

Approved: _____
Date

Phillip Kline

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 30, 1995 in Room 519-S of the Capitol.

All members were present except: Rep. Pottorff - excused

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

Conferees appearing before the committee: Listed with bill on which they appeared.

Others attending: See attached list

Chair called for consideration of:

HB 2050 - Public Utility property tax surcharge authorized (Energy & Natural Resources)

Proponent: Bill Brown, President & CEO of KPL, Western Associates (Attachment 1)

Interested Party: Chris McKenzie, Executive Director, League of Kansas Municipalities (Attachment 2)

Opponent : Nicole Bryant, Attorney, CURB (Citizens' Utility Ratepayer Board) (Attachment 3)

After committee questions and discussion, the hearing on **HB 2050** was closed.

HB 2086 - Crawford County jail facility sales tax authorized (McKechnie & Yoh)

Moved by Shriver, seconded by Larkin, amend **HB 2086** to include Cowley County for purposes of the special distribution formula but not for the additional rate authority. Motion carried.

Moved by Larkin, seconded by Pettey, **HB 2086** be passed as amended. Motion carried.

Approval of committee minutes for January 23, 24, 25, 26, 1995.

Moved by Larkin, seconded by Pettey, the minutes for January 23, 24, 25 and 26 be approved.

Pettey noted the omission of a motion in the minutes for January 26 and requested inclusion under **HB 2057**, following the motion by Pettey of the following:

"Motion by McKinney, seconded by Pettey, a bill to include any coupon or trading stamp used in reducing tangible property to the consumer be submitted as a committee bill. Motion carried."

Moved by Larkin, seconded by Pettey, the minutes be approved as amended. Motion carried.

The next meeting is scheduled for January 31, 1995.

Adjournment.

TAXATION COMMITTEE GUEST LIST

DATE: JAN 30, 1995

NAME	REPRESENTING
Jim Ludwig	Western Resources
Bill Brown	Western Resources
Nicole Bryant	CURB
RICHARD ROBEWALD	TAXPAYERS
Patrick Wherley	KCPH.
Bruce GRAHAM	KEPCO
Matthias MARON	VAP
JOAN C. BOTTENBERG	WESTERN RESOURCES
Wayn Maccher	U.S. AFL-CIO
Bill Anderson	Water Dist. #1 of So. Co.
Marsha New	KMHA
Doug Smith	SITA
Lisa Ward	Intern, Phil Klino

(over)

TESTIMONY BEFORE THE
HOUSE TAXATION COMMITTEE

by Bill Brown

WESTERN RESOURCES, INC.

January 30, 1995

Mr. Chairman and Members of the Committee:

I am Bill Brown, President and Chief Executive Officer of KPL, a Western Resources Company. Western Resources, through its operating companies KPL, KG&E, and Gas Service, provides natural gas to approximately 637,000 customers in Kansas and northeastern Oklahoma, and electric service to 585,000 customers in eastern and central Kansas. We are headquartered in Topeka. I am here today for Western Resources in support of HB 2050. We pay far more Kansas property tax than anyone else. It's not a distinction we want, but we don't foresee escaping it because we have practically no control over increases in our taxes.

Our Kansas property taxes - KPL, KG&E and Gas Service combined - have grown from \$45 million in 1985 to \$89.7 million in 1994, nearly doubling in 9 years. Attached is a bar graph showing this growth. Our growing property tax burden is the reason we are asking you to support HB 2050.

After the bill was introduced, other utilities and the Kansas Corporation Commission (KCC) reviewed it and commented to us. Their requests for changes better distinguish the appropriate prerogatives of both the KCC and utilities. We offer

their requests as amendments to HB 2050 (attached). The amendments do not change the way the bill would work.

HB 2050 would allow electric and natural gas public utilities to recover any future increases in their property taxes by adjusting customers' utility bills without filing a formal rate case. It would similarly allow the Kansas Corporation Commission (KCC) to require utilities to reduce existing adjustments to reflect any future decreases in property taxes. It allows the KCC to make sure increases (or decreases) are spread fairly among customers. The bill would not allow recovery of any past increases, only ones incurred after the effective date of this act.

If we had recovered our 1994 tax increase of \$6.7 million under HB 2050, a residential electric customer's bill would have increased on average about 6 cents a month. A natural gas residential customer's bill would have increased on average about 56 cents a month. These are only estimates; the KCC retains authority to allocate the increases (or decreases) as it deems fair. We have used 1994 as an example; this bill would only allow us to recover future increases. Future rate adjustments would be based on our actual property taxes.

Although our property taxes vary from year to year, we do not see property tax relief in our future. Each session we face a few dozen bills and several concurrent resolutions which would increase our taxes. Not all of them pass, but the upward trend is set. We are also facing escalating mill levies at local and county levels. To name a few major causes of our rising property taxes:

. The USD general fund levy is likely to increase every two years, as it did by 2 mills in 1994.

. More school districts will find it necessary to exercise their local option budget (LOB) authority to make ends meet.

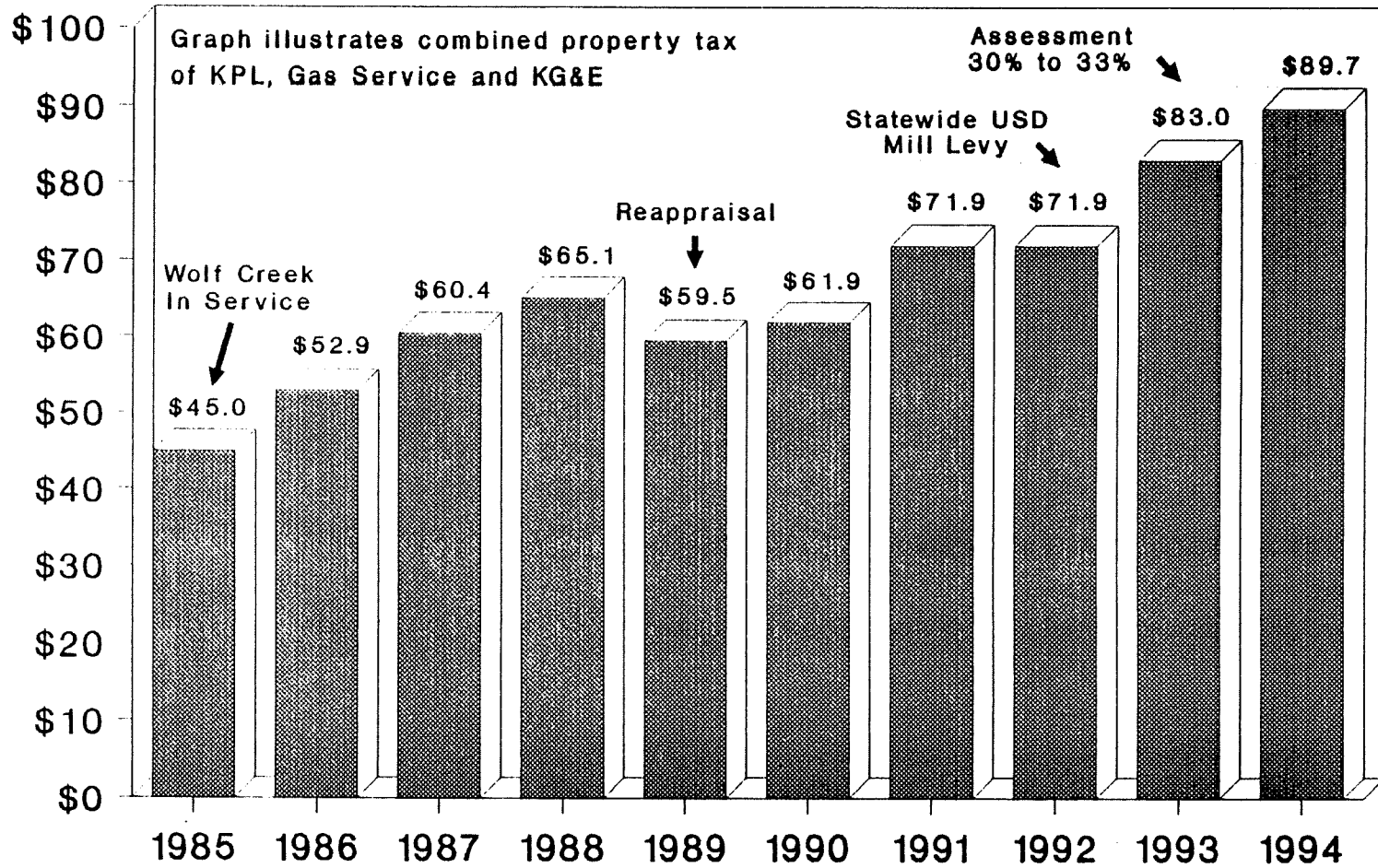
. Public demands for better protection and safety, more exemptions from mill levy lids, and funding for our state universities and community colleges are all likely to drive property taxes up.

We have absorbed property tax increases in the past. But we can no longer offset future increases by trimming other costs or by revenue gains through increased sales.

Without this bill, our only recourse is time-consuming, expensive rate cases. We do not believe rate cases should be prerequisite to recovering costs we cannot control and which we have incurred to help fund government-approved programs and policies. We ask you to vote for HB 2050, with the amendments we have proposed.

Western Resources, Inc. Kansas Property Taxes

Ad Valorem Tax (Millions)



1-4

(e) Whenever, after the effective date of this act, ~~there is a change in the annual amount of ad valorem taxes paid by~~ an electric public utility, a natural gas public utility or a combination thereof, ~~files tariffs reflecting a surcharge on the utility's bills for utility service designed to collect the annual increase in expense charged on its books and records for ad valorem taxes, such utility the change shall be reported annually to the state corporation commission the changes in expense charged for ad valorem taxes. For purposes of this section such amounts charged to expense on the books and records of the utility may be estimated once the total property tax payment is known. If found necessary by the commission or the utility, the utility shall file tariffs which reflect the change as a revision to the surcharge on the utility's bills for utility service. Upon a showing that the surcharge is applied to bills in a reasonable manner and is calculated to substantially collect the increase in ad valorem taxes paid, expense charged on the books and records of the utility, or reduce any existing surcharge based upon a decrease in ad valorem taxes paid expense incurred on the books and records of the utility, the commission shall approve such tariffs within 30 days of the filing. Any over or under-collection of the actual ad valorem tax increase charged to expense on the books of the utility shall be either credited or collected through the surcharge in subsequent period(s). The establishment of a surcharge under this section shall not be deemed to be a rate increase for purposes of this act. The net effect of any surcharges established under this section shall be included by the commission in the establishment of base rates in any subsequent rate case filed by the utility.~~



**League
of Kansas
Municipalities**

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LEGISLATIVE TESTIMONY

TO: House Taxation Committee

FROM: Chris McKenzie, Executive Director *Chris McKenzie*

DATE: January 30, 1995

RE: Testimony on HB 2050, Concerning Property Tax Surcharges

Good morning. Thank you for the opportunity to testify today concerning HB 2050. I appear today on behalf of the 543 member cities of the League of Kansas Municipalities, the 85 year old local government agency which provides training, information, research and intergovernmental relations services to the cities of Kansas.

As you know, the major thrust of this bill is to allow public utilities to directly list ad valorem (i.e., property) tax increases on electric and gas utility bills sent to their customers. Presumably this is being proposed to enumerate for ratepayers one of the tax related components of the cost of doing business for a public utility.

As the Committee is aware, by vote of the 1992 legislature and the electorate in November of that year, the ad valorem tax assessment rate on utility property was increased from 30% to 33%. As a result of this amendment to our state constitution, a major shift occurred in the ad valorem tax burden on to public utility property. This 10% increase in ad valorem tax burden by no means represents the only type of federal, state or local tax increase that has been or will be experienced by public utilities.

If the legislature feels it is appropriate to list property taxes separately on utility bills, the League would respectfully suggest that increases in all forms of taxation--federal, state and local--paid by such utilities be listed on the bills. This would seem the only fair thing to do.

House Taxation
1-30-95
Attachment 2

President: Harry L. Felker, Mayor, Topeka * Vice President: John Divine, Commissioner, Salina * Past President: Donald L. Anderson, Mayor, Lindsborg * Directors: * Chris Cherches, City Manager, Wichita * Yvonne Coon, City Administrator, Clearwater * Ed Ellert, Mayor, Overland Park * John Golden, Mayor, Goodland * Ralph T. Goodnight, Mayor, Lakin * Tom Martin, Commissioner, Dodge City * Larry Mathews, Commissioner, Newton * Nancy Maze, Commissioner, Fort Scott * Mary E. Reed, City Clerk/Director of Finance, Parsons * Neil Shortidge, City Attorney, Roeland Park * Joseph E. Steineger, Jr., Mayor, Kansas City * Melvin Williams, Councilmember, Mission * Executive Director: Christopher K. McKenzie

HOUSE TAXATION COMMITTEE

Testimony in Opposition to

House Bill 2050

Nicole Bryant

Attorney for the Citizens' Utility Ratepayer Board

January 30, 1995

Good morning, Mr. Chairman and members of the Committee. I am Nicole Bryant, attorney for the Citizens' Utility Ratepayer Board (CURB). I am testifying here today in opposition to House Bill No. 2050. Basically, CURB intervenes in pending utility cases before the Kansas Corporation Commission to "speak on behalf" of residential and small commercial ratepayers as directed by K.S.A. 66-1223. One of the many purposes behind CURB is to gauge the ultimate impact of utility company requests for rate increases on small business and residential ratepayers.

That is why I am here today -- CURB is concerned that if this measure (House Bill 2050) is enacted, there would be little, if any, Commission oversight when electric and natural gas public utilities attempt to pass their ad valorem taxes on to the consumer. House Bill 2050 would allow these utility companies to basically pass these

increases in their taxes through to residential and small commercial ratepayers *automatically* -- they would no longer have to file a formal rate case. As you already know, the filing of formal rate cases allows protection for the consumer from the abuses of market imperfections. Without such detailed regulation involved in rate case filings, the utilities could abuse their monopolistic power. After all, the basic objective of private corporations is profit maximization -- while the public interest demands adequate service at the lowest possible price.

It is through such formal rate filings that everything is thoroughly analyzed by the Corporation Commission's staff of accountants, economists and engineers. The theory is that the market has failed either to protect or to represent consumers or other public interests adequately. This regulation, in other words, supplies the elements of responsibility missing from these markets. Indeed, the underlying assumption is that without such formal rate filings and the Commission's oversight, the utilities would act in accordance with their private interests and this would not be consistent with the public interest.

Hence, the only beneficiaries to this proposal, which would allow these utilities to automatically pass their increases in ad valorem taxes on to the consumer without Commission oversight, are the electric and natural gas public utilities -- not the citizens of Kansas.

Consequently, I urge the members of this Committee to vote no on House Bill 2050.

I appreciate your courteous attention and will be happy to answer any questions you might have.