

Approved Thursday, February 7, 1991
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Dan Thiessen at
Chairperson

11:00 a.m./~~pm~~ on Monday, February 4, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Don Hayward, Assistant Revisor
Bill Edds, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Secretary

Conferees appearing before the committee:

Don Schnacke, Kansas Independent Oil & Gas Association
Anne Smith, Kansas Association of Counties
Steve Graham, Budget Rent A Car, Wichita
Willie Martin, Sedgwich County Commission

Chairman Dan Thiessen called the meeting to order at 11:08 and asked for requests for bill introductions, and recognized Don Schnacke, Kansas Independent Oil & Gas Association.

Don Schnacke said the bill they are proposing is similar to what Senator Johnston introduced, but limited to the small marginal 2 and 3 barrel per day wells that will soon be abandoned, plugged and gone forever. See page (2) of (ATTACHMENT 1-A) for the proposed bill. Accompanying his handout is (ATTACHMENT 1-B) From State Treasurer Joan Finney, Candidate for Governor, Regarding Release of Joan Finney's Energy Policy.

Senator Fred Kerr moved to introduce the proposal by Don Schnacke as a committee bill, 2nd by Senator Phil Martin. The motion carried.

Chairman Thiessen turned attention to SB14 and recognized Anne Smith, KS Association of Counties.

SB14:relating to the taxation of rental motor vehicles; amending K.S.A. 79-5101 and repealing the existing section.

THE FOLLOWING CONFEREES ARE PROPONENTS.

Anne Smith said they have an amendment to offer on the 2nd page of the bill and they are requesting deleting section (g) line 13 after the word "company" through line 18 the word "possible,". (ATTACHMENT 2)

Steve Graham, owner and operator of Budget Rent A Car in Wichita, said (2) problems exist with regard to property taxation of rental vehicles in KS. (1). Because taxes are so high relative to other states, some car rental companies are licensing to few cars within the state. (2). KS owned car rental businesses are at a real competitive disadvantage as compared with large corporate store operations.

He said SB14 would solve both problems. Because rental companies would be exempted from property tax on their vehicles registered in Kansas, they would then have an incentive to register cars here instead of a disincentive. This would result in more KS registrations and more registration fees for the state. These additional registration fees should more than offset any cost incurred by the Department of Revenue to administer the program. (ATTACHMENT 3)

Willie Martin, Sedgwich County Commission said they strongly support the Interim Committee conclusion that an excise tax in lieu of the motor vehicle tax on car rental agencies would assure a more stable and consistent revenue source for local units. (ATTACHMENT 4)

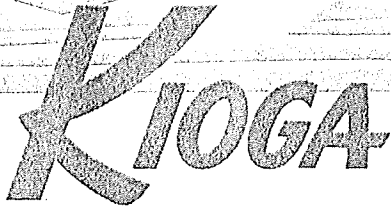
Chairman Thiessen concluded hearings on SB14 and adjourned the meeting at 11:35 a.m..

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 519-S, Statehouse, at 11:00 a.m. ~~p.m.~~ on Monday, February 4, 1991

WRITTEN TESTIMONY WAS TURNED IN BY THE FOLLOWING

1. Gerry Ray, Intergovernmental Officer, Johnson County Board of Commissioners. (ATTACHMENT 5)
2. Pam Summerville, Kansas Car Dealers Association (ATTACHMENT 6)
3. John C. Peterson, on behalf of Budget Rent A Car, Enterprise Leasing, and Midwest Car Corporation. (ATTACHMENT 7)



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 SOUTH BROADWAY • SUITE 500 • WICHITA, KANSAS 67202
(316) 263-7297 • FAX (316) 263-3021
1400 MERCHANTS NATIONAL BANK BLDG. • TOPEKA, KANSAS 66612
(913) 232-7772 • FAX (913) 232-0917

February 4, 1991

Statement of Donald P. Schnacke for Kansas Independent Oil & Gas Association

RE: Introduction of a bill to protect small producing oil wells

Near the end of the 1990 session, Senator Mike Johnston, a member of the Board of Directors of Kansas, Inc., introduced a bill that reflected one of several proposals that arose out of an extensive report prepared by Arthur D. Little, Inc. for Kansas, Inc. There was no time for hearings on the bill.

This summer, a special interim committee held brief hearings on the subject of taxes related to the oil and gas industry. No bills arose from the study, but the issues remain the same. As concluded in the report, Kansas oil production taxes are high when compared with other producing states and very high when the marginal nature of Kansas production is considered.

As was pointed out during the summer hearings, the effective tax rate on oil and gas production is 9.7% and another Kansas, Inc. report indicates all other commercial and industrial properties in Kansas have an effective tax rate of 3.3%. The matter of tax fairness directed at our industry is a serious issue.

The bill we propose is similar to what Senator Johnston introduced, but limited to the small marginal 2 and 3 barrel per day wells that will soon be abandoned, plugged and gone forever.

DPS:pp

SENATE ASSES. & TAX
ATT 1-A
2-4-91

AN ACT relating to property taxation; exempting certain oil properties therefrom.

Be it enacted by the Legislature of the State of Kansas:

Section 1. The following described property, to the extent herein specified, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

(a) All oil leases the average daily production from which is: (1) Exempt from the minerals severance tax pursuant to K.S.A. 79-4217, and amendments thereto, and (2) two barrels or less per producing well, or three barrels or less per producing well which has a completion depth of 2,000 feet or more; and

(b) all personal property, as defined by K.S.A. 79-329, and amendments thereto, directly associated with the actual production of oil from any lease exempt from property taxation pursuant to subsection (a).

(c) The provisions of this section shall apply to all taxable years commencing after December 31, 1990.

Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.

ATT 1-A 262
2-4-91

FROM: STATE TREASURER JOAN FINNEY, CANDIDATE FOR GOVERNOR

RE: RELEASE OF JOAN FINNEY'S ENERGY POLICY.

FOR MORE INFORMATION CONTACT: WICHITA HEADQUARTERS 264-9103

FOR IMMEDIATE RELEASE

Joan Finney annouces her energy policy to the voters of Kansas. The energy policy acknowledges the problems of the Kansas oil and gas industry. The energy policy also informs the voters of what Joan Finney plans to do to help the Kansas oil and gas industry. Joan Finney has a plan to use "Stripper" wells to continue producing the oil Kansas needs.

Complete copy of Joan Finney's Energy Policy is attached.

###

JOAN FINNEY - ENERGY POLICY

July 30, 1990

According to a recent statement by Henson Moore, Deputy Secretary of the U.S. Department of Energy, the greatest problem facing the American oil and gas industry today is the capping or plugging of stripper wells (wells which are not capable of making more than 10 barrels of oil per day.). I am in complete agreement with a proposal presented by the Interstate Oil & Gas Compact Commission for the U.S. government to establish an import fee on imported crude oil. We need this import fee to stabilize crude oil prices at a level that will allow our nation's "stripper" wells to continue to produce profitably. The nation's "stripper" wells are important to our U.S. economy for the following reasons:

- 1) There are 450,000 "stripper" wells in the U.S., averaging approximately 2.71 barrels per day, which produce 15% of the nation's energy.
- 2) Current national stripper well reserves constitute more than 6.5 times the amount of oil currently stored in the Strategic Petroleum Reserve (SPR), or more than 2 billion barrels of "stripper" oil reserves.
- 3) The cost of producing a barrel of "stripper" oil considerably exceeds the cost of producing a barrel of foreign oil or other types of U.S. oil production, other than oil produced by certain types of enhanced recovery production methods, so "stripper" oil cannot compete with the much lower production costs of foreign oil.
- 4) The "stripper" reserves do not have to be shipped into our ports thereby preventing potential pollution problems on the water or in our ports.
- 5) The "stripper" reserves are a reliable source of our nation's petroleum requirements, and are highly important to our national security and economic well-being.
- 6) The U.S. should not allow these "stripper" wells to be plugged and abandoned prematurely, thereby rendering large quantities of once recoverable oil unavailable to our nation forever, as this would be a disastrous and unsound conservation of a vital natural resource.
- 7) Foreign governments have considerably lower cost oil reserves in surplus quantities that they place in the market from time to time to cause oil prices to temporarily decline to force the plugging and abandonment of the U.S. stripper wells because of uneconomic conditions at these temporarily depressed prices. This action provides the foreign suppliers with a future greater market share, with their objective being to raise prices again after the U.S. stripper wells have been plugged or abandoned.
- 8) The problem of premature plugging and abandoning of U.S. stripper wells can be alleviated by the U.S. government establishing an import fee or a "floor" price of \$17.00 to \$18.00 per barrel for U.S. stripper well oil production whereby foreign oil production cannot force the price per barrel below this level, thereby making them uneconomic to operate.

ATT 1B-PC2
2-4-91

JOAN FINNEY - ENERGY POLICY

July 30, 1990

Page -2-

In the State of Kansas, 95% of our wells are stripper wells which at the end of 1988 amounted to 51,953 strippers averaging 3 barrels per day. Of these, 1,521 were abandoned. Capping these wells with concrete only pushes us deeper into a dependency on foreign oil.

I also agree with a proposal whereby ad valorem taxes on stripper oil in Kansas should be capped at 50% of the net profit from a lease. Stripper oil is exempt from the state severance tax, and it only makes economic sense that there must be a limitation or a cap on ad valorem taxes based on profitability. U.S. income tax would be the proof of profit.

A recent study completed by an independent consultant determined that the Kansas oil and gas industry, as a result of combined severance and ad valorem taxes, pays the equivalent of 90% of the amount that all corporations pay in corporate income taxes to the State of Kansas. I point this out not because I am pro oil and gas, but because I am pro Kansas, pro fairness, and pro Kansas taxpayer. Since the enactment of the Kansas severance tax, drilling activity in Kansas has declined and oil and gas property valuations have declined accordingly. This translates into a smaller base to tax within those counties. This means that other sectors must then absorb these declining oil and gas valuations, which means they must pay bigger share of the taxes. This means homeowners and farmers.

It is time to stop taxing the oil man out of existence and help get him a fair and stable price for his product. The "oil man" of Kansas is mainly the independent. These people live up to their name and ask for very little but a fair chance to explore for oil. Our country needs this oil, and Kansas needs its contribution to our state economy.

ATTY 18 PG 3
2-4-91



"Service to County Government"

212 S.W. 7th Street
Topeka, Kansas 66603
(913) 233-2271
FAX (913) 233-4830

EXECUTIVE BOARD

President

Gary Hayzlett
Kearney County Commissioner
P.O. Box 66
Lakin, KS 67860
(316) 355-7060

Vice-President

Marjory Scheufler
Edwards County Commissioner
R.R. 1, Box 76
Belpre, KS 67519
(316) 995-3973

Past President

Winifred Kingman
Shawnee County Commissioner
(913) 291-4040
(913) 272-8948

Dixie Rose
Butler County Register of Deeds
(316) 321-5750

Gary Post
Seward County Appraiser
(316) 624-0211

DIRECTORS

Leonard "Bud" Archer
Phillips County Commissioner
(913) 689-4685

Marion Cox
Wabaunsee County Sheriff
(913) 765-3323

John Delmont
Cherokee County Commissioner
(316) 848-3717

Keith Devenney
Geary County Commissioner
(913) 238-7894

Berneice "Bonnie" Gilmore
Wichita County Clerk
(316) 375-2731

Harry "Skip" Jones III
Smith County Treasurer
(913) 282-6838

Roy Patton
Harvey County Weed Director
(316) 283-1890

Thomas "Tom" Pickford, P.E.
Shawnee County Engineer
(913) 291-4132

NACo Representative

Joe McClure
Wabaunsee County Commissioner
(913) 499-5284

Executive Director

John T. Torbert

February 4, 1991

TESTIMONY

To: Senate Assessment and Taxation Committee
From: Anne Smith
Director of Legislation
Subject: SB 14 (Taxation of Rental Vehicles)

The Kansas Association of Counties supports SB 14. The decision to support the bill was made by the governing board of the association.

County treasurers from counties that have car rental agencies tell me that car rental companies seem to have their smaller less expensive cars registered in Kansas and the bigger, more expensive cars registered in surrounding states. The obvious impact is that if the car is supposed to be registered in Kansas and is registered in another state, Kansas local governments receive none of the revenue.

Under reciprocity agreements in which Kansas participates, the number of cars registered in each state in the current year should be representative of the portion of gross rental revenues derived from business in the state during the previous year. For example, if a rental company had a fleet of 10,000 cars and received 2% of its revenues from Kansas rentals, 200 cars should be registered in Kansas.

The reports that I received from county treasurers are basically anecdotal in this area. They have no way of determining if the rental company is in compliance with the law or not. However, a post audit report done in 1984 confirmed that there were abuses to the current system. That report found that "several companies which operate on an interstate basis do not appear to have the appropriate number of vehicles registered in Kansas."

2-4-91
ATT 2-1

(Two of the companies they audited had no Kansas registrations.) The report noted too that some rental companies with multiple Kansas locations registered all of their vehicles in one county. This appeared to be a matter of convenience rather than one of tax avoidance however.

I don't know what financial impact this legislation will have because we do not know how much tax avoidance is currently taking place. It is my judgement however that this new system will at least be a break even proposition and will probably be one that shows a net revenue gain.

This is not an untried system. It has been put in effect elsewhere and it does work. I've also attached to this testimony an amendment. The bill, as it is currently written, allows exceptions and would permit some rental vehicles meeting certain requirements to be registered and taxed in the same fashion that they are now. We feel that the exceptions only keep the current loopholes open. We believe that this new sales tax system should be imposed and enforced uniformly. To allow exceptions only creates administrative problems for the Department of Revenue and the county treasurers. This suggested amendment would do away with the exemptions and keep the legislation uniform in its application.

We urge your favorable consideration of this legislation with the amendment as suggested.

TSAVEHRG

SENATE BILL No. 14

By Special Committee on Assessment and Taxation

Re Proposal No. 10

12-28

10 AN ACT relating to the taxation of rental motor vehicles; amending
11 K.S.A. 79-5101 and repealing the existing section.
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 New Section 1. (a) In addition to the tax imposed pursuant to
15 the Kansas retailers' sales tax act, there is hereby imposed an excise
16 tax at the rate of 3½% upon the gross receipts received from the
17 rental or lease for a period of time not exceeding 28 days of motor
18 vehicles which except for the operation of K.S.A. 79-5101, and
19 amendments thereto, would be subject to taxation pursuant to K.S.A.
20 79-5101 *et seq.*, and amendments thereto.

21 (b) The director of taxation shall administer, enforce and collect
22 the tax imposed by this section. All laws and rules and regulations
23 of the secretary of revenue relating to the administration, enforce-
24 ment and collection of the retailers' sales tax shall apply to such tax
25 insofar as they can be made applicable, and the secretary shall adopt
26 such additional rules and regulations as necessary for the efficient
27 and effective administration, enforcement and collection thereof.

28 (c) The director of taxation shall remit daily to the state treasurer
29 all moneys collected from the tax imposed by this section. Upon
30 receipt thereof, the state treasurer shall deposit the entire amount
31 thereof in the state treasury. On June 30 and November 30 of each
32 year, the state treasurer shall remit to the county treasurer of each
33 county wherein a transaction taxable pursuant to this section took
34 place all moneys attributable to such transaction. Upon receipt
35 thereof, each county treasurer shall apportion and distribute all mon-
36 eys received to all tax levy units of the county in the same manner
37 as provided by K.S.A. 79-5110 and 79-5111, and amendments
38 thereto.

39 Sec. 2. K.S.A. 79-5101 is hereby amended to read as follows:
40 79-5101. As used in this act the term "motor vehicle" means and
41 includes all motor vehicles required to be registered under the pro-
42 visions of article 1 of chapter 8 of the Kansas Statutes Annotated
43 and amendments thereto, except: (a) Motor vehicles assessed and

1 taxed by the director of property valuation under the provisions of
2 chapter 79, article 6a, of the Kansas Statutes Annotated, and amend-
3 ments thereto; (b) motor vehicles of public service companies whose
4 property is assessed by the director of property valuation under the
5 provisions of article 5a of chapter 79 of the Kansas Statutes Anno-
6 tated, and amendments thereto; (c) motor vehicles owned by a man-
7 ufacturer of motor vehicles which are returned for taxation purposes
8 by the manufacturer on an average inventory basis under the pro-
9 visions of article 10 of chapter 79 of the Kansas Statutes Annotated,
10 and amendments thereto; (d) motor vehicles owned or possessed by
11 motor vehicle dealers which are taxed under the provisions of K.S.A.
12 79-1016 *et seq.* and amendments thereto; (e) mobile homes; (f) motor
13 vehicles having a gross vehicle weight of more than 12,000 pounds;
14 ~~(g) motor vehicles owned by a car rental company having a minimum~~
15 ~~of 20 motor vehicles registered in this state which were not purchased~~
16 ~~solely for resale but for bona fide rental or lease purposes for a~~
17 ~~minimum of 120 days unless such vehicles were stolen or damaged~~
18 ~~to the extent that future lease or rental is not possible; and (g) (h)~~
19 motor vehicles which are exempted from property taxation under
20 the provisions of the Kansas Statutes Annotated or the Kansas
21 constitution.

delete

22 Sec. 3. K.S.A. 79-5101 is hereby repealed.

23 Sec. 4. This act shall take effect and be in force from and after
24 its publication in the statute book.

MY NAME IS STEVE RAHAM. I'M A SECOND GENER. NON NATIVE KANSAN LIVING IN WICHITA. MY PARENTS AND I HAVE OWNED AND OPERATED THE BUDGET RENT A CAR FRANCHISE THERE FOR 29 YEARS AND WE EMPLOY APPROXIMATELY 40 PEOPLE IN OUR OPERATION.

IN MY OPINION, TWO SERIOUS PROBLEMS PRESENTLY EXIST WITH REGARD TO PROPERTY TAXATION OF RENTAL VEHICLES IN KANSAS. I THINK BOTH OF THESE PROBLEMS ARE RESOLVED BY SENATE BILL 14.

A 1984 LEGISLATIVE POST AUDIT REPORT POINTS TO A PROBLEM OF WHICH WE'RE ALL AWARE. BECAUSE KANSAS PROPERTY TAXES ARE SO HIGH RELATIVE TO OTHER STATES, SOME CAR RENTAL COMPANIES ARE LICENSING TOO FEW CARS WITHIN THE STATE. SOME ARE LICENSING VIRTUALLY NONE OF THEIR CARS IN KANSAS. CONSEQUENTLY, THE VARIOUS COUNTIES ARE NOT RECEIVING THE APPROPRIATE PROPERTY TAX REVENUE AND THE STATE DOESN'T COLLECT ITS' REGISTRATION FEES. THIS IS BECAUSE THE PRESENT STATUTE IS VIRTUALLY IMPOSSIBLE TO ENFORCE WITH REGARD TO CAR RENTAL COMPANIES. I'LL DISCUSS THE ENFORCEMENT ISSUE IN MORE DETAIL IN A MOMENT.

THE SECOND PROBLEM IS THAT KANSAS OWNED CAR RENTAL BUSINESSES ARE AT A REAL COMPETITIVE DISADVANTAGE AS COMPARED WITH THE LARGE CORPORATE STORE OPERATIONS. HERE'S WHY! THERE ARE ESSENTIALLY TWO TYPES OF CAR RENTAL OPERATIONS DOING BUSINESS IN KANSAS. ONE IS THE FRANCHISE TYPE OF OPERATION. TYPICALLY, THESE FRANCHISES ARE OWNED AND OPERATED BY SOMEONE WHO LIVES HERE IN KANSAS, KEEPS THEIR ACCOUNTING RECORDS HERE, IS PART OF THE LOCAL BUSINESS COMMUNITY. THE OTHER IS SIMPLY A RENTAL OFFICE OF A LARGE NATIONWIDE OPERATION. THEY EMPLOY A RELATIVELY SMALL NUMBER OF PEOPLE HERE. THEY RENT CARS HERE AND LITTLE ELSE. THEIR CARS ARE OWNED BY A NEW YORK BASED CORPORATION, OR THE EQUIVALENT THEREOF, AND MAY BE REGISTERED PRACTICALLY ANYWHERE. THESE ARE WHAT I REFERRED TO AS "CORPORATE STORES".

THE PRESENT STATUTES REQUIRE THESE CAR RENTAL OPERATIONS TO REGISTER A CERTAIN PERCENTAGE OF THEIR CARS IN KANSAS. IT PROVIDES THAT A COMPANY DETERMINE THE PERCENTAGE OF ITS GROSS REVENUE GENERATED IN KANSAS AND THEN REGISTER THAT SAME PERCENTAGE OF ITS TOTAL FLEET IN KANSAS. THIS SOUNDS FAIRLY SIMPLE ON THE SURFACE BUT IN REALITY IT'S NOT, AND IN THE CASE OF THE CORPORATE STORE OPERATIONS, IT'S VIRTUALLY IMPOSSIBLE TO AUDIT OR ENFORCE. THEIR RECORDS ARE MAINTAINED AT REGIONAL OFFICES AROUND THE COUNTRY MAKING ACCESS TO NATIONWIDE NUMBERS DIFFICULT. THEIR FLEET SIZES VARY TREMENDOUSLY FROM SEASON TO SEASON AND EVEN MONTH TO MONTH IN CERTAIN PARTS OF THE COUNTRY. THEY CAN SO EASILY MASSAGE THEIR FLEET SIZE NUMBERS AND REVENUE FIGURES, TO REFLECT WHAT THEY WANT TO REFLECT, THAT A WHOLE TEAM OF ACCOUNTANTS COULDN'T PIN THEM DOWN.

THIS ABILITY ON THE PART OF THE CORPORATE STORES TO REGISTER RELATIVELY FEW VEHICLES IN KANSAS GIVES THEM A SUBSTANTIAL

2-4-91
ATT 3-1

COMPETITIVE ADVANTAGE OVER A LOCAL FRANCHISE OPERATOR. AND, TO MAKE MATTERS WORSE, IF STRICT ENFORCEMENT WERE UNDERTAKEN, THE CORPORATE STORES WOULD HAVE LITTLE TROUBLE SIDESTEPPING THE LAW, WHERE THE KANSAS BUSINESSMAN WOULD BE MUCH EASIER TO FIN DOWN.

THE POINT IS THIS. THE PLAYING FIELD ISN'T LEVEL FROM A COMPETITIVE STANDPOINT AND IT CAN'T BE LEVELLED THROUGH ENFORCEMENT OR MINOR MODIFICATION OF EXISTING LAWS.

SENATE BILL 14 WOULD SOLVE BOTH PROBLEMS. ALL THESE RENTAL COMPANIES, CORPORATE STORE OR FRANCHISE, ARE PRESENTLY COLLECTING SALES TAX ON ALL RENTALS THAT ORIGINATE IN KANSAS. TO CHARGE AN EXCISE TAX ON CAR RENTALS, WITH THE ADDITIONAL TAX MONEY THEN BEING RETURNED TO THE COUNTIES, PROVIDES A WORKABLE SOLUTION TO THE COUNTIES NOT COLLECTING THEIR PROPERTY TAXES.

BECAUSE THE RENTAL COMPANIES WOULD BE EXEMPTED FROM PROPERTY TAX ON THEIR VEHICLES REGISTERED IN KANSAS, THEY WOULD THEN HAVE AN INCENTIVE TO REGISTER CARS HERE INSTEAD OF A DISINCENTIVE. THIS WOULD, OF COURSE, RESULT IN MORE KANSAS REGISTRATIONS AND MORE REGISTRATION FEES FOR THE STATE. THESE ADDITIONAL REGISTRATION FEES SHOULD MORE THAN OFFSET ANY COST INCURRED BY THE DEPARTMENT OF REVENUE TO ADMINISTER THE PROGRAM.

IT'S MY UNDERSTANDING THAT LEGISLATION SIMILAR TO THIS IS PRESENTLY IN PLACE AND WORKING WELL IN SEVERAL OTHER STATES.



SEDGWICK COUNTY, KANSAS

INTERGOVERNMENTAL COORDINATOR

WILLIE MARTIN

COUNTY COURTHOUSE • 525 N. MAIN • SUITE 315 • WICHITA, KANSAS 67203 • TELEPHONE (316)383-7552

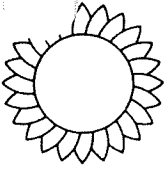
To: Senate Assessment and Taxation Committee
From: Willie Martin, Sedgwick County
Date: February 4, 1991
Re: Senate Bill 14 - Taxation of Rental Motor
Vehicles

Mr. Chairman and members of the Committee, thank you for this opportunity to speak in support of Senate Bill 14. I am Willie Martin representing the Sedgwick County Board of Commissioners.

We strongly support the Interim Committee conclusion that an excise tax in lieu of the motor vehicle tax on car rental agencies would assure a more stable and consistent revenue source for local units. The present system does not lend itself to equitability among all rental agencies. National agencies and local government have the complex process of identifying those vehicles which should be subject to tax in Kansas. There is not only the problem of how many vehicles but which ones should be taxed.

An excise tax levied on all vehicles rented within the state of Kansas will provide a stable tax source needed by local government as well as provide a more equitable system for car rental agencies.

2-4-91
ATT. 4-1



February 4, 1991

TO: Senate Assessment and Taxation Committee

FROM: Gerry Ray, Intergovernmental Officer
Johnson County Board of Commissioners

SUBJ: Senate Bill 14
Taxation of Rental Motor Vehicles

Due to a scheduling conflict, I regret I am not able to present testimony to the Committee on Senate Bill 14 today. However, I would like to express the support of the Johnson County Commission for the bill which offers an alternative to property tax on rental vehicles.

For many years the administration of taxing rental vehicles has presented a variety of problems to both the Appraiser and the Treasurer. Due to the nature of the rental car business and the mobility of the stock, it is very difficult to determine which vehicles should be taxed. We believe that the concept in Senate Bill 14 is an excellent approach to solving these problems in a fair and equitable manner.

Some may view this as yet another tax being imposed on the consumer. However, it should be recognized that it matters not what form the taxation takes, it is the consumer that ultimately pays it. Charging a sales tax at the time the vehicle is rented is a form of user tax that will be paid by the party receiving the benefit.

Senate Bill 14 is a reasonable means to bring about a solution to a problem that exists for county governments and rental car agencies. Johnson County would urge the Committee to recommend the bill for passage.

If there is any information specific to Johnson County that the Committee would like have on this issue, please let me know.

2-4-91
ATT 5-1



KANSAS MOTOR CAR DEALERS ASSOCIATION

800 Jackson, Suite 808 • Topeka, Kansas 66612 • (913) 233-6456 • (800) 825-0169 (KS only) • FAX (913) 233-1462



February 4, 1991

The Honorable Dan Thiessen, Chairman
Senate Assessment and Taxation Committee
Room 143-N
State Capitol
Topeka, Kansas 66612

Re: Senate Bill No. 14

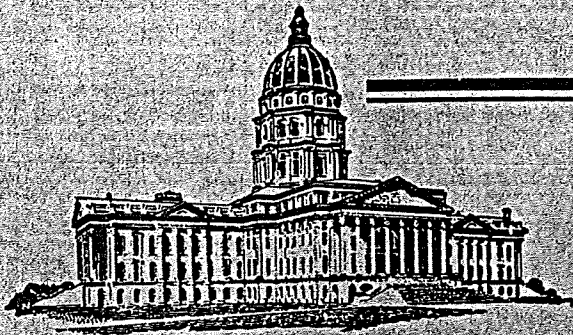
Chairman Thiessen and members of the committee:

Thank you for the opportunity to present written testimony in support of Senate Bill 14, relating to taxation of rental motor vehicles.

Many new car dealers have daily rental vehicles in their dealerships not only for those individuals needing vehicles while their automobiles are being serviced, but also for those individuals needing vehicles when their automobiles are being repaired in the body shop. Reducing the number to five would more accurately define rental vehicles while at the same time ensuring bona fide rental or lease purposes. Therefore, we request amending SB 14 on Page 2, line 15 following the word "of" by deleting 20 and inserting "5".

Thank you for your consideration and support of this amendment.

2-4-91
ATT 6-1



PERFORMANCE AUDIT REPORT

Vehicle Rental Agencies:

**Reviewing Compliance with Vehicle
Registration and Insurance Laws**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
June 1984**

2-4-91
ATT-71

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$3 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

As a guide to all their work, the auditors use the audit standards set forth by the U.S. General Accounting Office and endorsed by the American Institute of Certified Public Accountants. These standards were also adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee.

Legislators or committees should make their requests for performance audits through the Chairman or any other member of the Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Paul Hess, Chairman
Senator Neil H. Arasmith
Senator Ross O. Doyen
Senator Tom Rehorn
Senator Joe Warren

Representative Robert H. Miller,
Vice-Chairman
Representative William W. Buntin
Representative Joseph Hoagland
Representative Ruth Luzzati
Representative Bill Wisdom

LEGISLATIVE DIVISION OF POST AUDIT

Suite 301, Mills Building
Topeka, Kansas 66612
(913) 296-3792

PERFORMANCE AUDIT REPORT

Vehicle Rental Agencies: Reviewing Compliance With Vehicle Registration and Insurance Laws

OBTAINING AUDIT INFORMATION

This audit was conducted by Leo Hafner, senior auditor; and Curt Winegarner, auditor, of the Division's staff. Mr. Hafner was the project leader. If you need any additional information about the audit's findings, please contact Mr. Hafner at the Division's offices.

TABLE OF CONTENTS

SUMMARY OF AUDIT FINDINGS

**VEHICLE RENTAL AGENCIES: REVIEWING COMPLIANCE
WITH VEHICLE REGISTRATION AND INSURANCE LAWS**

Are Rental Vehicles Being Properly Registered As Required by Law?	1
Recommendation	5
Are Appropriate Property Taxes Being Paid On Rental Vehicles?	6
Is The Insurance Coverage Required By State Law Being Maintained on Rental Vehicles?	7
APPENDIX A: Summary of Rental Locations Audited	11
APPENDIX B: Agency Response	13

**VEHICLE RENTAL AGENCIES:
REVIEWING COMPLIANCE WITH VEHICLE REGISTRATION
AND INSURANCE LAWS**

Summary of Legislative Post Audit's Findings

Rental Vehicles Being Properly Registered as Required by Law?

All motor vehicles intended for use on Kansas highways are required to be registered in Kansas unless specifically exempted by law or by an interstate agreement executed by the Director of Vehicles. These interstate agreements allow vehicle rental companies operating on an interstate basis to register their vehicles proportionally in each state in which they do business.

The auditors visited 20 rental agencies in Kansas City, Salina, Topeka, and Wichita to determine if statutory registration requirements were being met. They found that several companies which operate on an interstate basis do not appear to have the appropriate number of vehicles registered in Kansas. Two of the companies they checked had no vehicles registered in Kansas.

No one in the State currently audits vehicle rental companies for compliance with registration laws. To do so would require traveling to corporate offices of the larger interstate companies. Such audits could possibly be conducted by auditors within the Department of Revenue, but further study would be needed to determine if the additional taxes and registration fees which might be generated would be sufficient to cover the costs of the audits.

Are Appropriate Property Taxes Being Paid on Rental Vehicles?

Kansas law does not allow a motor vehicle to be registered in the State unless the appropriate property taxes have been paid. Therefore, to the extent that rental vehicles are being registered in Kansas, the property taxes are being paid. However, companies that do not have the proper number of vehicles registered in Kansas also are not paying the appropriate amount of property taxes in the State.

The auditors also noted that several companies have rental locations in more than one county but register all of their vehicles in one county. The law is not specific regarding where cars should be registered and taxes paid when rental offices are in more than one county. The legislature may wish to clarify the law in this regard.

The Insurance Coverage Required By State Law Being Maintained on Rental Vehicles?

All vehicles operated on Kansas highways must be covered by liability insurance that meets minimum levels of coverage set by statute unless the driver qualifies as a self-insurator. Kansas enforces this mandate by requiring all drivers to provide the name of their insurance company and the policy number

when registering their vehicles. This information is subject to verification by the Department of Revenue. The auditors noted that other states do not necessarily require insurance as a prerequisite for registering vehicles. As a result, it may not be possible to know that a rental vehicle registered in another state and operated in Kansas is uninsured, until that vehicle is involved in an accident. The best control over this appears to be making sure that all rental companies register some of their vehicles in Kansas, thereby subjecting them to the insurance verification procedures involved when a vehicle is registered.

The auditors requested the Department of Revenue to verify that insurance coverage was maintained for the rental vehicles owned by the companies included in this audit. Many of the insurance companies have been slow in responding to the verification request. However, based on the responses received prior to publication of this report, no significant problems exist.

VEHICLE RENTAL AGENCIES:

REVIEWING COMPLIANCE WITH VEHICLE REGISTRATION AND INSURANCE LAWS

This performance audit of firms engaged in the business of leasing and renting motor vehicles was requested by the Senate Transportation and Utilities Committee. Many of these companies do business in a number of states, and the Committee wanted to know whether vehicles were being appropriately licensed, taxed, and covered by insurance. At its March 15, 1984 meeting, the Legislative Post Audit Committee directed its staff to conduct the audit. The staff addressed three main questions.

- Are rental vehicles being properly registered and licensed?
- Are the appropriate property taxes being paid on rental vehicles?
- Is the insurance coverage required by State law being maintained on rental vehicles?

To answer these questions the auditors reviewed rental transactions and vehicle registrations for a total of 20 rental agencies in Kansas City, Salina, Topeka, and Wichita. The agencies visited by the auditors included corporate branch offices of national chains, local licensees of large national firms, smaller interstate firms, and single-location Kansas agencies. The agencies visited are all listed in Appendix A of this report. The auditors also mailed questionnaires about vehicle registrations and insurance to some of the larger firms covered by this audit. Finally, insurance coverage was verified for rental agencies with cars registered in Kansas. The auditors' findings are discussed in the sections that follow.

Are Rental Vehicles Being Properly Registered as Required by Law?

Requirements for the registration and licensure of motor vehicles are generally contained in Chapter 8, Article One of the Kansas Statutes. The law requires every motor vehicle owner to apply for and obtain registration in Kansas for all vehicles intended to be operated in the State. This requirement applies even if the owner is not a Kansas resident and even though the vehicle may be based in a state other than Kansas.

There are three basic conditions under which the requirement to register vehicles intended to be operated in Kansas need not be met. The first of these conditions is if a vehicle is specifically exempted under K.S.A. 8-128. Exempted vehicles include farm machinery, road construction equipment, fire trucks, school buses, and the like. This exemption does not include rental vehicles.

The second exception is provided in K.S.A. 8-138a. This statute allows out-of-state owners to operate their vehicles in Kansas without obtaining a Kansas registration provided that the vehicle is used primarily for the transpor-

tation of the driver and one or more non-paying passengers. This privilege is granted only to residents of states granting the same privilege to Kansas residents. This appears to provide a blanket reciprocity for non-commercial vehicles and would not affect the need for car rental firms to register their vehicles in the State.

The third exception applies to those who are allowed to operate vehicles in Kansas without registering them in this State under an interstate agreement authorized by K.S.A. 8-127 and K.S.A. 74-4302. Such interstate agreements do apply directly to car rental agencies and are explained in more detail below.

Interstate Rental Agencies May Operate Cars in Kansas With Out-of-State Registrations, But They Must Register a Portion of their Fleet in Kansas

Although the law contains no specific provision that directly exempts rental vehicles from the requirement to be registered in Kansas, it does grant authority to the Director of Vehicles under K.S.A. 8-127 and K.S.A. 74-4302 to enter into agreements or contracts with other states to allow for reciprocal registration of vehicles. The Director of Vehicles has entered into such reciprocity agreements. As a result, rental companies that operate on an interstate basis may operate vehicles in Kansas that are registered in another state if they meet the requirements of the interstate agreements.

Although several agreements exist, the one that applies to the largest number of states is called the International Registration Plan. The Plan includes Kansas, 28 other states and one Canadian province. Under the Plan, companies that rent passenger cars must register vehicles in each state in which they have rental locations. The number of cars registered in each state in the current year should be representative of the portion of gross rental revenues derived from business in that state during the previous year.

Some Interstate Firms Appear to Have an Insufficient Number of Vehicles Registered in Kansas

To verify with certainty that interstate rental firms are registering the proper number of vehicles in Kansas, the auditors would have to travel to the corporate headquarters for each company and verify the number of vehicles in the rental fleet, the revenues generated in each state, and the number of vehicles registered in each state. Such a verification was not possible within the scope of this audit.

Instead, the auditors used two methods to obtain information about the level of compliance with Kansas' vehicle registration laws. The primary method involved visiting 20 rental locations for agencies operating in Kansas and reviewing rental contracts to determine how many of the cars rented in Kansas were actually registered in Kansas. Then, for some of the larger companies which appeared to have few rental vehicles registered in Kansas, the auditors mailed a questionnaire to the company to obtain information about the size of their rental fleet, the level of rental revenues generated in Kansas, and the number of cars they had registered in Kansas. The auditors' findings indicate that some firms appear to be in compliance with the law while others are not registering the proper number of vehicles in Kansas.

The table below shows the results of the auditors' field visits for the 14 rental locations having less than 100 percent of their rental fleet registered in Kansas. The companies are grouped into three categories. The first group shows large national chains with local operations that are owned by Kansas companies or individuals. The second group includes corporate branch offices of large national rental agencies (these branches are owned by the corporation, not by a Kansas operator). The third group includes smaller firms that have Kansas locations as well as locations in other states.

<u>Kansas-Owned Licensees of Large National Firms</u>	<u>Transactions Reviewed</u>	<u>Transactions With Kansas Registrations</u>	<u>Percent</u>
<u>National Car Rental</u>			
Salina	76	44	57.9%
Wichita	128	112	87.5
<u>Wis Rent-A-Car</u>			
Salina	25	21	84.0
<u>Hertz Rent-A-Car</u>			
Salina	63	52	82.5
Topeka	241	228	94.6
<u>Corporate Branch Office of Large National Firms</u>			
<u>National Car Rental</u>			
Overland Park	224	0	0.0%
<u>Wis Rent-A-Car</u>			
Overland Park	160	4	2.5
Topeka	167	7	4.2
Wichita	254	16	6.3
<u>Hertz Rent-A-Car</u>			
Wichita	256	231	90.2
<u>Agency Rent-A-Car</u>			
Overland Park	59	38	64.4
Wichita	48	13	27.1
<u>Other Interstate Firms</u>			
<u>Ark Auto Rental</u>			
Overland Park	79	0	0.0%
<u>American Auto Rental</u>			
Wichita	28	6	21.4

Kansas-owned licensees of large national firms appear to be in compliance with the law. Based on the auditors' review of rental agreements, Kansas-owned licensees of large national rental firms appeared to be operating within the law. As seen in the top portion of the table above, the rental transactions for most of these companies involved a Kansas-registered vehicle approximately 80 to 90 percent of the time. The 10 to 20 percent of rentals that do not bear Kansas registration appear to be one-way rentals of vehicles owned by the parent corporation or by an out-of-state licensee of the same rental company.

The only exception was the National Car Rental Office in Salina, at which only 57.8 percent of the transactions involved Kansas registered vehicles. Because all vehicles that belong to the Salina location were verified to be registered in Kansas, the auditors can only speculate that the National Car Rental office in Salina is a terminal point for a large number of corporately-owned, own-way rentals which are subsequently routed back to the owning city.

Some agencies with out of State ownership appear to have few cars registered in Kansas. Several rental agencies may be in violation of Kansas Vehicle Registration laws. These agencies are found primarily within the bottom two groups shown in the table on page 3. As the table shows, out of 224 rental transactions reviewed for National Car Rental's Overland Park Office, none of the cars were registered in Kansas. Likewise, the auditors reviewed 581 separate rental transactions at the three Kansas offices owned by Avis Rent-A-Car and found that only 27 of those transactions (4.6 percent) involved cars that were registered in Kansas. These two agencies were in direct contrast with the Hertz Rent-A-Car Corporation, where the auditors found that over 90 percent of the 256 rental transactions reviewed involved a vehicle registered in Kansas.

For the smaller interstate agencies shown in the bottom third of the table, the auditors found what appeared to be a similar problem. At Kwik Auto Rental in Overland Park, the auditors reviewed 79 rental transactions and found that all of them involved cars registered in Missouri. The Department of Revenue's files contain no record of any vehicles registered in Kansas under the name of Kwik Auto Rental. A low percentage of Kansas registered vehicles was also noted during the auditors' review of transactions of All American Auto Rental in Wichita. However, the Department of Revenue's records show a number of vehicles registered under the name of this company or its parent corporation.

Some firms confirm non-compliance. The auditors sent a brief questionnaire to each of four firms which appeared to have an insufficient number of vehicles registered in Kansas. Those questionnaires requested information about the number of vehicles in the company's rental fleet, the number of cars the company registered in Kansas, the method for determining the number of cars to be registered in each state, and the percent of gross rental revenue generated in Kansas. Three of those four agencies provided the information requested by the auditors. Avis Rent-A-Car did not respond. The responses to those questionnaires can be seen below.

<u>Company</u>	<u>Fleet Size</u>	<u>Number of Cars Registered in Kansas</u>	<u>Percent of Revenues Generated in Kansas</u>	<u>Proper Number of Registrations in Kansas</u>
All American Auto Rental	10,000	37	.37%	37
Agency Rent-A-Car	14,213	69	1.08%	154
National Car Rental	68,000	-0-	.1%	68

As can be seen, only one of the responding agencies (All American Auto Rental) indicated that it had the proper percentage of its fleet registered in Kansas. Agency Rent-A-Car's response indicates that it has 85 fewer cars registered in Kansas than the law requires. Likewise, National Car Rental's response indicates that it should have at least 68 cars registered in Kansas. At the current time, none of National's vehicles are registered in this State. These responses, although unaudited, tend to support the findings of the auditors' field visits.

Verify Compliance with Registration Laws Would Require an Audit Involving Work at the Corporate Headquarters

To accurately determine whether interstate rental companies are registering the proper number of cars in Kansas would require a more extensive review than the Committee authorized. Auditors would need to travel to corporate offices of leasing companies to verify the size of each company's rental fleet, the number of vehicles registered in each state, and the gross rental revenues derived in each state.

The Department of Revenue has two groups of auditors that could potentially perform such an audit. There are two auditors within the Motor Carrier Inspection Bureau who audit prorated carriers--primarily trucking companies--having their fleet proportionally registered in Kansas. These companies must register vehicles in Kansas under requirements that are similar to the requirements for car rental agencies. The major difference is that trucks are prorated on miles traveled in Kansas, and rental cars are prorated on the basis of revenues generated.

The Department also has an Audit Services Bureau whose auditors travel to offices of major corporations to audit for sales tax, income tax, and the like. It appears that when auditing the revenues of a rental company to determine the income taxes and other taxes due, the auditors could also check to determine that the proper number of vehicles were registered based on the revenue generated in Kansas.

However, before assigning such additional duties to either of the Department's audit groups, careful analysis would need to be done to ensure that the benefits derived in the form of additional property taxes and registration fees for the State are not outweighed by the cost of performing the additional audit work. That cost would need to be measured both in terms of personnel costs and in terms of other audit work which may need to be foregone to allow time to check on vehicle registrations.

Recommendation

The Department of Revenue should study the issue of auditing vehicle registrations of rental companies to determine if such audits could be conducted on a cost effective basis by their Audit Services Bureau or by their auditors within the Motor Carrier Inspection Bureau.

If auditing rental companies for vehicle registrations is not feasible, the Department should request each interstate rental

company to annually submit a statement indicating the portion of gross rental revenues generated in Kansas. Using this information, the Department should send a statement to each of these companies explaining the percentage of their vehicles that should be registered in Kansas during the upcoming registration year.

Are Appropriate Property Taxes Being Paid on Rental Vehicles?

Provisions for property taxes on motor vehicles are contained in Chapter 79, Article 51, of the Kansas Statutes. The property taxes are determined by taking 30 percent of the value of the vehicle as determined by a classification schedule developed by the Department of Revenue, and multiplying that amount by the county average tax rate for the county in which the vehicle is registered. Taxes on motor vehicles are levied annually to coincide with the registration year for each vehicle.

The law provides that a county treasurer shall not accept an application for registration of a vehicle unless the person registering the vehicle pays the applicable property taxes. Therefore, to the extent that rental vehicles are being properly registered in Kansas, it follows that the property taxes are being paid.

In Some Cases, the Law is Not Specific Regarding Where Vehicles Should be Registered and Taxes Should be Paid

During their testwork, the auditors noted companies with multiple rental locations in Kansas that registered all of their vehicles in one county. Three of the companies the auditors reviewed fit into this category. National Car Rental in Liberal owns rental locations in Dodge City, Garden City, Hays, Manhattan, and Topeka in addition to the Liberal location. However, according to records at the Department of Revenue, it appears that the company registers all of its cars in Seward County, where Liberal is located. A similar situation was noted for Harries Motor Company in Wakeeney, which operates Avis rental locations in Salina and Hays. All cars for this company appear to be registered in Trego County, where Wakeeney is located. Finally, Salina Leasing and Rental Inc., which operates Hertz locations in Salina, Manhattan, Hays, Great Bend, and Hutchinson, appears to have all of its cars registered in Saline County.

To determine if this practice was contrary to statute, the auditors reviewed the registration laws. K.S.A. 8-129 states that application to register a vehicle shall be made in the office of the county treasurer of the county in which the owner resides or has a bonafide place of business. Because these agencies have a bonafide place of business in several counties, they appear to have an option as to where to register their vehicles. This option directly affects how much tax is paid and where it is paid. For example, National Car Rental of Liberal maintains rental locations in six counties. The auditors assembled the tax rates for the 1985 registration year for three different classes of vehicles in those six counties. Those taxes are shown in the table below.

County	1985 Taxes		
	Class 7 Vehicle	Class 10 Vehicle	Class 11 Vehicle
Ellis	\$ 99.57	\$153.18	\$173.60
Finney	107.66	165.63	187.71
Ford	159.84	245.90	278.69
Riley	147.10	226.31	256.48
Shawnee	203.02	312.34	353.98
Seward	126.81	195.10	221.11

As shown in the table, there are wide variations in the property taxes assessed against motor vehicles in different counties. For example, in Shawnee County, the personal property taxes are 60 percent higher than in Seward County, where the vehicles are registered. In this particular example, however, the cars are not registered in the least expensive county where the company maintains a rental location. Both Ellis and Finney counties have lower tax rates than Seward county. Similar situations were noted for each of the other two companies as well. Thus it appears to be a matter of convenience that the vehicles are registered in the county where the company maintains its corporate office, rather than an attempt at avoiding taxes.

The State does not lose money regardless of where the vehicles are registered. The primary impact of registering vehicles all in one county is that no taxes are paid in the counties where the actual revenues are generated. Another impact could be a slight competitive advantage over other local firms if a multi-county operation registers all of its vehicles in a county with a substantially lower tax rate.

Recommendation

If the legislature perceives the lack of specificity about where to register rental cars to be a problem, K.S.A. 8-129 could be amended to specify where vehicles should be registered when a car rental company operates in more than one county.

Is The Insurance Coverage Required By State Law Being Maintained on Rental Vehicles?

Kansas law requires every motor vehicle operated on Kansas highways to be covered by motor vehicle liability insurance. The minimum limits for this insurance are contained in K.S.A. 40-3107. The owner of a vehicle can provide liability insurance in one of two ways. He or she can purchase a liability insurance policy that meets the minimum requirements of law or become self-insured as provided in K.S.A. 40-3104(d). In order to become self-insured, a vehicle owner must demonstrate the ability to pay any judgment arising out of vehicle ownership or use, must have a minimum of 25 vehicles registered in his or her name, and must obtain a certificate of self-insurance which is subject to the approval of the Insurance Commissioner.

Controls Have Been Established To Aid In the Enforcement of Insurance Requirements

A number of controls are built into the State's systems for regulating vehicles and insurance companies to ensure that proper motor vehicle coverage is maintained. First of all, K.S.A. 40-3118 provides that no vehicle may be registered in Kansas unless the owner has proper liability coverage. To enforce this law, the State requires vehicle owners to provide the name of their insurance company and policy number at the time they register their vehicles. To ensure that the insurance information provided is accurate, the Department of Revenue verifies the coverage with the insurance company for a sample of vehicle registrations.

In order to ensure that the statutory minimum limits of liability coverage are being maintained, the Insurance Commissioner, under K.S.A. 40-3106(b) requires all insurance companies doing business in Kansas to file a declaration stating that their motor vehicle insurance policies, wherever issued, will be considered to provide the minimum coverage required by Kansas law. This means that if a company is certified to do business in Kansas, its policies written on any vehicle in any state automatically conform to the Kansas minimums when that vehicle is driven in Kansas. This is true even if the stated limits of the policy are less than the minimums required by Kansas law.

Insurance companies not doing business in Kansas may also file a declaration with the Insurance Commissioner so that their insured will be in full compliance with Kansas laws when operating their vehicles in this State.

Enforcing Insurance Requirements for Vehicles Registered Outside Kansas May Not Be Possible

Although Kansas has established controls to ensure that automobiles registered in the State have adequate liability insurance, other states do not necessarily maintain the same insurance requirements or controls that Kansas has established. In fact, officials in the Insurance Commissioner's Office indicated to the auditors that approximately 21 states do not have mandatory liability insurance requirements. The lack of insurance requirements in other states can impact the enforcement of insurance requirements for car rental agencies with non-Kansas vehicles, because there is little chance of knowing that such a vehicle is uninsured prior to involvement in an accident.

In reality, however, it appears that the risk from uninsured vehicles owned by car rental agencies may be small. Most car rental companies visited by the auditors appeared to provide a single blanket policy covering all of the vehicles they own. Therefore, to the extent that adequate coverage is provided for a company's cars registered in Kansas, it would appear that the same coverage is being provided for all cars owned by the company. The main risks appear to be from those companies which operate rental locations in Kansas but have no cars registered in this State, and from companies that may drop their insurance coverage after registering their vehicles.

The first of these groups, as mentioned earlier, already appears to be not in compliance with vehicle registration laws. Bringing these companies into

compliance with the registration laws would also provide some assurance that the insurance requirements are being met. To determine if dropping insurance coverage was a problem, the auditors enlisted the aid of the Department of Revenue to verify that the stated insurance coverage was being maintained.

Rental Companies With Kansas-Registered Vehicles Appear to Be Maintaining the Required Insurance Coverage

The auditors attempted to verify that current insurance coverage was being maintained for the rental agencies they visited. Two of the companies indicated that they were self-insured. The auditors contacted the Insurance Commissioner's Office to verify that both of these companies did have an approved certificate of self-insurance on file. Two other companies had no vehicles registered in Kansas. As a result, it was not possible to verify that insurance coverage was being maintained.

For the remaining agencies, the auditors requested the Department of Revenue's Driver Control Bureau to use its authority to verify that insurance coverage was being maintained. The Department mailed requests to the insurance companies to verify that coverage was in effect. Many of these companies were slow in responding. Those that responded indicated that the proper coverage was in effect. Rather than delay the report, Legislative Post Audit decided to issue it with the findings in this area still somewhat incomplete. Should the remaining responses reveal any particular problems in this area. The Post Audit Committee will be informed at a later date.

Appendix A

Summary of Rental Locations Audited

	Number of Rental Transactions Reviewed	Number of Transactions Involving Kansas-Registered Vehicles
<u>Kansas City</u>		
Agency	59	38
Avis	160	4
Kwik Auto Rental	79	0
National Car Rental	224	0
Rent-A-Relic	78	78
<u>Salina</u>		
Avis	25	21
Hertz	63	52
National Car Rental	76	44
Payless Car Rental	18	18
U-Save Rent-A-Car	15	15
<u>Wichita</u>		
A-Used Car Rental	25	25
Agency Rent-A-Car	48	13
All American Auto Rental	28	6
Avis	254	16
Hertz	256	231
National Car Rental	128	112
<u>Topeka</u>		
Avis	167	7
Budget	52	52
Dodge City U.S.A.	29	29
Hertz	241	228