

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:50 a.m. on February 15, 2001, in Room 519-S of the Capitol.

All members were present except: Senators Jenkins and Goodwin – Excused

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: Senator Anthony Hensley
Senator Barbara Allen
Don Moler, League of Kansas Municipalities
Dave Scott, City of Overland Park
Mike Taylor, City of Wichita
Don Siefert, City of Olathe

Others attending: See attached list.

SB 232–Income taxation; increasing the earned income tax credit.

Senator Anthony Hensley, sponsor of **SB 232**, explained that the bill increases the percentage on the earned income tax credit from 10 percent to 20 percent. He noted that Governor Graves supported the earned income tax credit in his State of the State message on January 8. The Governor noted that, six years ago, there was no program providing a tax credit to low income Kansans. Next year, 125,000 low income Kansans will receive earned income tax credits of \$21 million.

Senator Hensley noted that **SB 232** was introduced in order to revisit the issue of earned income tax credit because, despite legislative efforts, he is still concerned about the growing gap in income equality in Kansas. To illustrate, he referred to a chart showing the average income of Kansas families provided by Kansas Respond. (Attachment 1) In addition, he referred to a table from a booklet, “Kansas Action for Children–Struggle for Self-sufficiency,” regarding the gap between the cash and food stamp benefits needed by single female-headed households and what they need to sustain themselves. (Attachment 2) While he believes the earned income tax credit has reduced the gap somewhat, he feels the gap is not shrinking fast enough and there is still a long way to go to help all persons in need. He noted that Kansas is one of fifteen states whose poor have become poorer in the last decade while high income families have grown richer. Kansas currently ranks sixth worst in the growth of inequality between the richest and poorest families from the late 1980s to the late 1990s. KTECH, a state agency which monitors income information, has found that Kansas income disparity is higher than any of the surrounding states, including Iowa. Senator Hensley went on to cite a report from the Center on Budget and Policy Priorities, entitled “Pulling Apart a State by State Analysis of Income Trends.” The report indicates that it is not that the poor and middle class are simply getting a smaller share of the growth; it is virtually all of the growth going to the top end. The report indicates further that, “The growth of income inequality is primarily due to the growth in wage inequality. The wages at the bottom and middle of the wage scale have been stagnant or have declined over the last two decades. The wages of the very highest paid employees, however, have grown significantly.”

Senator Hensley further noted that emergency service providers throughout the state have reported a high volume of clients. The Kansas food bank warehouse, the food distributor to 450 state programs, increased their distributions last year by 37 percent. The Topeka Rescue Mission completed a \$2 million expansion

CONTINUATION SHEET

due to the dramatic increase in homeless families. Catholic Charities in Wichita served 5,500 clients for emergency services in the first ten months of last year and turned away 8,500 persons for the same time period due to lack of resources. In conclusion, Senator Hensley stated that the **SB 232** would provide even more needed benefits, particularly for households headed by single women.

Senator Lee commented that she believes that the earned income tax credit is the most effective way to reward the working poor. She observed that more and more people are working at minimum wage or \$7.00 per hour jobs, and their income does not meet the necessary costs of living. Persons at this income level are the "working poor," who struggle for self-sufficiency and continue to get further and further behind. She believes that the earned income tax credit is one of the most effective ways to help those with a very low income. She emphasized that it is an area which legislators need to keep in mind.

There being no others wishing to testify, the hearing on **SB 232** was closed.

SB 233—Sales taxation; exempting certain sales of natural gas from local sales tax.

Senator Barbara Allen, sponsor of **SB 233**, explained that the bill would exempt the local sales tax on residential natural gas until July 1, 2002, and would provide replacement revenue to cities and counties only if tax receipts from the severance tax on natural gas wells continues to exceed estimates. She requested the introduction of the bill after learning that the state does not tax residential utilities, but cities and counties do. In her opinion, it is not fair that cities and counties experienced a windfall in their sales tax revenue as home heating bills soared the last few months. She noted that the average cost of natural gas increased by approximately 33 percent from 2000 to 2001, and cities and counties collected extra revenue simply due to the fact that the cost of natural gas went up. In her opinion, the extra revenue is being collected at the expense of homeowners who are struggling to pay their gas bills. Senator Allen also pointed out that the bill is an initial step to bring Kansas' state and local sales tax bases into conformity as required for continued participation in the multi-state streamlined sales tax project. She explained that, in order to remain a member of the streamlined sales tax agreement, participating states will be required to either tax residential natural gas at the state level or stop taxing residential natural gas at the local level. She believes the state will choose to eliminate the local sales tax rather than imposing a new state sales tax. In conclusion, she noted that opponents of the bill will assert that cities and counties cannot afford this loss of revenue; however, she believes it is only fair that cities and counties use the windfall in sales tax revenue to increase assistance to those in need or give the revenue back to the taxpayers in the form of lower taxes. (Attachment 3)

Senator Allen offered two possible amendments to **SB 233**. The first would allow the local sales tax on residential natural gas to remain, but would require cities and counties to return the excess revenue collected as a result of rising natural gas prices to the community to help those in need of assistance in paying their gas bill. The second would suspend collection of the local sales tax on residential natural gas during those times when the cost per thousand cubic feet (MCF) rises above a certain price or increases by a certain percent in any one year.

Senator Clark suggested that the bill be amended on page 1, line 27, to include city and county sales tax on propane and LP.

Don Moler, League of Kansas Municipalities, testified in opposition to **SB 233**. He explained that the League opposes the bill because it constitutes a state mandate on local governments and because loss of income from this source would result in local governments being caught short this year because their budgets are based on projections which include revenues from the sales tax on natural gas sales. Mr. Moler also observed that the bill brings into sharp focus the ever increasing number of sales tax exemptions granted by the Legislature over the last three years. The League is becoming increasingly concerned with the impact of tax legislation on local sales tax collections. He suggested that the time has come for taking a very strong look at the granting of further sales tax exemptions, given the fact that revenue levels appear to have dropped significantly and may be falling in some areas. (Attachment 4)

David Scott testified in opposition to **SB 233** on behalf of the City of Overland Park. He recognized that the increase in natural gas prices caused real financial hardship to many Kansas residents; however, he feels that the bill is a short-term fix for a long-term problem. He noted that the City of Overland Park is committed to minimizing the local tax burden by maintaining low taxes, but exempting sales of natural gas from local

CONTINUATION SHEET

taxation will not significantly impact a resident's gas bill. He contended that the increased cost of natural gas tax is what troubles a resident, not the tax portion of a gas utility bill. He itemized financial assistance programs available to residents who cannot afford to pay their gas bills, noting that Overland Park contributes annually to the Johnson County utility assistance program, which provides financial assistance to low income families. (Attachment 5)

Lori Knadle, Assistant City Manager for the City of Overland Park, stood to comment on the city's utility assistance program. She recently contacted the Johnson County Department of Human Services and Aging, which administers the fund, and she was informed that, currently, the funding is stable. The City of Overland Park has indicated to the Department that, if the funds are depleted, the city would be interested in re-evaluating the amount that is being provided in order to make the funding whole.

Mike Taylor testified in opposition to **SB 233** on behalf of the City of Wichita. He contended that the bill is flawed. He noted that it would result in reducing the usual base amount cities would collect regardless of the price or temperature. In addition, there may not be a windfall severance tax collections; therefore, local governments may not be reimbursed for the lost revenue. Furthermore, the amount saved for individual consumers would be so small that they would hardly notice it. In conclusion, he observed that the idea behind **SB 233** is similar to donating money to a charity by taking it out of someone else's wallet. (Attachment 6)

Don Siefert testified in opposition to **SB 233** on behalf of the City of Olathe. He commented that it is disturbing that a number of natural gas bills currently in the Legislature take aim at local government. In his opinion, the bill unfairly punishes local government for a problem not of its making, and it is an ineffective effort to help those most in need. He noted that, by the time the bill takes effect, the weather will be milder. Furthermore, the city, as a consumer of natural gas, is facing much higher natural gas bills for its buildings and utility operations. In conclusion, Mr. Siefert noted that the City of Olathe expects to significantly increase its contribution to the Johnson County utility assistance program targeted to needy families. (Attachment 7)

Chairman Corbin called attention to written testimony in opposition to **SB 233** submitted by Randy Allen, Kansas Association of Counties (Attachment 8); Ashley Sherard, Office of the Johnson County Administrator (Attachment 9); and Tom L. Kaleko, City of Lenexa (Attachment 10).

Lee Eisenhower, Propane Marketers Association of Kansas, stood in support of Senator Clark's suggestion that **SB 233** be amended to include propane gas in the exemption from sales tax.

The minutes of the February 8, 2001, meeting were approved.

Chairman Corbin turned the Committee's attention to a previously heard bill, **HB 2029**, concerning the exemption of Parkinson's disease support associations for sales taxation.

Senator Praeger moved to amend **HB 2029** by including the National Kidney Foundation of Kansas and Western Missouri as exempt from sales taxation, seconded by Senator Lee. The motion carried.

Senator Praeger moved to recommend **HB 2029** as favorable for passage as amended, seconded by Senator Donovan. The motion carried.

The meeting was adjourned at 11:35 a.m.

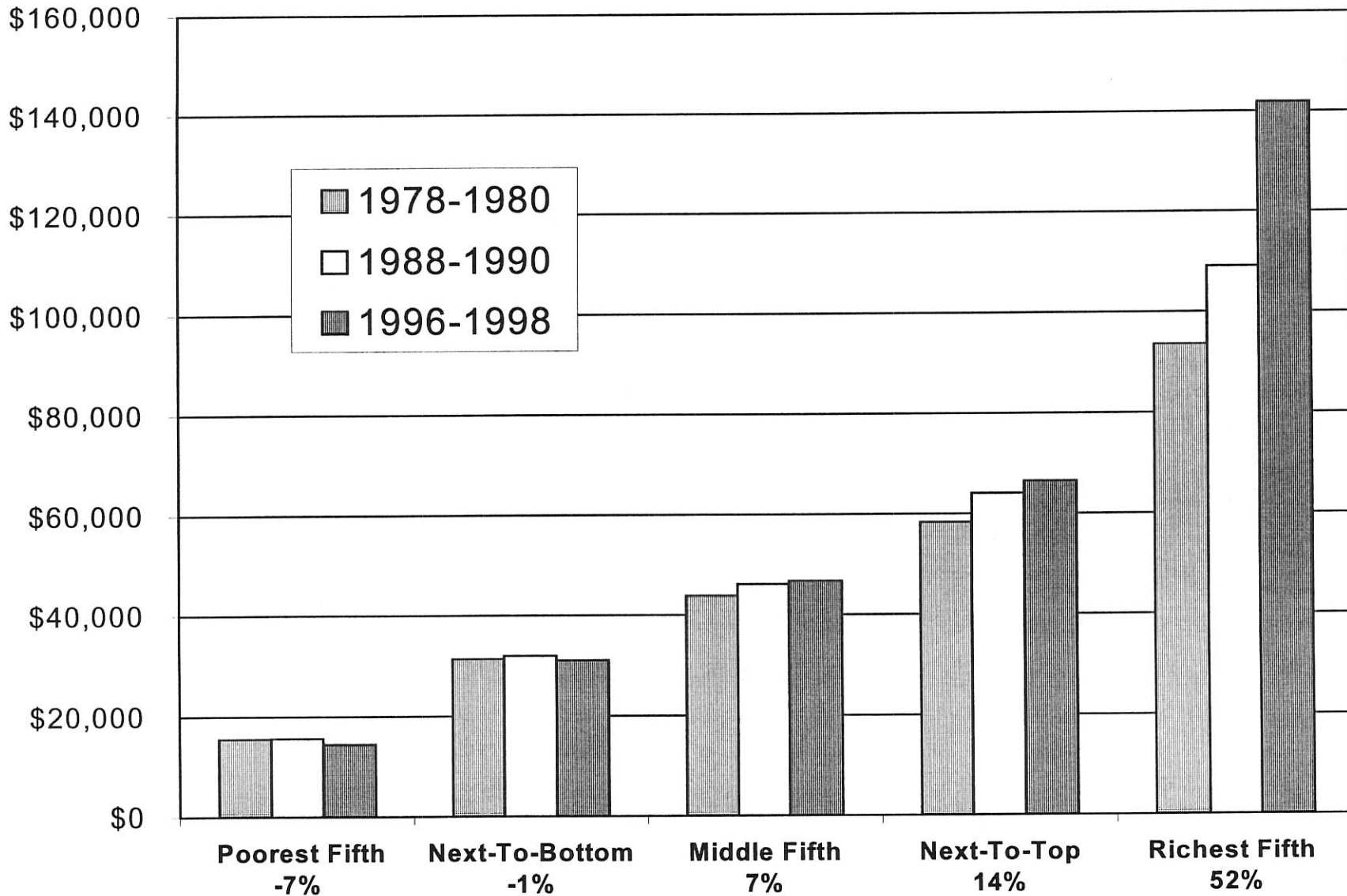
The next meeting is scheduled for February 19, 2001.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: February 15, 2001

NAME	REPRESENTING
Dave Scott	City Overland Park
Kelly Kuitala	City of Overland Park
Lori Knadle	City of Overland Park
Don Seibert	City of Olathe
Ashley Sherard	Johnson County
Tom Brown	GBBA
Bill Brady	Ks Gov't Consulting
John Moler	Ks. Assoc of Counties
Pat Lehman	City of Lenexa
Bob Kneibiel	KIOGA
Andy Shaw	Kearney Law Office
Doug Smith	Pinegar - Smith Company
Jim Eisenhauer	Propane Marketers Assoc of KS
Joe Lieber	KS. Co-op Council
James Lov	San Bernardino Alliance

Average Income of Kansas Families



Inflation-adjusted 1997 dollars. Data is from Census Bureau's March Current Population Survey public use database.
Income from capital gains not included.

Graph by Kansans Respond (1/2000)

*Senate Assessment + Taxation
2-15-01
Attachment 1*

**Kansas Standard of Need, Assistance Maximums and Need/Benefits Gap
for Single Female-Headed Households (Table III)**

Family size	1	2	3	4	5	6	7	8
Max TANF	\$224	\$309	\$386	\$454	\$515	\$576	\$637	\$698
Max Food Stamps	\$125	\$230	\$329	\$419	\$497	\$597	\$659	\$754
Max Combined TANF & Food Stamps	\$349	\$539	\$715	\$873	\$1,012	\$1,173	\$1,296	\$1,452
KSU Standard of Need	\$852	\$1,013	\$1,282	\$1,425	\$1,692	\$1,878	\$2,155	\$2,320
Need / Benefits Gap	-\$503	-\$474	-\$567	-\$552	-\$680	-\$705	-\$859	-\$868

The gap between the cash and food stamp benefits TAF recipients receive and what they need to sustain themselves while enrolled in the program, coupled with the living wage gap these families are likely to confront once they find jobs and leave the program, underscores the crucial role played by job preparedness programs; child support payments that so many single-parent families rely on; and several critical transitional benefits -- food stamps, child care assistance, and Medicaid and health care.

Denials and sanctions

Kansas is one of the nation's leaders in sanctioning families, according to a General Accounting Office report released in early April 2000.⁹ The report, based on information supplied by states to the Department of Health and Human Services, shows that in 1999 Kansas ranked ninth in the percentage of the state's welfare caseload slapped with a full-family sanction in an average month (2.25 percent).

In 1999 Kansas ranked ninth in the percentage of the state's welfare caseload slapped with a full-family sanction in an average month (2.25 percent).

The number of case closures due to full-family sanctions in an average month is 302 in Kansas. On average, 240 are sanctioned for noncompliance with work requirements, and 62 are sanctioned for not complying with child support enforcement efforts.

The *full-family sanction*, the practice of terminating a benefit for the whole family for not complying with TANF requirements instead of removing only the offending adult's benefit, is among the most controversial of the state's sanctions policies. Critics of this policy charge that the practice punishes innocent children for the mistakes or noncompliance of adults. Kansas first implemented the full-family sanction in March 1997; although 31 states use the full-family sanction in some cases, Kansas is one of 17 states that applies the full-family sanction in all cases of noncompliance.

Kansas also was one of 15 states in 1998 that reduced families' food stamp benefits by 100 percent for noncompliance with TANF work requirements. The federal government ordered the practice stopped in April 1999.

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TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

CHAIR: ELECTIONS AND LOCAL GOVERNMENT
 MEMBER: ASSESSMENT AND TAXATION
 EARLY CHILDHOOD DEVELOPMENT SERVICES
 FINANCIAL INSTITUTIONS AND INSURANCE
 REAPPORTIONMENT

February 15, 2001

Mr. Chairman, Members of the Committee:

S.B. 233 would exempt the local sales tax on residential natural gas until July 1, 2002. It would provide replacement revenue to cities and counties, only if tax receipts from the severance tax on natural gas wells continue to exceed estimates.

The idea for this bill resulted from this Committee's hearing on the Streamlined Sales Tax Project several weeks ago, when I was surprised to learn the State does not tax residential utilities, but cities and counties do. Let me make it clear that I don't want to do anything to hurt cities and counties, or to raise their costs, because at the end of the day, this will only hurt taxpayers.

LOCAL SALES TAX UNFAIR IN TIMES OF HARDSHIP

In the area of Kansas that I represent (Overland Park and Johnson County), I was surprised to learn the local sales tax on residential natural gas equals 2.1% of a homeowner's natural gas bill every month. As home heating bills soared the last few months, cities and counties in Kansas experienced a "windfall" in their sales tax revenue (i.e. local entities collected a percentage of two-three times what they were expecting to collect this winter.)

I recognize gas bills were down last month – because usage was down. My point is this. I have no problem with cities and counties collecting a fair tax. But, it is not fair that the next time we go through another period of rapidly escalating natural gas prices, a gas bill will once again become a significant cost item in a family's budget, while at the same time, cities and counties will receive a revenue windfall. In times like these, when there is a windfall, cities and counties should step up to help people who need help paying their gas bills.

*Senate Assessment + Taxation
 2-15-01
 Attachment 3*

NATURAL GAS IS A NECESSITY, NOT A DISCRETIONARY ITEM

People don't have a choice on whether they purchase natural gas. Heating one's home is a necessity of life. Customers have to buy the product from the entity that offers it to them, at the price at which it is offered.

We are not addressing the franchise tax in this bill. But the fact remains that cities control the franchise on natural gas. Because cities control this franchise, shouldn't they have a responsibility when they receive a windfall in revenue on a necessity, to put those extra dollars back into the community to help people who don't have a choice in paying their high gas bills?

INCREASING COST OF NATURAL GAS

Kansas Gas Service (KGS) is a major provider of natural gas in Johnson County, serving 61% of its residents. I recently obtained the following information from KGS.

It is my understanding that the costs of gas are passed directly on to the consumer by the gas companies. For example, from 1999 to 2000, the average cost of gas per thousand cubic feet (MCF) paid by KGS increased by \$1.70/MCF. **That's a 70% increase in the cost of gas from 1999 to 2000.** And then, from 2000 to 2001, the average cost of gas per MCF paid by KGS is estimated to increase by another \$1.37/MCF. **That's an additional estimated 33% increase in the cost of natural gas from 2000 to 2001.**

In addition, for every MCF a homeowner uses this year, cities and counties will collect from the local sales tax on natural gas a certain percentage of the increase in the cost of gas. **In my area, for every \$1 the price of natural gas goes up in 2001, Overland Park and Johnson County will receive an extra 2 cents in sales tax on every MCF of natural gas sold.** This extra revenue is due simply to the fact that the cost of natural gas is going up. And, it is being collected at the expense of

homeowners who are struggling to pay their gas bills. Should cities and counties be allowed to collect and retain this windfall?

STREAMLINED SALES TAX AGREEMENT

Finally, I want to point out this bill is an initial step in bringing Kansas' state and local sales tax bases into conformity, an act that is required for Kansas to continue participating in the multistate "Streamlined Sales Tax" Project. After December 31, 2005, participating states may not impose different sales tax rates on specific items. The rates must be uniform. This means that by the end of 2005, Kansas will either be required to tax residential natural gas at the state level, or to stop taxing residential natural gas at the local level, in order to remain a member of the Streamlined Sales Tax Agreement. I suspect we will choose to eliminate the local sales tax, rather than to impose a new state sales tax.

S.B. 233 has 19 co-sponsors, including every member of the Johnson County delegation, and 6 members of this Committee. I hope you will give it your careful consideration, and ask only that you consider whether allowing a local sales tax on residential natural gas, no matter what the market price of natural gas is, is the right tax policy for Kansas today and in the future.

You will hear from the opponents of this bill, cities and counties, that they can't afford this loss of revenue. I believe it is a matter of fairness that when cities and counties receive a windfall either they should use that windfall to increase assistance to those in need, or they should give the increased revenue back to the taxpayers in the form of lower taxes.

Cities guarding their chunk of inflating natural gas fees

BY STEVE BASKA

SUN STAFF WRITER

They know your natural gas bills are high, but officials in some Johnson County cities don't plan to stop charging you their franchise fee, a part of residential gas bills that has become a nice windfall for cities in the past two months because of bigger payments by customers.

Mission and Fairway temporarily reduced their franchise fees recently, but it appears other cities, including Overland Park and Lenexa, are not ready to follow suit.

"We estimated \$700,000 in natural gas franchise fees to our city this year with the higher gas prices," said Tom Kaleko, Lenexa's assistant city adminis-

See CITIES, Page 4

Cities guarding their chunk of inflating gas fees

Continued from Page 1

trator. Last year the fees brought in \$555,000.

"If the city were to eliminate all franchise fees, that would be about \$2.5 million to \$3 million a year," he said. "If that happened, the City Council would have to talk about possibly reducing services or increasing other taxes."

Cities charge a franchise fee to utility companies for use of city-owned ground on which the companies dig to install pipes and cable. Most local cities charge a 5 percent fee on each bill amount for natural gas, electricity and cable television. Phone companies pay a 3.5 percent franchise fee. The fees are passed directly to customers, but city officials said they wished the companies would simply absorb the cost. At 5 percent, a \$200 bill would carry a \$10 franchise fee.

The issue comes amid other local energy actions, including Kansas House Democrats intro-

ducing a resolution into the House Utilities Committee Tuesday to declare an energy emergency in Kansas, based on high natural gas prices. The proposal cites a 1983 statute that allows the governor to seize control of energy in the state. The proposal seeks to have the governor direct the KCC to order utilities to cap prices charged to consumers at those charged Dec. 1, 2000.

Lenexa's Kaleko said his staff examined whether to reduce the city's gas franchise fee but could not come up with firm figures on how much it would cost the city or customers, so there was no plan for the City Council to discuss it, he said.

Overland Park Mayor Ed Eilert said his staff also looked at the issue but had no plans to take action.

"Kansas Gas Service is already taking action to reduce their charges (by 22 percent) in February, so there is some relief," Eilert said. "We try in Overland

Park to keep taxes low, and I'd rather look at ways to permanently reduce taxes than something on a temporary basis."

Eilert did not have estimates on the amount of franchise fees collected in Overland Park.

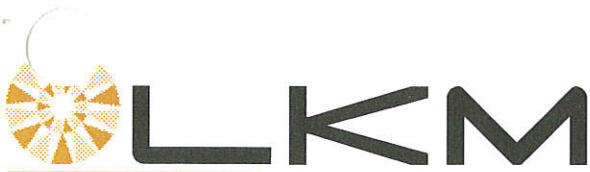
Mission reduced its fee from 4 to 1.5 percent through April. Fairway reduced its fee from 5 to 3 percent through March.

Shawnee eliminated all franchise fees about 15 years ago when voters passed a measure to eliminate those fees but increase the city sales tax by 1 percent.

"We feel the sales tax is a more fair tax, especially for senior citizens who pay those franchise fees for utilities," said Mayor Jim Allen.

When asked if he thought other cities should follow Shawnee's lead, Allen said, "I don't know why not. But I guess it depends on their budgets, too."

To contact Steve Baska call 385-6019 or send e-mail to sbaska@sunpublications.com.



League of Kansas Municipalities

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TO: Senate Assessment and Taxation Committee
FROM: Don Moler, Executive Director
RE: SB 233
DATE: February 15, 2001

First I would like to thank the Committee for allowing the League to testify today in opposition to Senate Bill 233. As we understand SB 233 it would eliminate all city and county sales taxes on the sale of natural gas for a period beginning with the effective date of the bill and concluding July 1, 2002. Thus for a period of roughly 15 months the sales tax levy of cities and counties would be removed on natural gas sales. The League is forced to oppose this legislation based on two principles. First of all we believe the legislation constitutes a mandate on local government and as a result, while attempting to achieve a valid purpose, it constitutes a mandate as the money which is being expended for this purpose comes not from the state but from local governments. Our second issue is one of the fiscal impact visited upon cities and counties. First of all, the amount of money lost to local governments would clearly run into the millions of dollars. This would be very difficult for city and county budgets to absorb, especially in the current budget year given that the budgets, and the expenditures of local government, were based on projections which included revenues from the sales tax on natural gas sales. Thus cities and counties throughout the state of Kansas would be caught short this year as a result of losing the income from this source.

Finally, I would like to address an issue that SB 233 brings into sharp focus. Specifically this has to do with the ever increasing number of sales tax exemptions which are being granted by the state legislature. Let me preface these remarks by saying that individually we do not take issue with any specific sales tax exemption which has been granted or which is under consideration to be granted this year. However the State of Kansas, and local governments in Kansas, are quickly nearing a point of critical mass concerning the sales tax. This is the case because an ever increasing number of groups continue to approach the legislature asking for specific tax relief for specific situations. The League was shocked to hear during an interim committee meeting last summer of the number and amount of sales tax exemptions which have been granted by the Kansas legislature over the past three years.

It is especially true that sales tax revenue, and the distribution of those revenues is critical to the provision of adequate public services at the local level in Kansas. As we

all know, there really are only two major funding sources for local government in Kansas. The first is the property tax and the second is the sales tax. When either of these sources are limited or inhibited in any fashion, it is a matter of serious if not grave concern for not only the governmental units in question, but also for the citizens of those units. Having said that, the League is becoming increasingly concerned with the impact of tax legislation on local sales tax collections.

Specifically the Department of Revenue released numbers at the hearing of August 30, 2000 which indicated that changes in tax laws over the past three legislative sessions have had a statewide impact, **on an annual basis, by reducing sales tax revenues by \$35,400,000 per year.** Figuring local taxes at an average of 1.3% that works out to \$9,390,000 in annual local sales tax revenues which are now being lost as a result of tax legislation over the past three legislative sessions. This is a matter of significant concern to the League and its member cities. We are facing an every increasing list of sales tax exemptions which will further inhibit the ability of cities, counties, and the state itself, to provide public services. We would suggest that the time has come for taking a very strong look at the granting of further sales tax exemptions given the fact that revenue levels appear to have dropped significantly and may be falling in some areas.

In conclusion the League would urge the Committee to reject SB 233 and bills of a similar nature. We would also urge the Committee to be reluctant to pass any more legislation which grants further sales tax exemptions and has the effect of undercutting the state and local sales tax base. Thank you very much for allowing the League to appear today. I will be happy to answer any questions the Committee may have.

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February 15, 2001

**TO: Senate Assessment and Taxation Committee
Testimony against Senate Bill No. 233**

Good morning. I am David Scott, Manager of Finance & Accounting for the City of Overland Park. I have worked for the City's Finance Department for thirteen years.

I am here today to represent Overland Park and provide our testimony against Senate Bill No. 233.

We recognize that the increase in natural gas prices has caused real financial hardship to many Kansas residents. However, we feel that Senate Bill No. 233 is a short-term fix for a long-term problem and that is why Overland Park cannot support it.

For a long time now Overland Park has been committed to minimizing the local tax burden facing our residents by maintaining low taxes. These low taxes include both the City's mill levy rates and the franchise tax rates. For many years Overland Park's mill levy rate has been one of the lowest rates in Kansas and continues to be one of the lowest of any first-class city. Our gas franchise tax rate of 3% has been in effect since 1985 and is one of the lowest in the Kansas City metropolitan area.

Exempting sales of natural gas from local taxation will not make a significant impact when a typical resident pays his gas bill. The tax portion of a gas utility bill is not what troubles a resident; it is the increased cost of natural gas that makes the gas bill dollar amount so high. Senate Bill No. 233 would only provide minimum dollar amounts of assistance towards this hundreds-of-dollars problem that many Kansans face when paying their gas bills.

Financial assistance programs are available to residents who cannot afford to pay their gas bills. Some of these programs are as follows:

- ◆ Kansas Gas Service Company – Winter Relief 2001 Gas Assistance Program (GAP)
- ◆ Low Income Energy Assistance Program
- ◆ Project Deserve: a statewide utility assistance program for disabled and individuals older than 60

Overland Park contributes to the Johnson County Utility Assistance Program that provides financial assistance on monthly utility bills to low-income families. We have participated in this program since mid 1980's and will continue to contribute to this program because it helps those residents who are most harmed by increases in utility costs.

In conclusion, Overland Park does not support Senate Bill No. 233, because it does not address the long-term challenges caused by increases in natural gas, but only serves as a short-term fix.

*Senate Assessment & Taxation
2-15-01
Attachment 5*



TESTIMONY

City of Wichita

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Senate Bill 233

Moratorium on Natural Gas Local Sales Tax

Delivered to Senate Assessment and Tax Committee
February 15, 2001

The City of Wichita opposes Senate Bill 233. While the idea of trying to help people weather the economic burden of high natural gas bills is worthwhile, the solution proposed in this bill is seriously flawed for several reasons.

If the idea is to help lower natural gas bills by using a local government windfall collected from high natural gas prices, the measure goes way too far because it not only takes any extra money collected, but the usual base amount cities would collect regardless of the price or temperature.

Senate Bill 233 proposes reimbursing local governments for the lost revenue by sending windfall severance tax dollars collected by the State through the City-County Revenue Sharing Fund. There are two problems with that: first, there may not be "windfall" severance tax dollars, and second, the Legislature already takes an annual bite out of the demand transfer funds by ignoring the statutory percentages and capping the amount returned to local governments. In other words, local governments get shortchanged twice. If the Legislature wants to help people pay their heating bills, it could just take the windfall severance tax dollars directly to consumers and leave cities out of it.

The amount this proposal would save individual consumers would be so small, they would hardly notice it. The one percent local sales tax on a \$300 gas bill would be \$3. But, citizens could end up paying the price later through increased property taxes or reduced services when local elected leaders are forced to deal with the double impact of lower than expected revenues and higher than expected natural gas bills for city buildings.

In January 2000, the City of Wichita's natural gas bill was \$126,000, or about 16% of the total for the year. In January 2001, the natural gas bill was \$209,322, an increase of 66%. The City of Wichita spent \$787,507 for natural gas in 2000. That will obviously be much higher in 2001.

The idea behind Senate Bill 233 is a bit like donating money to a charity by taking it out of someone else's wallet. It's easy to be charitable when you aren't spending your own money. But this proposal does raise thought to some interesting possibilities for the Legislature to consider in the future.

The next time gasoline prices soar, the Legislature could place a moratorium on the state sales tax put on a gallon of gasoline. The next time a round of inflation hits, the Legislature could place a moratorium on state sales tax on essential items such as food and clothing. Or better yet, when inflation or recession squeeze peoples' paychecks, the Legislature could waive collection of State income taxes for a year. I doubt any of these ideas would get very far, but at least it would give the Legislature the chance to be charitable with money from its own budget instead of someone else's.

*Senate Assessment & Taxation
2-15-01
Attachment 6*



City of Olathe

MEMORANDUM

TO: Members of the Senate Assessment and Taxation Committee

FROM: Donald R. Seifert, Policy Development Leader *DRS*

SUBJECT: **Senate Bill 233**; Local Sales Tax Exemption for Natural Gas Sales

DATE: February 15, 2001

On behalf of the city of Olathe, thank you for the opportunity to appear today in opposition to this bill that would exempt residential natural gas sales from the local sales tax until July, 2002. An identical bill has been introduced in the House.

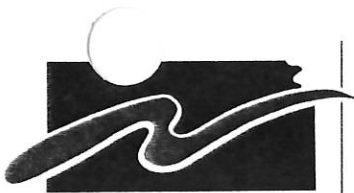
The committee is well aware that a number of forces have converged this winter to cause record high gas commodity prices. Combined with unusually cold weather, high gas bills have caused a hardship on all facets of our local and national economies and on countless individuals. Elected officials at all levels of government naturally want to address this situation. However, it is disturbing that a number of natural gas bills currently in the legislature take aim at local government. The city would respectfully suggest this bill unfairly punishes local government for a problem not of its making. In our view, the bill also is an ineffective and untimely effort to help those most in need. Please consider the following:

1. Natural gas prices are already moderating, and by the time the bill takes effect, we will be entering milder weather. Based on the city's fiscal note of \$230,000 over the next 15 months, we estimate the average savings to an Olathe household would be less than \$1.00 per month.
2. Based on the city's analysis of its natural gas franchise fee receipts, the so called "windfall" of this winter will just about offset the shortfall from the unseasonably warm winter of 1999-2000.
3. As consumers deal with the reality of this winter's high gas bills and reduce discretionary expenditures, the city expects sales tax revenue from other retail sales to be soft in 2001.
4. As a consumer of natural gas, the city itself is facing much higher natural gas bills for its buildings and utility operations.

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2-15-01
Attachment 7*

5. SB 233 purports to return some of the lost sales tax to local units through the county and city revenue sharing fund. Please forgive us for questioning that method of return. There is at least one bill introduced to repeal the severance tax on natural gas. Furthermore, it is no secret that the legislature has not always honored its demand transfer commitments to local government.

The city's opposition to this bill in no way implies that the governing body is ignoring the issue of high gas bills. The city has long supported with its general fund a Johnson County utility assistance program targeted to needy families. This year, the city is expected to significantly increase its contribution to this program. We would urge the committee not to pass this bill and allow local communities to craft their own response to this issue based on local needs.



KANSAS
ASSOCIATION OF
COUNTIES

WRITTEN TESTIMONY
concerning Senate Bill No. 233
re. Local Sales Tax Exemption - Natural Gas

Presented by Randy Allen, Executive Director
Kansas Association of Counties
February 15, 2001

Mr. Chairman and members of the committee, my name is Randy Allen, Executive Director of the Kansas Association of Counties. I regret that I am not able to be present at the hearing to express the Association's strong opposition to Senate Bill No. 233, which would impose a 12-15 month moratorium (depending upon its publication date in the *Kansas Register*) on the collection of local-option sales taxes on natural gas sales.

Based on information furnished by the Department of Revenue for the twelve-month period of October, 1999 through September, 2000, the fiscal impact of SB 233 on counties and cities in terms of lost revenue over a 12-month period could be conservatively estimated at \$6.8 million. The estimate is based on collections for a period when natural gas prices were substantially lower than they are now, and therefore the estimate of probable lost revenue could be much higher.

Although Section 2 of the bill attempts to make counties and cities largely whole for the lost revenue through a one-time transfer of natural gas severance tax receipts to the county and city revenue sharing fund, we are skeptical that the transfer would equal the revenue lost through the temporary exemption. And, even if it did, the unpredictability of the revenue from the state would be difficult at best.

75 of the 105 counties are dependent upon their voter-approved, local-option sales taxes to partially finance basic services. For some rural counties in particular, utility sales subject to the local-option sales taxes comprise a significant share of the local option sales tax base. As sales tax revenue is lost, the burden is only shifted to the property tax.

While we commend your efforts to find ways to mitigate the impacts of rising natural gas prices on persons least able to pay, we urge the committee to protect property taxpayers and resist exemptions - even temporary - to the local sales tax base. As such, we urge the committee to report SB 233 unfavorably.

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 Randy Allen or Judy Moler by calling (785) 272-2585.

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Attachment 8



Johnson County, Kansas

OFFICE OF THE COUNTY ADMINISTRATOR

To: The Honorable David Corbin
Members, Senate Assessment & Taxation Committee

From: Ashley Sherard
Intergovernmental Relations Manager

Date: February 15, 2001

Subject: **SB 233 – Exempting Sales of Residential Natural Gas from Local Sales Tax**

I am writing to express the Johnson County Board of Commissioners' strong opposition to SB 233, which would exempt from local sales tax all sales of residential natural gas from July 1, 2001, through July 1, 2002.

First, SB 233 has serious fiscal implications. The Kansas Department of Revenue estimates sales tax collections on residential natural gas between September 2000 and August 2001 to be approximately \$247,500 in Johnson County. In conjunction with declining general sales tax collections and the state's flat funding of demand transfer programs, a similar loss in revenue attributable to SB 233 would require the county either to cut back on services or rely more heavily on property taxes, both of which adversely impact the same citizens SB 233 is intended to assist.

Further, although the bill provides that natural gas severance tax revenues exceeding estimates -- up to a cap of \$6.8 million -- be transferred to the County and City Revenue Sharing Fund, there is no guarantee any such revenues will be available for distribution. The excess is currently estimated to be only \$1.3 million, which would be distributed among municipalities statewide. If these excess revenues evaporate by July 10, 2001, however, cities and counties will receive nothing.

Second, SB 233 undermines local control and authority. While the recent surge in prices has been unfortunate for natural gas customers, the Board philosophically must oppose state government addressing such issues by simply eliminating a local government revenue source, particularly where the state fails to make its own meaningful financial commitment. By deflecting any solid financial responsibility for SB 233, we believe the state would unfairly require local elected officials alone to bear the full consequences of a policy decision made at the state level.

For these reasons, the Board would strongly urge you to reject SB 233. Thank you for your time and consideration.

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2-15-01
Attachment 9*

**Written Testimony to the
Senate Assessment and Taxation Committee
SB 233
February 15, 2001
Tom L. Kaleko, Assistant City Administrator**

On behalf of the City of Lenexa, I urge you to put aside Senate Bill 233. This bill would exempt domestic natural gas sales from local sales tax from the effective date until July 1 of 2002.

This proposal is onerous in its erosion of the home rule authority of communities to govern their own affairs. The bill is particularly problematic in that it affects fiscal year 2001 – a period for which cities have already adopted budgets. In Lenexa, the local sales tax conveyed by the city's two gas providers is approximately \$100,000 per year.

Undoubtedly, this proposal stems from this winter's unusually high natural gas prices. While it is certainly an admirable endeavor to provide families with some relief from high gas bills, this appears to be the wrong means to that end.

- The savings experienced by each homeowner will be far less than the cost to their community. Saving three dollars on a three hundred dollar gas bill will make very little difference in the life of an individual or family. The choices that must be made by the community to make up for the loss of \$100,000 in revenue may have far more impact.
- The citizens of each community in Kansas are well equipped to decide how to best approach this issue. City by city throughout Kansas, residents and their elected leaders are talking about the effects of rising natural gas prices on city revenues. Each community will make the decision that best fits its unique circumstances.
- The bill makes assumptions that may not prove to be valid. Natural gas prices may fall. Weather patterns may warm. This one-size-fits-all solution leaves little ability to respond to changing events.

I thank you for your time and attention. I hope you will agree to take no action on this well-intended, but flawed legislation.

Tom Kaleko

*Senate Assessment & Taxation
2-15-01
Attachment 10*