

Approved: 1-19-99  
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:00 a.m. on January 14, 1999, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Don Hayward, Revisor of Statutes Office  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Karla Pierce, Secretary of Revenue  
Senator Steve Morris  
Vincent P. DiPiazza, Garden City Asst. City Manager  
Jim Kaup, City of Garden City  
Dan Hermes, Office of the Governor  
Judy Moler, Kansas Association of Counties

Others attending: See attached sheet.

The minutes of January 12, 1999, were approved.

Karla Pierce, Secretary of Revenue, requested the introduction of two bills. Ms. Pierce explained that, as a result of the major improvements in the operations of the Department of Revenue, four impediments to rapid resolution of tax debt cases were identified. The first proposed bill provides for additional authority to assist the Department in resolving tax debts in a fair and equitable manner. The second proposed bill clarifies that the refund of property tax under a provision of the Tax Equity and Fairness Act of 1997 should be paid from the homestead refund appropriation. (Attachment 1)

Senator Bond moved to introduce both of the bills, seconded by Senator Hardenburger. The motion carried.

**SB 2-Sales taxation; classifying cities in Finney County for imposition authority for economic development purposes.**

Senator Steve Morris, author of the bill, informed the Committee that Garden City is in need of new nonproperty revenue to reconstruct and improve its municipal swimming pool and to help equip a fine arts center that U.S.D. 457 will construct if a bond issue passes in June of this year. **SB 2** would give Garden City an additional 3/4 cent sales tax authority. He explained that Garden City wants to put the question of whether to impose a new city sales tax before the voters at the April city election. To do so, authority to impose the tax must be in the law by approximately March 1. (Attachment 2)

Vince DiPiazza, Garden City Assistant City Manager, testified in support of **SB 2**. He explained that the bill would designate incorporated cities in Finney County as Class D cities, and cities so classified have the authority to levy up to an additional .75 percent sales tax above the existing 1 percent sales tax, subject to local referendum and limited to a five-year duration. He noted that the two projects Garden City hopes to fund with the additional sales tax authority are in the category of quality of life projects. It would be difficult to fund the projects under the City's existing revenue structure, given the other demands on the City's resources. (Attachment 3)

Jim Kaup, representing the City of Garden City, requested two amendments to **SB 2**. The first amendment would correct the title of the bill by deleting "for economic development purposes." He noted that the purpose of the bill is for public infrastructure, not for economic development purposes. The second amendment would change the effective date from publication in the statute book to publication in the *Kansas Register*.

Mr. Hayward noted that the Revisor of Statutes Office would correct the title of the bill.

Senator Corbin moved to amend SB 2 on page 1, line 43, by deleting "statute book" and inserting "*Kansas Register*," seconded by Senator Lee. The motion carried.

Senator Corbin moved to amend SB 2 by including Reno County for the purpose of authorizing a ½ cent sales tax for economic development purposes, seconded by Senator Lee. The motion carried.

Senator Lee moved to amend SB 2 by including Russell County for the purpose of authorizing a ½ cent countywide sales tax referendum to support improvements to the county courthouse, seconded by Senator Steineger. The motion carried.

Senator Lee moved to report SB 2 as favorable for passage as amended, seconded by Senator Steineger. The motion carried.

Dan Hermes, Director of Governmental Affairs in the office of the Governor, briefed the Committee on the Governor's budget recommendations. He discussed the following bill topics requested for introduction by the Governor: motor vehicle tax elimination, an increase in the refundable income tax credit businesses receive for property taxes paid on machinery and equipment, repeal of the severance tax on coal and oil, an increase in income tax credit for families that adopt, and a sales tax exemption for grain storage and transportation. Mr. Hermes requested the introduction of bills regarding business machinery and equipment, the severance tax, and the adoption income tax credit, noting that the House earlier introduced bills on the other topics he discussed. (Attachment 4)

Senator Bond moved to introduce the Governor's proposed bills on the subjects named by Mr. Hermes, seconded by Senator Steineger. The motion carried.

Judy Moler, Kansas Association of Counties (KAC), requested the introduction of a bill that would allow a tax to be levied on wireless telephone services. She noted that counties currently collect a tax on hard-wired telephone systems which is used for the financing of operations of the emergency telephone service provided through Emergency Communications. KAC is not requesting a new tax but is asking that the existing tax prescribed by K.S.A. 12-5302 be levied equitably, and all who benefit from the service contribute to the tax used for Emergency Communications. (Attachment 5)

Senator Lee moved to introduce the bill, seconded by Senator Praeger. The motion carried.

The meeting was adjourned at 11:50 a.m.

The next meeting is scheduled for January 19.

# SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: January 14, 1999

NAME	REPRESENTING
Shirley Scilvain	Ks. Dept. of Revenue
Gracia Walker	KDOR
Carla Pierce	KDOR
Julie Moller	KAC
Bud Burke	Johnson County
Kelly Kuetala	City of Overland Park
Jim Langford	DAB
Don Schnack	KIOGA
Natalie Bright	KCCI
Dave Holthaus	Western Res.
Mike Stone	Ks taxpayers network
Doug Smith	SWKROA
Shane Gagnebin	Sen. Stephens staff
WALTER WAY	Johnson Co SHERIFF
MIKE SELVES	" " EMERGENCY MET

**STATE OF KANSAS**

*Bill Graves, Governor*

**DEPARTMENT OF REVENUE**

*Karla J. Pierce, Secretary*

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**Office of the Secretary**

**TESTIMONY**

**TO:** Senate Assessment & Taxation Committee  
Senator Langworthy, Chairperson

**FROM:** Karla Pierce, Secretary of Revenue

**RE:** Kansas Tax Equity and Fairness Act

**DATE:** January 14, 1999

Thank you for allowing me to present the Department of Revenue's proposed legislation.

As a result of the major improvements in the operations of the Department, four impediments to rapid resolution of tax debt cases were identified. The first bill provides for additional authority to assist us in resolving tax debts in a fair and equitable manner. We have done much work in streamlining the tax appeal process. Once the final liability is established, the next process that takes place is the collection of that debt. Our current statutes do not provide for an adjustment on this final liability except in the case of insolvency of an individual taxpayer. This proposed legislation will allow us to work with taxpayers in a reasonable manner to resolve final liability debt.

The legislation provides a process for the department to abate any income, sales or compensating tax liability if there is serious doubt to its collectability. The process is defined, as well as reporting requirements of all abatements over \$5,000 to legislative post audit, secretary of state and attorney general.

The next provision updates our write-off procedures to provide a write-off of uncollectable debt under \$100 or five years old.

The third provision provides an opportunity for a hearing on both the relationship of the corporate officer and the amount of the debt when the Department is holding a corporate officer of the taxpayer liable for the tax debt.

The fourth and final provision eliminates the Division of Collections. This Division currently operates under the Division of Taxation.

*Senate Assessment & Taxation  
1-14-99  
Attachment 1*

The second bill clarifies that the refund of property tax under a provision of the Tax Equity and Fairness Act of 1997 should be paid from the homestead refund appropriation.

We respectfully request that the committee introduce this proposed legislation.

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STEVE MORRIS

SENATOR, 39TH DISTRICT

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TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

CHAIRMAN: AGRICULTURE  
SPECIAL CLAIMS AGAINST THE STATE  
VICE CHAIR: ENERGY AND NATURAL RESOURCES  
SRS TRANSITION OVERSIGHT  
MEMBER: STATE BUILDING CONSTRUCTION  
UTILITIES  
WAYS AND MEANS

SENATE ASSESSMENT AND TAXATION COMMITTEE

SB 2

January 14, 1999

Senator Langworthy and Committee Members:

Thank you for allowing me to present these short remarks on SB 2. This is a very simple bill similar to what we have done for several other cities over the last several years.

Garden City is in need of new non-property tax revenue to reconstruct and improve its municipal swimming pool and to help equip a fine arts center that U.S.D. 457 will construct if a bond issue passes in June of this year. The municipal swimming pool cost is estimated at \$4,000,000. Of that amount, engineers say \$2,000,000 is needed for repairs that must be made if the pool is to remain open after the 1999 season.

Garden City already uses its full statutory one cent city sales tax authority. Money from that sales tax is pledged to retire street improvement bonds and also to help pay for general operating costs of the City. SB 2 would give Garden City 3/4 cent of additional sales tax authority. It is likely that only 1/2 cent will be used, and also likely that the tax will only be necessary for two years. Garden City wants to put the question of whether to impose a new City sales tax before the voters at the April 6, 1999 City Election. To do so, authority to impose the tax must be in the law by around March 1.

Thank you very much for your consideration of this bill.

Senate Assessment & Taxation  
1-14-99  
Attachment 2

COMMISSION  
Ben K. Frost  
Mayor  
Tim Cruz  
James D. Douglass  
Dennis E. Smith  
Bonnie Talley

# City of Garden City

Robert M. Hallor  
City Manager  
Vincent P. DiPiazza,  
Asst. City Manager  
Melinda A. Hitz,  
Finance Director  
Randall D. Grisell,  
City Counselor

CITY ADMINISTRATIVE CENTER  
301 North 8th • P.O. Box 499 • Garden City, Kansas 67846-0499  
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## Summary of Testimony from the City of Garden City in Support of Senate Bill 2

The City of Garden City is seeking a special legislative grant of authority to exceed its current statutory sales tax limit in order to fund two local projects. Senate Bill 2 would designate incorporated cities in Finney County as Class D cities. Cities so classified have the authority to levy up to an additional .75 percent sales tax, above the existing one percent sales tax, subject to local referendum and limited to a five-year duration. The bill would increase the number of Class D cities in Kansas from 56 to 58 with the addition of Garden City and Holcomb.

As you probably know, Garden City is a rapidly growing community. Although most of us would not have it any other way, growth does exact a toll on the City's resources. Meeting the operational and capital needs generated by growth requires significant up-front investment, with the payoff to the community occurring over the long term. Our current budget resources-- sales tax, property tax, franchise fees, and intergovernmental revenues being the primary ones-- are doing well to keep up with fundamental needs. However, we often find ourselves in a pinch when we need to find resources for local "amenities," things that enhance the quality of life in our community.

The two projects that we are hoping to fund with the additional sales tax authority are in the category of quality of life projects. The major project of the two is a complete renovation and enhancement of the City's municipal pool, affectionately known as the "Big Pool." The estimated cost of this project is \$4-5 million dollars. The other project is the joint development, with U.S.D. 457, of a "fine arts" auditorium facility. This is planned to be done in conjunction with a school district building expansion project, with the estimated cost of the City's share to be roughly \$500,000. These projects total an amount that we would find very difficult to fund under the City's existing revenue structure, given the other demands on the resources of our growing community. Our plan is to levy the additional sales tax, upon

*Senate Assessment & Taxation*

Daniel A. Bafia, *Director of Zoo* • Cynthia Beesley, *Court Administrator* • James H. Berry, *Director of Human Resources* • Bob Bluml, *Golf Course Supt.*  
John Carr, *Water/Waste Water Supt.* • Steven F. Cottrell, *City Engineer* • Richard Craft, *Electric Supt.* • Sam Curran, *Director of Public Works* • Alan Geier, *Public Grounds Supt.*  
James F. Hahn, *Cemetery Sexton* • James R. Hawkins, *Chief of Police* • Joel Mahnken, *Director of Public Utilities* • Peggy Munoz, *Housing Director*  
James S. Neblett, *Director of Planning/Community Development* • Andrew D. Perry, *Director of Aviation* • Allen Shelton, *Fire Chief* • Jean E. Solze, *City Clerk*

*1-14-99 Attachment 3*

# City of Garden City

voter approval, at a rate of one-half percent. This would generate approximately \$2 million annually and allow us to pay for the projects in two to three years.

The short time period in which we seek the Legislature's approval is dictated by our desire to present this issue to the voters at the regular municipal election on 6 April. Meeting the April election deadline would likely prompt a better voter turnout than a special election and would save the additional cost of such a special election. We would like also to avoid conflict with bond elections that are being planned in the next year by other local governmental entities, each of which have proposed capital projects in an effort to respond to growth impacts in their own functional areas.

There is need, also, to briefly address a "housekeeping" item with regard to Senate Bill 2. We would request two corrections to the present draft of the bill, one having to do with the purpose of the sales tax as stated in the title of the bill and the other having to do with the effective date. We have prepared an amendment that addresses these corrections.

In closing, this is important legislation for the City of Garden City and for the quality of life in our western Kansas community. We hope the Committee will look favorably on our request, and we thank you for your time and consideration.



# STATE OF KANSAS

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## OFFICE OF THE GOVERNOR

### LEGISLATIVE TESTIMONY

TO: Chairperson Audrey Langworthy and Members of the Senate Committee on Assessment and Taxation

FROM: Dan Hermes, <sup>DAH</sup> Director of Governmental Affairs

DATE: January 14, 1999

SUBJECTS: Governor's Tax Relief Proposals

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Madam Chairman and members of the committee, thank you for the opportunity to appear today to discuss the Governor's tax relief proposals. My name is Dan Hermes and I am the Director of Governmental Affairs for the Governor.

The tax relief proposals the Governor has included in his budget recommendations to you cannot be adequately explained outside the context of the overall budget he recommended from the State General Fund and the impact of several tax reduction measures enacted last session.

His budget recommends increased spending from the State General Fund for FY 2000 that is 2.6 percent above the revised FY 1999 amount. This is equal to expected inflation for this year. Included in this recommendation is \$41 million to increase the demand transfer to the State Highway Fund. By any standard, this is a conservative budget.

Additionally, the "first" dollars that had to be accounted for in the spending plan were additional dollars for last year's tax cuts. This includes \$83.5 million in additional spending for property and car tax cuts, as well as an additional reduction in receipts of \$35 million to move to an estate tax.

When we view the \$15.1 million cost of the new tax reductions in this light – combined with the new dollars committed to financing last year's package – we see a spending package that commits an additional \$133.6 to our ongoing tax relief efforts. Put in perspective, that amount committed to spending would allow increased State General Fund expenditures of about three percent. Total reductions for taxpayers in FY 2001, based on our combined efforts the last four years, will total \$898.1 million.

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Attachment 4

## Motor Vehicle Tax Elimination

Although it does not reduce receipts in FY 2000, by far the most significant of the Governor's recommendations is the elimination of taxes on "tax and tag" vehicles. This plan piggy-backs on the reduction plan passed in 1995. The final tax cut in the previous plan is a reduction from a 22.5 percent to 20 percent assessment rate for cars in 2000. The Governor's proposal reduces this assessment rate to 15 percent in 2001, to 10 percent in 2002 and to five percent in 2003. The tax would not exist in following years. As a reminder, the assessment rate is the percent applied to the car's value that is multiplied by the mill levy to determine the tax.

Before visiting about the details of how local government would be reimbursed for the reduced receipts, it is important to explain: why eliminate the car tax -- why not reduce income taxes or eliminate another tax, such as the tax on food.

I served with two of your colleagues and several university economists on the Governor's Tax Review Commission this fall. I believe that our major finding related to state tax policy is that the state lacks adequate information on the impact of state and local tax policy on our families. In other words, how much tax do Kansans at different income levels, with different family situations pay in total and by tax.

The review commission provided the Department of Revenue resources to begin to develop a tax incidence model to provide this information and we have some preliminary results. Of our major taxes, the property taxes on cars and trucks is our most regressive tax. It hits working Kansans harder than the sales tax, the general property tax and the individual income tax. The following table presents some of these results.

1996 Adjusted Gross Income Level	Individual Income Tax (Percent of Tax Paid)	Sales and Use Tax (Percent of Tax Paid)	Vehicle Property Tax (Percent of Tax Paid)
\$1 - \$10,000	0.6	3.0	10.0
\$10,001 - \$20,000	3.5	9.3	12.4
\$20,001 - \$30,000	6.5	11.3	12.9
\$30,001 - \$40,000	8.0	10.8	12.0
\$40,001 - \$50,000	8.8	12.0	11.3
\$50,001 - \$60,000	9.4	11.0	10.1
\$60,001 - \$70,000	6.7	9.1	7.9
\$70,001 - \$80,000	7.2	6.0	5.8
\$80,001 - \$90,000	5.6	4.4	4.0
\$90,001 - \$100,000	4.3	3.2	2.7
\$101,000 - \$250,000	19.2	12.0	8.5
More than \$250,000	17.9	8.1	2.0

As you can see from the table, people with lower incomes pay a higher percent of the vehicle tax than either the income tax or the sales tax. Conversely, our wealthiest Kansans pay a far greater share of the income and sales tax than they pay in vehicle taxes. The assertion by advocates that an elimination of the tax on food is the most effective way to help working class taxpayers is simply not the case. The evidence is clear -- an elimination of the car tax is far more helpful to low and middle income taxpayers.

Local governments are understandably concerned when we discuss elimination of one of their more important and elastic tax sources. Much effort was made in designing this plan to assure that local governments will experience no impact from this proposal. The state will reimburse each county based on the law in effect in 2000. Monthly distributions will be made in the transition years of the difference in the amount taxpayer's pay and the amount they would have paid under existing law. In future years, the entire amount would be provided to counties to distribute based on the current distribution arrangement with cities and other government units. Changes in car values in each county and the applicable mill levy will continue to drive their receipts.

#### Business Machinery and Equipment

The Governor recommends an increase from 15 to 20 percent in the refundable income tax credit businesses receive for property taxes paid on machinery and equipment. Kansas business continues to be taxed on their productive capital at a level higher than surrounding states. This recommendation continues progress toward eliminating this competitive disadvantage.

#### Oil Severance Tax

The oil industry has played an integral role in the Kansas economy for many years. To help relieve the effect of declining oil prices, the Governor recommends the elimination of this tax, as well as the tax on coal. Although, the state cannot influence the international oil market, we must do what we can to reduce the tax burden on this industry – a tax burden that is higher than in other states that also produce a significant amount of oil.

#### Adoption Tax Credit

Two years ago, the legislature approved a \$1,250 income tax credit for families that adopt. This was half of the amount recommended at that time by the Governor. In order to provide additional assistance to Kansas citizens who provide homes through both private adoptions and adopting children in the custody of SRS, the Governor recommends the credit be doubled to the amount of his original recommendation.

#### Sales Tax Exemption for Grain Storage and Transportation

Grain storage capacity during the last two harvests has been inadequate, resulting in the storage of grain on the ground. The first component of the recommendation provides a sales tax exemption of labor and materials used for the construction or refurbishment of commercial grain elevators. The exemption should provide an incentive to expand available storage space. This exemption sunsets in five years.

Reliable rail service is another variable that determines when grain must be stored on the ground. The second part of this recommendation provides sales tax exemptions on materials and

labor for enhancement of shortline railroad infrastructure. The exemptions will serve as an incentive for maintenance and use of rail lines vital to moving agricultural products produced in Kansas to market. This, coupled with the Governor's recommendation for low-interest loans of \$4.0 million per year for shortline track rehabilitation in the transportation bill will provide significant assistance to maintain this critical infrastructure.

Thank you for your time and assistance. I look forward to working with your committee this session to improve tax policy in our state and would answer any questions you may have.



**Request for Bill Introduction  
Before the Senate Assessment and Taxation Committee  
January 14, 1999**

Senator Langworthy and members of the Committee on Assessment and Taxation, I am Judy Moler, Legislative Services Director of the Kansas Association of Counties. I am appearing today to request the introduction of a bill of great importance to the Kansas Association of Counties. We are joined in this request by the League of Kansas Municipalities.

Counties currently collect a tax on telephone lines, used for the financing of operations of the emergency telephone service provided through Emergency Communications. The money collected is used for the purchase and maintenance of equipment such as radios, telephones and computer aided dispatch systems. Currently, state statute only allows for the collection of the tax from hard-wired telephone systems. Wireless services users are exempt.

When the current statute was written, there was no way to anticipate the enormous growth of the mobile or cellular telephone industry. Wireless phones are now a vital part of quick emergency response calls. Many people buy wireless phones specifically to use them in case of an emergency. In fact, many phone companies market their wireless products specifically for use in an emergency.

The Kansas Association of Counties is not requesting a new tax....we are asking that the existing tax prescribed by K.S.A. 12-5302 be levied equitably, and those who use and benefit from the service contribute to the tax used for Emergency Communications.

Thank you for your consideration of this matter. I would be glad to answer any questions.

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The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to the KAC by calling (785) 233-2271.

*Senate Assessment + Taxation  
1-14-99  
Attachment 5*

## **WIRELESS 9-1-1 TAX EQUITY: IT'S SIMPLE AND IT'S BASIC!!!!**

### **Key Facts relating to the Fairness in 911 Taxation issue:**

- **The percentage of wireless (cellular and pcs) telephone service is **increasing!****
- **The percentage of wireline telephone service is **decreasing!****
- **The **costs** of providing 911 service are **increasing** -- primarily due to the requirement to serve wireless users!**
- **The burden of taxation to cover these rising costs is being borne by the shrinking percentage of the citizenry who, for the most part, receive no benefit from the increased taxation.**
- **The segment of our population which receives the **least** benefit and is least able to pay (poor, elderly on fixed incomes, etc.) will continue to pay an ever **increasing** percentage of the costs of the system.**
- **The segment of our population which receives the **most** benefit and is best able to pay (business people, the wealthy, the young, upwardly mobile, etc.) will pay an ever **decreasing** percentage of the costs.**
- **This issue is not about increasing taxes... it 's about basic fairness and tax equity!**
- **Implicit in the original legislation was the concept that those who benefited from the service should pay the surcharge, therefore:**

**THE KEY QUESTION EVERY LEGISLATOR SHOULD ASK ABOUT THIS ISSUE IS:**

**WHO BENEFITS?????? WHO PAYS?????????**