOULD SEE THIS SAME RESPONSE FROM OUR KANSAS BUSINESS MEN.

SUBMITTED BY,

BRUCE LINHOS
EXECUTIVE DIRECTOR
913-749-2775

Foster Care

Funding for Children in States Custody



The Program Proves that it makes good business sense to become involved in projects that improve the quality of life for Kansas neighborhoods and communities.

This bill ~~will~~ ^{would} be a vehicle by which the corporate business community ~~could~~ could be enabled ~~and~~ encouraged to better the communities they profit from.

~~The~~ More & More the non profit sector ~~is~~ must seek funding from the corporate world in order to meet the needs of persons and improve the quality of life for persons who happen to be less fortunate than others. ~~At the~~ At the same time the community benefits.

The Salvation Army in K.S. has been the receiver of over \$700,000. over the past few years. One of these projects is our Transitional Living House which the work was done mostly by The Hallmark Corporation.

Presently we are approved for ~~an~~

Emergency Lodge Shelters in The Northland Area of Kansas City.

The tax credits in Missouri allow for contributions in the form of financial assistance, labor, material and/or technical advice.

The amount of credit that may be claimed in any one year is only limited ~~to that~~ ~~portion of income that was~~, less his or her total liability.

The state of Missouri presently ~~has a~~ is moving to raise the ~~total~~ cap from 8.7 million to 14 million.

Homer
5116 Stearns
Shawnee, Ks.
66203

Bob Cooper
The Salvation Army
Divisional Office



KANSAS DEPARTMENT OF REVENUE
Division of Property Valuation
Robert D. Docking State Office Building
Topeka, Kansas 66612-1585

ATT-4
2-23-89

MEMORANDUM

TO: Senator Dan Thiessen, Chairman
Senate Committee on Assessment and Taxation
and Committee Members

FROM: Terry D. Hamblin, Director
Property Valuation Division

DATE: February 22, 1989

SUBJECT: Senate Bill 144

The provisions of this bill are very similar to those contained in Senate Bill 42. Like Senate Bill 42, this bill attempts to extract one small segment of commercial and industrial machinery and equipment -- which is valued, assessed and taxed pursuant to the provisions of the classification amendment to the state constitution -- and exempt it from taxation by broadening the definitions of "merchant" and "inventory". The end result is that the definitions in this bill are so broad that the courts will ultimately have to determine whether or not any personal property will be taxable in 1989 and thereafter.

Under the provisions of this bill, any person, company or corporation may purchase tangible personal property, use it for any purpose, modify or change it, even lease it, and if they contend that their intention is to eventually resell it, they may obtain an exemption of such property from all ad valorem taxes.

The language contained in 1988 Senate Bill 453 as it was presented to this Committee, was simply a restatement of then existing and still current policy. It was our intention to clarify the definitions; however, the 1988 Senate Bill 453 did not contain any language which either broadened or limited the definitions of merchants' or manufacturers' inventory. Now, for taxpayers to come before this committee and insist that because they have not been reporting their machinery and equipment properly they are now entitled to an exemption seems somewhat unreasonable.

Section 2 of this bill also raises concerns for this Division. Surely no one will contend that the voters thought they were exempting motor vehicle dealer's inventories when they voted for the classification amendment. Nor did they think they were exempting leased vehicles. Under this provision, not only would vehicle owners have to pay the tax while identical vehicles which were leased would be exempt; but, vehicle owners would be further penalized by paying higher taxes as a result of the taxes shifted to other property because of this exemption.

Finally, even if Senate Bill No. 144 were narrowly interpreted to merely expand the present definitions of merchant and inventory to include lessors and leased machinery and equipment, and not to exempt all tangible personal property, the leased tangible personal property of companies like IBM, Xerox, AT&T, NCR, Hertz, Avis, etc., would clearly qualify for exemption under this bill. While we have no way to estimate with any precision the fiscal impact of this more limited exemption, we can say that millions of dollars of tax liability would be shifted to the remaining taxable property at the local level.

This bill goes further than Senate Bill 42 by specifically exempting motor vehicles held for lease by motor vehicle dealers.

We have been told that this proposal would nearly strike language passed last year which "limited" the constitutional exemption of merchants' and manufacturers' inventories and that enactment of this bill would put everything "back the way it was" and reflect what the voters thought they were voting for when the amendment was passed. This simply is not true. Language which was repealed by last year's legislation included the following definitions:

"The word "merchant" shall mean and include every person, company or corporation who shall own or hold, subject to his or her control, any personal property within this state, which shall have been purchased with a view of being sold at an advanced price or profit, or which shall have been consigned to him or her for the purpose of being so sold.

The word "inventory" shall mean and include all personal property owned or held, subject to the control of a merchant, which shall have been purchased by him or her with a view of being sold at an advanced price or profit, or which shall have been consigned to him or her for the purpose of being so sold."

The Division has consistently interpreted this language to preclude the inclusion of leased equipment in merchants' inventory. Property which is purchased for lease or is used to produce lease or rental income is not being exclusively used as merchants' inventory. To the best of our knowledge, this interpretation has never been successfully challenged before either the State Board of Tax Appeals or the courts.

In addition, during tax year 1988 the State Appraisals Bureau levied \$12.7 million in taxes on interstate motor carriers. While we have no way to determine how much of this equipment is currently leased, leasing is a very common practice within the industry. If we assume one-third, then the state could expect a reduction of \$4.2 million for tax year 1989. As the knowledge spread that the way to get an exemption was to lease the equipment, we estimate that motor carrier tax collections would drop to near zero within no more than two years.

TDH/dpb