

Approved: April 29, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on March 15, 1999 in Room 519-S of the Capitol.

All members were present except: Rep. Howell - Excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Sharri L. Black, Program Director, Lutheran Social Service Kansas Adoption Network
Rochelle Chronister, Secretary of Kansas Department of Social & Rehabilitation Services
Michael Harris, of Junction City
Senator Steve Morris
Steve Rome, Southwest Kansas Irrigators Association
Montgomery Escue, Southwest Kansas Irrigators Association
Leslie Kaufman, Assistant Director of Public Affairs, Kansas Farm Bureau

Others attending: See attached list

The Chairman opened the public hearing on:

SB 45 - Income tax credit for adoption expenses

Proponents:

The Chairman introduced Sharri Black, Proponent, Program Director of the Lutheran Social Service (LSS) Kansas Adoption Network (Attachment 1).

The Chairman introduced Rochelle Chronister, Proponent, Secretary of the Kansas Department of Social and Rehabilitation Services (Attachment 2).

Questions and discussion followed conferee testimony.

The Chairman asked if there are any conferees present that wish to testify on **SB 45**.

The Chairman acknowledged Mr. Michael Harris of Junction City, Proponent, no written testimony submitted. Mr. Harris mentioned that he and his wife recently adopted a sibling group of three children, two boys and a girl who are all teenagers. They are in the process of adopting three more children and that will make a total of six children. Mr. Harris explained that these children each have a basic need, and although SRS supplies some financial support and medical support, the needs of these children far outweigh any cost that they can incur. He also explained that they have medical needs such as braces which are not covered. Mr Harris mentioned this bill will allow compensation at the end of the year on tax credit and would help the number of people that adopt children.

The Chairman closed the public hearing on **SB 45**.

The Chairman opened the public hearing on:

SB 78 - Property tax exemption for irrigation natural gas supply systems

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on March 15, 1999.

Proponents:

The Chairman introduced Senator Steve Morris, Sponsor of the bill (Attachment 3).

The Chairman introduced Steve Rome, Proponent, Southwest Kansas Irrigators Association (Attachment 4).

The Chairman introduced Montgomery Escue, Proponent, Southwest Kansas Irrigators Association, no testimony was submitted. Mr. Escue mentioned that he is a consultant to the oil and gas industry. Mr. Escue explained that they ran out of gas in the Hugoton Field as the pressures were declining and they had to do something so they took ownership of the situation. The importance of the bill is that they are starting out on something that is very new, and they need to make sure these things will work, because the viability of these things are long term. The exemption from the tax rolls is important while they get things up and running and it is a matter of them having to step into a completely new industry. He also noted that if they are not successful, there will not be a tax there anyway.

The Chairman introduced Leslie Kaufman, Proponent, Assistant Director of the Public Affairs Division of the Kansas Farm Bureau (Attachment 5).

Questions and discussion followed conferee testimony.

The Chairman closed the public hearing on **SB 78**.

The meeting was adjourned at 10:10 a.m.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE: March 15, 1999

SCOTT SCHNEIDER	McGILL, BRACHOS & ASSOC.
M. J. Dink	KDOT
Johi Hein	Hein & Co. Inc
Larry Klamman	League of KS Municipalities
Ann Durkes	DOB
Stacy Soldon	Hein & Willis
Michael Harris	
Roger Fraude	KGC
Steve Rome	SWKIA - Stevens North, Inc
Montgomery Exorce	SWKIA
Kathy Falck	Lutheran Social Service
Valerie Gudinghagen	" " "
Sheyl Heitler	Lutheran Social Service
Marilyn Jacobs	SRS
Jayce Allegucci	SRS
Whitney Darnon	Aradurka Petroleum Corp.
Leslie Kaufman	Kansas Farm Bureau
Anne Spiess	Peterson Public Affairs Group

Good morning, and thank you for this opportunity to address the importance of this bill which increases the income tax credit for adoption expenses.

My name is Sharri Black and I am the Program Director of the Lutheran Social Service (LSS) Kansas Adoption Network. Almost three years ago, LSS was awarded the adoption contract for the state. On October 1, 1996, we assumed responsibility for 730 children. In the short time since, that number has swelled to almost 2300 children for whom we are providing adoption services. During this time as well, we have experienced more adoptive placements in the state than ever before. Many families are responding to our recruitment efforts. Yet many children remain in need of families. At the end of December 1998, we had 727 children still waiting for families, and that number grows daily.

Being a parent is one of the most significant commitments there are in life. Being a parent to children through adoption, especially children who have experienced, or were in danger of experiencing, situations that has shocked or torn the hearts of many of us, is another matter. We ask these families to step forward and make that same commitment with many unknowns and no guarantees. We ask them to risk loving a child that may have tremendous pain and loss, and providing for the many needs of that child. No matter what. We ask them to be the parents of that child.

As parents of four children, three of whom were adopted through the child welfare system, my husband and I know first hand all the "hidden costs", if you will, of the journey of parenting and raising children.

Even with adoption support, which many families receive, the financial impact on a family, can be significant.

Senate Bill 45 will make a difference to the many Kansas families who will adopt children this year and in future years. Your support of this bill will join our efforts, and those of adoptive parents, to make a difference in the lives of the many children who wait for loving and committed families. I thank you on their behalf.

March 15, 1999
Sharri L. Black, LMSW

House Taxation
3-15-99
Attachment 1

**State of Kansas
Department of Social
& Rehabilitation Services**

Rochelle Chronister, Secretary
Janet Schalansky, Deputy
Secretary

For additional information, contact:

SRS Office of the Secretary
Laura Howard, Special Assistant
915 SW Harrison Street, Sixth Floor
Topeka, Kansas 66612-1570
☎785.296.6218 / Fax 785.296.4685

For fiscal information, contact:

SRS Finance Office
Diane Duffy, CFO
915 SW Harrison Street, Tenth Floor
Topeka, Kansas 66612-1570
☎785.296.6216 / Fax 785.296.4676



**House Taxation Committee
March 15, 1999**

Testimony: SB 45

**Department of Social and Rehabilitation Services
Rochelle Chronister, Secretary
(785) 296-3271**

*House Taxation
3-15-99
Attachment 2*

Contents

Testimony SB 45

**Kansas Department of Social and Rehabilitation Service
Rochelle Chronister, Secretary**

**House Taxation Committee
SB 45**

March 15, 1999

Mr. Chairperson and members of the Committee, I am Rochelle Chronister, Secretary of the Department of Social and Rehabilitation Services. I thank you for this opportunity to appear before you today in support of Senate Bill 45.

The Department of Social and Rehabilitation Services supports tax credit for adoption expenses incurred by families adopting children. The reduction in the financial burden associated with adoption will encourage families to adopt children. Consequently, permanency will be established for more of our children caught, though no fault of their own, in the foster care system. These children will be with loving and caring parents in a permanent home.

To qualify for the tax credit, Kansas families are required to meet the qualifications pursuant to section 23 of the federal internal revenue code. As per the code, the expenses must be reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are:

- directly related to the legal adoption of an eligible child,
- not incurred in violation of State and Federal law (i.e. carrying out any surrogate parenting arrangement), and
- not in connection with the adoption by an individual's spouse (step-parents).

An eligible child, as defined in section 23, is less than 18 years of age or is physically or mentally incapable of caring for himself.

Children with special needs are also included in the tax credit allowance of the federal code. A child with special needs, as determined by the state is a child who: 1) should not be returned to the home of the parent and 2) is eligible for adoption assistance as a result of factors or conditions (ethnic background, age, minority or sibling group, medical, mental, physical, or emotional handicaps) who can not be placed with adoptive parents without adoption assistance.

Senate Bill 45 increases the available adoption expense credit enacted in 1997 from \$1500 to \$3000.

Thank you for this opportunity to speak with you today.

STATE OF KANSAS



TOPEKA

SENATE CHAMBER

STEVE MORRIS

SENATOR, 39TH DISTRICT
600 TRINDLE
HUGOTON, KS 67951
(316) 544-2084

STATE CAPITOL BUILDING, ROOM 143-N
TOPEKA, KS 66612
(785) 296-7378

COMMITTEE ASSIGNMENTS

CHAIRMAN: AGRICULTURE
SRS TRANSITION OVERSIGHT
VICE CHAIR: ENERGY AND NATURAL RESOURCES
MEMBER: CHILDREN'S ISSUES
ORGANIZATION, CALENDAR AND
RULES
STATE BUILDING CONSTRUCTION
UTILITIES
WAYS AND MEANS

HOUSE TAXATION COMMITTEE

SB 78

March 15, 1999

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to visit with you regarding SB 78. The need for this bill arose due to the formation of several non-public utilities located in Southwest Kansas. These utilities were formed in response to the rapidly declining pressures from gas wells in the Hugoton Field.

As you know, irrigation is a vital part of the economy in Kansas and particularly in Southwest Kansas. The vast majority of irrigation wells depend on natural gas for their fuel. The engines powering the irrigation wells require in most cases a minimum of eight psi to operate. The natural gas industry has pulled these wells so hard that most pressures are zero or close to zero. Because of the pressure problem and overall access to supplies of natural gas for irrigation engines, some irrigators have formed several non-public utilities. The irrigators have tackled this problem "head-on" and have spent thousands and thousands of dollars setting up their own infrastructure so they can be assured of a stable supply of fuel.

The members of the NPU's have been irrigating for years with the traditional "informal" infrastructure. This "informal" infrastructure consisted of an irrigation well, pump, engine, gearhead, water lines, sprinklers and gas lines from a gas source to the engine. All of these items are considered to be "agricultural equipment and machinery" as defined by statute and as such, are exempt from property tax.

These NPU's utilize a more "formal" infrastructure with the lines carrying the natural gas to the engine. These more "formal" lines need to be exempt just like the "informal" ones. They perform the same function and are agricultural in nature.

Thank you very much for your consideration of this bill. I will be glad to answer questions.

House Taxation
3-15-99
Attachment 3

Testimony of Steve Rome to the House Assessment
and Taxation Committee
March 15, 1999

Mr. Chairman and Members of the Committee, my name is Steve Rome. I am an irrigation farmer from Stevens County. I currently serve as President of SWKI-Stevens North, Inc., a non-profit utility created under statute 66-104(c). I want to thank you for the opportunity to testify in support of Senate Bill 78.

A little less than two years ago, I testified before two legislative committees; at which time, we explained that the declining pressure in the Hugoton Field was causing the producers and gatherers to install compressors to maintain the production of their gas wells. As a consequence of installing such compression there was a lowering of the gathering system pressure, which in turn caused a situation where an insufficient volume of gas to run an irrigation engine would flow thorough the lines irrigators had installed from the gas wells to their irrigation engines.

Problem:

- Irrigators were unable to receive adequate gas pressure to run their irrigation engines.
- Utilities ere not coming forward to build lines to serve us with a replacement supply of natural gas for irrigation (one utility asked that irrigators commit to purchase gas before the conditions, terms, and prices were stated); we also had a desire to protect ourselves by having group ownership of a gas supply system, so that we would not be dependent on a utility for an absolutely essential component of our livelihood.
- Diesel, propane, and electricity were not long-term economical solutions for our needs.

House Taxation
3-15-99
Attachment 4

Testimony of Steve Rome**Solution:**

The Southwest Kansas Irrigation Association called irrigators together to find a solution and they agreed upon a solution was formation of non-profit utilities. In response to the problems caused by low field pressure and additional compression, irrigators have banded together to create Non-Profit Utilities (NPU's). A NPU is a non-profit corporation to whom the Kansas Corporation Commission had issued a certificate of public convenience and necessity to deliver natural gas to its members. NPUs are a self-help solution for irrigators to solve their own problems by creating a distribution pipeline to bring a reliable and economical natural gas supply to their adequate pressure. To create an NPU, irrigators have organized themselves into a corporation (NPU), researched the law and engineering, and agreed upon a distribution pipeline design and a set of rules both to govern their pipeline and to pay for the pipeline.

NPU Accomplishments:

- We have obtained a Kansas Corporation Commission certificate of public convenience and necessity; we were able to quickly obtain our certificate because of the direct and extensive support of the KCC staff.
- We have formed non-profit utilities so that collectively our membership can build and own their gas distribution lines.
- We have an estimated cost of the pipeline and Authorizations For Expenditures prepared based on extensive data collection and an engineering study.
- We have a pipeline designed so that everyone who is now a member can have wells included.

Testimony of Steve Rome

- We have been able to secure pipeline connections (taps) for gas delivery from high-pressure lines (with a durable supply of gas).
- It is the presence of non-profit utilities that has created new access to irrigation natural gas.
- We have also used our group status as a non-profit utility to negotiate a gas price significantly lower than can be expected for individual irrigators.

Since this was actually only the first time the statute (66-104c) had been used, there were lots of questions and skepticism that had to be addressed. We were learning as we went. There were many questions for the KCC as to how they would look at a non-profit utility (NPU) and whether they saw a problem with this statute being used in this manner. The KCC has really been supportive during this process and went beyond the call of duty to make things happen in a timely manner. Because the compressor project was somewhat a new venture for the gas companies, they had a hard time giving us an indication as to how much time we had to get these systems built. So from day one it has felt like we have been in a crisis situation.

During the decision phase of this process many irrigators were looking for and continue to look for other sources of energy for irrigation. A few farmers bought diesel engines and there is currently one in my own shop in case of an emergency. At our request, our county agent had a K-State economist complete an economic study of different energy sources and at the current price, diesel is competitive. There are several concerns we have with converting to diesel engines:

- 1.) The cost of a new engine is \$10,000 to \$15,000;

Testimony of Steve Rome

- 2.) The logistics of scheduling fuel deliveries on a weekly basis;
- 3.) The environmental and economic concerns of vandalism to these tanks, resulting in leakage;
- 4.) The volatility of the price of diesel considering that oil prices are at an all time low.

Even though diesel engines would have been considered tax exempt, they have not been a popular solution.

Obviously, the cost of building these systems had to come from the proceeds of each member's operation, but unfortunately this problem came at a time when irrigators were receiving record low prices for the commodities they produce. The producer cannot automatically ask for a higher price for the product he sells to offset the additional expense to build this system.

There is justification for the tax exemption of these systems:

- Since no utility offered to be a realistic part of the solution to this problem within the time frame we needed it, we were forced to spend many volunteered hours in meetings working for a solution to this problem;
- Since the lines are being paid for from the proceeds of production agriculture, it would appear that such lines could be considered similar to other farm machinery or equipment that is currently tax exempt;

Testimony of Steve Rome

- Also, many of the gas gartering lines that irrigators have already paid for are being abandoned because the gas well no longer has enough pressure to supply gas to the irrigation engines. These lines were also considered farm equipment and are tax exempt.

In conclusion, I thank you for your attention and invite any questions that you might have.



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: SB 78 - providing for a property tax exemption for certain natural gas distribution equipment.

**March 15, 1999
Topeka, Kansas**

**Presented by:
Leslie Kaufman, Assistant Director
Public Affairs Division
Kansas Farm Bureau**

Dear Chairman Adkins and members of the House Taxation Committee, thank you for this opportunity to express Farm Bureau's support for the concepts of SB 78. As you know, the bill provides a property tax exemption for machinery and equipment comprising a natural distribution system which is owned and operated by a nonprofit public utility and used predominantly for providing fuel for irrigation of land devoted to agriculture use. Additionally, SB 78 exempts these same types of systems from the definition of "public utility" as defined in K.S.A. 79-5a01.

Farm Bureau members are extremely concerned with various natural gas issues, particularly those associated with irrigation. This past November, the farmer and rancher voting delegates of Kansas Farm Bureau reaffirmed their support for measures to prolong the life of existing gas fields and insure access to affordable, timely, dependable and uninterrupted supplies of natural gas for irrigation and other

*House Taxation
3-15-99
Attachment 5*

agricultural purposes. Delegates also expressed support for the opportunity current statutes provide for the creation of nonprofit utilities.

SB 78 provides appropriate property tax exemptions for these nonprofit utilities. These nonprofit utilities will be filling a critical natural gas delivery service need in areas where current service does not exist or does not exist in a dependable, uninterrupted manner. For many, transmission and delivery of irrigation fuel by a nonprofit utility is an integral component to their agriculture operations.

We encourage the legislature to preserve the opportunity Kansas law currently provides for the formation of nonprofit utilities. The property tax exemption and definition exclusion contained in SB 78 are reasonable, logical and much needed corollaries to the nonprofit utility provisions. As such, we respectfully request the House Taxation Committee recommend SB 78 favorable for passage. Thank you.