

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:55 a.m. on March 20, 2001, 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: Mike Taylor, City of Wichita
Elmer Ronnebaum, Kansas Rural Water Association
Gerald Bennett, Miami County Rural Water District No. 2
Ron Appletoft, Water District No. 1 of Johnson County

Others attending: See attached list.

Sub HB 2006—Exempting certain gross receipts and certain sales from sales tax.

Mike Taylor, representing the City of Wichita, testified in support of **Sub HB 2006**, which concerns proposed changes in the way sales tax is applied to municipal water utilities. He explained that the City of Wichita's concern was prompted by a Department of Revenue audit which demanded sales tax be paid on all kinds of purchases and operations of the water utility, purchases and operations which had never before been taxed. He pointed out that, traditionally, city governments do not pay sales taxes to the state for providing municipal services, and he believes that providing water is a basic function of city government. The only opposition ever expressed to treating municipal water utilities like all other municipal services is that it carries a fiscal impact to the state. He noted that the House deleted changes made in the bill, and those changes returned the bill to its original purpose, which was to treat municipal utilities the same as all other municipal services. Due to the fiscal impact, implementation was delayed until the 2004 budget year. Mr. Taylor believes this was a reasonable approach and urged the Committee to support **SB HB 2006** in its current form. (Attachment 1)

Elmer Ronnebaum, Kansas Rural Water Association, testified in support of **Sub HB 2006**. He commented that the bill clarifies the issue of state sales tax application on public water systems and provides for exemption of sales taxes on connection and reconnection fees and benefit units fees charged by rural water districts. He noted that application of state sales on public water systems presents one of the most difficult administrative tasks by cities and water districts. He asked the Committee's support for the section of the bill which clarifies that connection and reconnection fees and sales of benefit units by rural water districts are not subject to sales tax. In addition, he said, if it is essential to reduce the fiscal note associated with the bill, the Association will support a payment of a reasonable fee based on retail water sales. He noted that the cities of Concordia, Coffeyville, and Holton support this position. (Attachment 2) Mr. Ronnebaum submitted written testimony in support of **Sub HB 2006** from Larry Remmenga with the City of Concordia (Attachment 3), Chuck Shively with the City of Coffeyville (Attachment 4), and Bradley J. Mears with the City of Holton (Attachment 5).

Gerald Bennett, Miami County rural Water District No. 2, testified in support of **Sub HB 2006**. He believes that the current system of applying sales tax to water districts is confusing and vague. His specific concern regards the application of sales tax on electricity used in production and distribution of water to customers. He explained that electricity used in production is exempt from sales tax; however, when used in the distribution system, it is taxable. Other areas about which he is concerned are the application of sales tax on new construction versus repair or replacement of system infrastructure and the necessity to eliminate the tax on benefit unit charges and connection fees. Mr. Bennett believes the bill will eliminate administrative burdens, not only for water districts but also for the Department of Revenue. (Attachment 6)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:55 a.m. on March 20, 2001, in Room 519-S of the Capitol.

Ron Appletoft, Water District No. 1 of Johnson County, testified in support of **Sub HB 2006**. He stated that, in recent decades, providing water to the public has increasingly become a governmental function and should be exempt from sales tax similar to other governmental services. He noted that, if the District was exempt from an approximate annual sales tax of \$500,000, its operational costs could be reduced, which would have a beneficial impact on water rates. He explained that the District has filed several appeals challenging the Department of Revenue's application of the sales tax laws to the District, and a recent court decision confirmed the District's position that electricity used to pressurize water mains should be exempt from sales tax. Mr. Appletoft noted that many other publically owned water utilities have also challenged the Department's interpretations. In conclusion, he said lowering operating costs and simplifying administration of publically owned water utilities would benefit the public statewide. (Attachment 7)

There being not others wishing to testify, the hearing on **Sub HB 2006** was closed.

Chairman Corbin turned the Committee's attention to a previously heard bill, **HB 2007**, concerning the provision of information on local sales and transient guest taxation to local governments by the Director of Taxation. He noted that a House amendment on page 3, lines 27-31, allows any committee member of an appropriate governing body to view the sales tax information furnished by the Department. He recalled that, during the hearing on the bill, committee members felt the sales tax information should be available only to the financial officers of a city or county governing body.

Senator Lee moved to amend the language on page 3, line 30, by inserting after "to any financial officer" "designated by a city or county to receive such information" and to amend the same language in appropriate places on pages 5 and 7, seconded by Senator Jenkins. The motion carried.

Senator Jenkins distributed copies of a proposed new section for **HB 2007** to be inserted on page 7 after line 20. (Attachment 8) She explained that it recently came to her attention that the City of Topeka filed a claim for a refund of tax similar to the Johnson County District No. 1 claim addressed in the integrated plant bill in the 2000 Session. The City of Topeka filed a claim on June 25, 1998, for \$88,904, and the claim has never been paid or denied. The proposed language would draw the line to July 1, 1998, so that any city which filed a claim prior to that day could be paid. She explained that, with this language, only the City of Topeka would qualify for payment; therefore, the fiscal note on the bill would be limited to the amount of Topeka's claim.

Senator Jenkins moved to amend **HB 2007** by inserting the proposed new section on page 7 after line 20, seconded by Senator Haley.

Senator Goodwin asked if any other cities filed claims prior to July 1, 1998. In response, Senator Jenkins said the Department of Revenue informed her that only one other city had filed. However, due to a confidentiality requirement, the Department could not reveal what city filed or the date the claim was filed, but was able to share that the amount of that claim is \$12,000. Senator Jenkins explained that she chose July 1, 1998, because it would apply to the city (Topeka) which she knows filed early enough to qualify and that she would have been willing to include the other city in the bill if the Department of Revenue had been able to reveal the date that city filed a claim. Committee discussion followed regarding the possibility that the amendment would open an opportunity for payment of claims made by other cities.

On a call for a vote on Senator Jenkins' motion to amend **HB 2007**, the motion failed.

Senator Taddiken called attention to subsection (e) on page five of **HB 2007**, which deals with crediting county and city transient guest tax funds to the tourism and convention promotion fund of counties or cities. He pointed out that conventions do not occur in all cities and counties. For this reason, he felt subsection (e) should be amended to change the provision that no more than 20 percent of the moneys shall be expended for tourism promotion. Senator Taddiken moved to strike "except that not more than 20% of the moneys credited to such fund shall be expended for tourism promotion" beginning on page 5, line 26 and ending on line 28, seconded by Senator Haley. The motion carried.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:55 a.m. on March 20, 2001, in Room 519-S of the Capitol.

Senator Lee moved to recommend **HB 2007** favorably for passage as amended, seconded by Senator Clark. The motion carried.

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

The next meeting date is to be announced.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: March 20, 2001

NAME	REPRESENTING
RON Appletoft	Water Dist No 1 of JCG
ALLAN SOETAERT	RWD #7, JOHNSON COUNTY
Gerald Bennett	Rwd #2, Miami Co.
ELMER RONNEBAUM	Ks Rural Water Assoc.
GEORGE PETERSEN	Ks Taxpayers Network
Kim Gullett	LKCN
Martee Carpenter	KCCI
Doug Smith	Pneger-Smith Company
Tami Breensing	visitor
Ed O'Malley	O.P. Chamber
Bill Brady	Ks Gov't Consulting
Bob Krehbiel	RLOGA
Joe Duke	KCK BPU
Ann Purkes	DOB
Jay Plennon	LKN



TESTIMONY

City of Wichita
Mike Taylor, Government Relations Director
455 N Main, Wichita, KS. 67202
Phone: 316.268.4351 Fax: 316.268.4519
Taylor_m@ci.wichita.ks.us

Substitute for House Bill 2006 Water Utility Sales Tax

Delivered to
Senate Assessment and Tax Committee
March 20, 2001

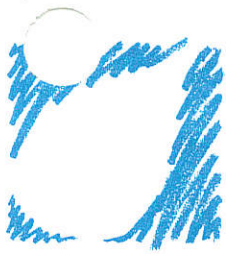
House Bill 2006 is a familiar issue to most of you. In 1996, 1997, 1998, 1999 and again in 2000, the City of Wichita along with others, proposed changes in the way sales tax is applied to municipal water utilities. The City of Wichita's concern was prompted by a Department of Revenue audit which demanded sales tax be paid on all kinds of purchases and operations of the water utility. Purchases and operations which had never before been taxed.

Traditionally, City governments do not pay sales taxes to the State government for providing municipal services. Providing water to citizens is a basic function of city government, the same as filling potholes, putting out fires or providing police protection. As such, exempting municipal water utilities from paying sales tax on purchases will clarify and correct the confusing, inconsistent question of what's taxable and what's not when it comes to providing basic City services. Few people who understand how the taxation of municipal water utilities is carried out, think it makes any sense. The only opposition ever expressed to treating municipal water utilities like all other municipal services is that it carries a fiscal impact to the State.

House Bill 2006 has gone through a number of changes since it was recommended by the Interim Committee last summer and passed favorably by the House Tax Committee earlier this session. Last week, the members of the House stripped out those changes and returned the bill to its original purpose, treating municipal utilities the same as all other municipal services. But the House also acknowledged the problems of dealing with the fiscal impact of such a change in a year when revenues are tight. So, the House decided to declare its intent in statute, but delay implementation of the action until the 2004 budget year.

The action is a very reasonable approach. One that finally corrects the problems of applying sales tax to water utility purchases, but one that gives the Legislature two more budget cycles to plan and prepare for the financial impact. I encourage the committee to support House Bill 2006 in its current form.

*Senate Assessment & Taxation
3-20-01
Attachment 1*



KANSAS
RURAL
WATER
association

Quality water, quality life

P.O. Box 226 • Seneca, KS 66538 • 785/336-3760
FAX 785/336-2751 • <http://www.krwa.net>

**COMMENTS ON HOUSE BILL 2006
BEFORE THE SENATE ASSESSMENT AND TAXATION COMMITTEE
March 20, 2001**

Mr. Chairman and Members of the Committee:

The Kansas Rural Water Association appreciates this opportunity to present comments on House Bill 2006. Kansas Rural Water Association has active membership of nearly 400 cities and 275 rural water and public wholesale water districts. In addition, the Association has a good working relationship with over 260 Associate members – suppliers, manufacturers, attorneys, engineering firms and others. KRWA provides services and training to public water and wastewater utilities.

The Kansas Rural Water Association supports HB 2006. This bill, as amended, does two things that are needed. First, it will clarify the issue of state sales tax application on public water systems. Second, it provides for exemption of sales taxes on connection and reconnection fees and benefit units fees charged by rural water districts.

Public water supply systems have tremendous difficulty in correctly applying the sales tax on purchases. The application of state sales on public water systems presents one of the most difficult administrative tasks by both cities and water districts. Many people believe that cities are exempt from sales tax on their municipal water systems. They are not. Some pay on every purchase. On the other hand vendors report to us that some cities always contend their water utility is tax exempt. Regardless, there is a lot of confusion by the utilities and to some extent the department of revenue as to what is taxable and what is not. A component may be taxable or it may be tax-exempt, all depending on what its function is in the water system. Often a single component serves multiple functions, some which are taxable and some which aren't. Is it original construction or is it a repair? Is the service made on a component that is exempt? In each case the purchase is treated differently. Exemptions are for labor only used in the construction, not the materials. There is also often an issue as to what is "original" compared to replacement, etc.

Concerning the section of HB 2006 that pertains to connection and reconnection fees, and sales of benefit units by rural water districts, this is a new area of taxation and was only announced in the recently published sales tax guide for political subdivisions. We ask for your support for a clarification that these fees not be subject to sales tax.

Also, after discussions on March 19, 2001 with several larger municipal and rural water system members, the Association also suggests that if it is essential to reduce the fiscal note associated with the bill, then the Association membership will support a payment of a reasonable fee based on retail water sales. We ask your consideration of such a compromise if essential to gain the tax exemption. I am aware that the cities of Holton, Concordia and Coffeyville support that position.

Respectfully submitted,



Elmer Ronnebaum
General Manager

Senate Assessment & Taxation
3-20-01
Attachment 2

Members, Kansas Rural Water Association
 February 26, 2001 Page 1

Allen RWD #10	City of Alton	City of Clay Center	City of Geneseo
Allen RWD #4	City of Altoona	City of Clifton	City of Girard
Allen RWD #7	City of Americus	City of Clyde	City of Glasco
Allen RWD #8	City of Andale	City of Coffeyville	City of Glen Elder
Anderson RWD #2	City of Anthony	City of Colby	City of Goessel
Anderson RWD #3	City of Arcadia	City of Coldwater	City of Goff
Anderson RWD #4	City of Argonia	City of Collyer	City of Grainfield
Anderson RWD #6	City of Arlington	City of Columbus	City of Greeley
Arnold Waterworks, Inc.	City of Ashland	City of Colwich	City of Green
Atchison RWD #1	City of Assaria	City of Concordia	City of Greenleaf
Atchison RWD #2	City of Atlanta	City of Conway Springs	City of Grenola
Atchison RWD #3	City of Attica	City of Cottonwood Falls	City of Gridley
Atchison RWD #4	City of Atwood	City of Council Grove	City of Grinnell
Atchison RWD #5	City of Auburn	City of Courtland	City of Gypsum
Atchison RWD #6	City of Axtell	City of Cullison	City of Haddam
Barber RWD #1	City of Barnard	City of Culver	City of Halstead
Barber RWD #2	City of Barnes	City of Cunningham	City of Hamilton
Barber RWD #3	City of Bazine	City of Damar	City of Hanover
Barber RWD #4 (proposed)	City of Beloit	City of Dearing	City of Hardtner
Barton RWD #1	City of Bennington	City of Deerfield	City of Harper
Barton RWD #2	City of Bentley	City of Delia	City of Hartford
Blue River Hills Imp. Dist.	City of Benton	City of Delphos	City of Harveyville
Bourbon RWD #2 Cons.	City of Bern	City of Denison	City of Haviland
Brown RWD #1	City of Beverly	City of DeSoto	City of Hays
Brown RWD #2	City of Bird City	City of Dighton	City of Hazelton
Butler RWD #1	City of Bison	City of Downs	City of Herington
Butler RWD #2	City of Blue Mound	City of Dwight	City of Herndon
Butler RWD #3	City of Blue Rapids	City of Edgerton	City of Hesston
Butler RWD #4	City of Bogue	City of Edna	City of Hiawatha
Butler RWD #5	City of Bonner Springs	City of Effingham	City of Highland
Butler RWD #6	City of Brewster	City of Elgin	City of Hill City
Butler RWD #7	City of Bronson	City of Elk City	City of Hillsboro
Butler RWD #8	City of Brookville	City of Elkhart	City of Hoisington
Caldwell Utilities, Inc.	City of Brownell	City of Ellinwood	City of Holcomb
Chase RWD #1	City of Bucklin	City of Ellis	City of Holton
Chautauqua RWD #1	City of Buffalo	City of Elmdale	City of Hope
Chautauqua RWD #2	City of Buhler	City of Elwood	City of Horton
Chautauqua RWD #3	City of Bunker Hill	City of Emmett	City of Howard
Cherokee RWD #1	City of Burden	City of Enterprise	City of Hugoton
Cherokee RWD #2	City of Burlingame	City of Erie	City of Humboldt
Cherokee RWD #3	City of Burlington	City of Esbon	City of Hunter
Cherokee RWD #4	City of Burns	City of Eudora	City of Inman
Cherokee RWD #5	City of Burrton	City of Everest	City of Iola
Cherokee RWD #6	City of Bushton	City of Fall River	City of Isabel
Cherokee RWD #7	City of Cambridge	City of Florence	City of Iuka
Cherokee RWD #8	City of Canton	City of Fontana	City of Jamestown
Cherokee Water Corp.	City of Carbondale	City of Fort Scott	City of Jennings
City of Admire	City of Cawker City	City of Frankfort	City of Jewell
City of Agenda	City of Cedar Vale	City of Fulton	City of Kanorado
City of Agra	City of Centralia	City of Galesburg	City of Kechi
City of Alexander	City of Chapman	City of Galva	City of Kensington
City of Allen	City of Chase	City of Garden City	City of Kingman
City of Alma	City of Cherryvale	City of Garden Plain	City of Kinsley
City of Almena	City of Cimarron	City of Gardner	City of Kiowa
City of Alta Vista	City of Circleville	City of Gas	City of Kismet
City of Altamont	City of Claflin	City of Gaylord	City of LaCygne

Members, Kansas Rural Water Association
 February 26, 2001 Page 2

City of LaHarpe	City of Mound City	City of Ransom	City of Valley Falls
City of Lancaster	City of Mound Valley	City of Rantoul	City of Vermillion
City of Larned	City of Mount Hope	City of Raymond	City of Victoria
City of Lebanon	City of Mulberry	City of Republic	City of Virgil
City of Lebo	City of Mullinville	City of Reserve	City of Wakefield
City of Lecompton	City of Munden	City of Rexford	City of Waldo
City of Lehigh	City of Muscotah	City of Richmond	City of Wallace
City of Lenora	City of Narka	City of Riley	City of Walton
City of Leon	City of Natoma	City of Robinson	City of Wamego
City of Leoti	City of Neodesha	City of Rolla	City of Washington
City of LeRoy	City of Ness City	City of Rossville	City of Waterville
City of Lewis	City of Netawaka	City of Rozel	City of Wathena
City of Liebenthal	City of New Strawn	City of Russell	City of Waverly
City of Lincoln Center	City of Newton	City of Sabetha	City of Weir
City of Lincolnville	City of Nickerson	City of Satanta	City of Wellsville
City of Lindsborg	City of Norcatour	City of Sawyer	City of West Mineral
City of Linwood	City of North Newton	City of Scammon	City of Westmorland
City of Little River	City of Nortonville	City of Scott City	City of Wetmore
City of Logan	City of Norwich	City of Scranton	City of White City
City of Long Island	City of Oakley	City of Sedan	City of Whitewater
City of Longford	City of Oberlin	City of Sedgwick	City of Whiting
City of Longton	City of Ogden	City of Seneca	City of Williamsburg
City of Lucas	City of Oketo	City of Severance	City of Willowbrook
City of Luray	City of Olmitz	City of Severy	City of Winchester
City of Lyndon	City of Olpe	City of Sharon	City of Windom
City of Lyons	City of Onaga	City of Sharon Springs	City of Winfield
City of Macksville	City of Oneida	City of Silver Lake	City of Winona
City of Madison	City of Osage City	City of Simpson	City of Woodston
City of Manchester	City of Oskaloosa	City of Smith Center	City of Yates Center
City of Manhattan	City of Oswego	City of Soldier	Clay RWD #2
City of Mankato	City of Overbrook	City of South Haven	Cloud RWD #1
City of Manter	City of Oxford	City of South Hutchinson	Coffey RWD #2
City of Maple Hill	City of Ozawkie	City of Spearville	Coffey RWD #3
City of Marion	City of Palco	City of Spring Hill	Comanche RWD #1
City of Marquette	City of Paradise	City of St. Francis	Comanche RWD #2
City of Marysville	City of Park City	City of St. George	Cowley RWD #1
City of Matfield Green	City of Parker	City of St. John	Cowley RWD #2
City of Mayetta	City of Parsons	City of St. Paul	Cowley RWD #3
City of McCune	City of Pawnee Rock	City of Sterling	Cowley RWD #4
City of McDonald	City of Paxico	City of Stockton	Cowley RWD #5
City of McFarland	City of Peabody	City of Strong City	Cowley RWD #6
City of McLouth	City of Perry	City of Sublette	Cowley RWD #7
City of Meade	City of Peru	City of Summerfield	Crawford Chicopee Corp.
City of Medicine Lodge	City of Phillipsburg	City of Sylvan Grove	Crawford Cons. RWD #1
City of Melvern	City of Plains	City of Sylvia	Crawford RWD #1
City of Meriden	City of Pleasanton	City of Syracuse	Crawford RWD #2
City of Milford	City of Pomona	City of Thayer	Crawford RWD #3
City of Miltonvale	City of Portis	City of Topeka	Crawford RWD #4
City of Minneapolis	City of Powhattan	City of Toronto	Crawford RWD #5
City of Moline	City of Preston	City of Towanda	Crawford RWD #7
City of Moran	City of Pretty Prairie	City of Treece	Dickinson RWD #1
City of Morganville	City of Protection	City of Tribune	Dickinson RWD #2
City of Morland	City of Quenemo	City of Troy	Doniphan RWD #1
City of Morrill	City of Quinter	City of Turon	Doniphan RWD #2
City of Morrowville	City of Randall	City of Ulysses	Doniphan RWD #3
City of Moscow	City of Randolph	City of Valley Center	Doniphan RWD #5

Members, Kansas Rural Water Association
February 26, 2001 Page 3

Douglas RWD #1	Lane RWD #1	Neosho RWD #9	Sumner RWD #4
Douglas RWD #2	Leavenworth Cons. RWD 1	Neosho-Allen RWD #2	Sumner RWD #5
Douglas RWD #3	Leavenworth RWD #10	Norton RWD #1	Sumner RWD #6
Douglas RWD #4	Leavenworth RWD #2	Osage RWD #2	Sundowner West
Douglas RWD #5	Leavenworth RWD #5	Osage RWD #3	Trego RWD #1
Douglas RWD #6	Leavenworth RWD #6	Osage RWD #4	Trego RWD #2
Elk RWD #1	Leavenworth RWD #7	Osage RWD #5	University Park Imp. Dist.
Ellis RWD #1	Leavenworth RWD #8	Osage RWD #6	Wabaunsee RWD #1
Ellis RWD #2	Leavenworth RWD 1	Osage RWD #7	Wabaunsee RWD #2
Ellis RWD #6	Linn RWD #1	Osage RWD #8	Washington RWD #1
Ellis RWD #7	Linn RWD #2	Osborne RWD #2	Washington RWD #2
Ellsworth RWD #1	Linn RWD #3	Osborne RWD 1A	Washington RWD #3
Finney RWD #1	Linn Valley Lakes	Ottawa RWD #1	Wilson RWD #1
Franklin RWD #1	Lyon RWD #1	Ottawa RWD #2	Wilson RWD #10
Franklin RWD #2	Lyon RWD #2	Pottawatomie RWD #1	Wilson RWD #11
Franklin RWD #3	Lyon RWD #3	Pottawatomie RWD #2	Wilson RWD #12
Franklin RWD #4	Lyon RWD #4	Pottawatomie RWD #3	Wilson RWD #3
Franklin RWD #5	Lyon RWD #5	Public Wholesale #12	Wilson RWD #5
Franklin RWD #6	Marion County Imp. Dist. #2	Public Wholesale #13	Wilson RWD #6
Franklin RWD #7	Marion RWD #1	Public Wholesale #4	Wilson RWD #7
Geary RWD #4	Marion RWD #2	Public Wholesale #5	Wilson RWD #9
Greenwood RWD #1	Marion RWD #4	Reno RWD #1 (101)	Woodson RWD #1
Greenwood RWD #2	Marshall RWD #1	Reno RWD #101	
Hamilton RWD #1	Marshall RWD #2	Reno RWD #3	
Harper RWD #1	Marshall RWD #3	Reno RWD #4	
Harper RWD #2	McPherson RWD #2	Reno RWD #8	
Harper RWD #3	McPherson RWD #4	Republic RWD #1	
Harper RWD #4	Miami RWD #1	Republic RWD #2	
Harper RWD #5	Miami RWD #2	Rice RWD #1	
Harvey RWD #1	Miami RWD #3	Riley RWD #1	
Jackson RWD #1	Miami RWD #4	Rooks RWD #1	
Jackson RWD #2	Mitchell RWD #1	Rooks RWD #2	
Jackson RWD #3	Mitchell RWD #2	Rooks RWD #3	
Jefferson RWD #1	Mitchell RWD #3	Rush RWD #1	
Jefferson RWD #10	Montgomery Cons. RWD #1	Russell RWD #1	
Jefferson RWD #11	Montgomery RWD #1	Russell RWD #3	
Jefferson RWD #12	Montgomery RWD #10	Russell RWD #4	
Jefferson RWD #13	Montgomery RWD #12	Saline RWD #1	
Jefferson RWD #2	Montgomery RWD #13	Saline RWD #2	
Jefferson RWD #3	Montgomery RWD #14	Saline RWD #3	
Jefferson RWD #6	Montgomery RWD #2	Saline RWD #4	
Jefferson RWD #7	Montgomery RWD #4	Saline RWD #6	
Jefferson RWD #8	Montgomery RWD #6	Saline RWD #8	
Jefferson RWD #9	Montgomery RWD #8	Sedgwick RWD #2	
Jewell RWD #1	Montgomery RWD #9	Sedgwick RWD #3	
Johnson RWD #6 Cons.	Morris RWD #1	Sedgwick RWD #4	
Johnson RWD #7	Nemaha RWD #1	Shawnee Cons. RWD #1	
Kingman RWD #1	Nemaha RWD #2	Shawnee RWD #3	
Labelle Mont. RWD #3	Nemaha RWD #3	Shawnee RWD #4	
Labelle RWD #1	Nemaha RWD #4	Shawnee RWD #6	
Labelle RWD #2	Neosho RWD #12	Shawnee RWD #7	
Labelle RWD #5	Neosho RWD #3	Shawnee RWD #8	
Labelle RWD #6	Neosho RWD #5	Smith RWD #1	
Labelle RWD #7	Neosho RWD #6	Sumner RWD #1	
Labelle RWD #8	Neosho RWD #7	Sumner RWD #2	
Labelle RWD 5	Neosho RWD #8	Sumner RWD #3	



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**Comments on House Bill 2006
Before the Senate Assessment and Taxation Committee
March 20, 2001**

Police Department
401 W. 6th
PO Box 603
(785) 243-3131
FAX-(785) 243-4727
TDD-(785) 243-3323

Mr. Chairman and Committee Members,

My name is Larry Remmenga. I am Director of Utilities for the City Of Concordia, Ks. I am writing this letter of support for HB2006 as amended, on behalf of the citizens of my community, the administration, and our staff with the City Of Concordia.

Fire Department
701 Washington
(785) 243-4411

On February 28, 2001 I testified before the House Utilities Committee in support of this bill as amended. No one will deny the fact that the State of Kansas has an urgent need for the dollars that the state sales tax system is currently raising. The facts are though, that the method of collection (sales tax) is very confusing, is cumbersome, and varies so greatly that not one community in this great state is able to administer it as it was intended.

Municipal Judge
812 Washington
(785) 243-1357

We support the proposed simple method of a fee imposed on our gallons sold retail, to offset the fiscal note associated with a sales tax exemption. It is a method that would be easy to administer, be easily verified, and would achieve the state's goal of receiving the needed dollars.

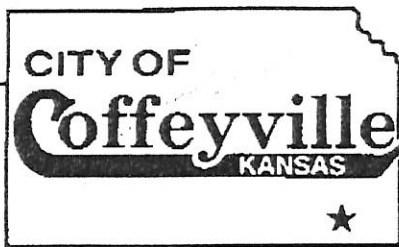
City Attorney
613 Washington
(785) 243-3790
FAX-(785) 243-5018

Again, we urge the committee to support the exemption of sales tax as presently pertaining to water districts and cities.

Respectfully submitted,

Larry Remmenga
Director of Utilities
City Of Concordia

Senate Assessment + Taxation
3-20-01
Attachment 3



7th & WALNUT • P.O. BOX 1629 • (316) 252-6100
COFFEYVILLE, KANSAS 67337-0949

March 19, 2001

Chairman, Senate Assessment & Taxation Committee
Topeka, Kansas

Dear Mr. Chairman and members of the committee:

The City of Coffeyville would like to express its support for the proposed House Bill 2006, which would exempt water utilities from the sales tax statutes.

If necessary to offset revenues, we would also support an amendment to HB2006, which would establish a clean drinking water fee, at a reasonable rate per 1,000 gallons of water sold at retail by a public water supply system, in lieu of the payment of sales tax.

The current sales tax statutes for water systems are complicated and difficult to implement, due to the sales tax exempt status of certain portions of the water treatment operations, while other portions of water treatment operations, as well as all water distribution operations are not exempt.

The situation becomes even more complicated for many Cities, such as Coffeyville, which have a combined Water & Wastewater Utility. Since the wastewater utility is exempt and some parts of the water utility's operations are exempt, while other parts of the water utility's operations are not exempt, determining exactly which purchases are subject to sales tax and which are exempt can be very difficult and time consuming.

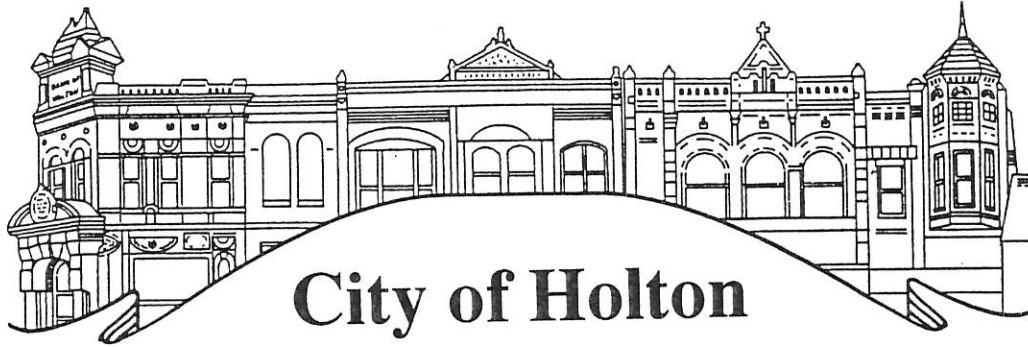
Publicly owned water systems are not typically profitable enterprises, especially with the new regulatory burdens recently imposed. They are most often a public service, similar to a wastewater utility.

Therefore, we would appreciate your consideration and support of this bill.

Sincerely,

Chuck Shively, Director
Water & Wastewater Utilities

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City of Holton

March 20, 2001

The Honorable David Corbin
Chair, Senate Assessment and Taxation Committee
Kansas State Senate
State Capitol
Topeka, Kansas 66612

RE: HB 2006

Dear Senator Corbin and Members of the Assessment and Taxation Committee:

On behalf of the City of Holton, we would like to comment on legislation proposed through House Bill 2006 which amends K.S.A. 79-3606. The bill, as we understand it, would provide a sales tax exemption for public water systems for construction, renovations, operation, or maintenance, including both direct and indirect purchases made by water suppliers.

From the City's perspective, our primary goal would be to work in partnership with the State to consider some mechanism for simplifying the present sales tax structure in dealing with direct and indirect purchases as it applies to water systems. The current system is difficult and complicated particularly for many smaller systems. The administration of the sales tax issue for our system of 1,500 customers is more complex than we believe it should or could be.

We also share the State's concern about the fiscal impact of granting sales tax exemptions. However, other alternatives may be available for addressing a potential reduction in sales tax revenues. If we were able to achieve sales tax simplification for water systems, we would be open to working on alternative solutions that could potentially address the fiscal impact, including a reasonable fee-based payment on water sales.

Again, our primary concern is simplification of the overly complicated sales tax structure as it applies to water suppliers. We appreciate the opportunity to express our concerns about the current sales tax structure, and we hope that the Committee can reach a workable solution to the issues involved in the proposed legislation.

Thank you for your consideration.

Sincerely,

Bradley J. Mears
City Manager

430 Pennsylvania Avenue, Holton, Kansas 66436
(785) 364-2721 FAX (785) 364-3887

Senate Assessment + Taxation

3-20-01

Attachment 5

Senate Assessment & Taxation Committee
Comments on House Bill 2006
March 20, 2001

Mr. Chairman and Members of the Committee:

On behalf of Rural Water District #2, Miami County, Kansas and its Board of Directors I would like to offer comments on House Bill 2006, the bill that is to be heard and reviewed by the Senate Assessment & Taxation Committee.

Rural Water District #2 provides water service to a population of approximately 10,000 in Miami, Johnson and Franklin Counties. Rural Water District #2 also provides wholesale water to three other rural water districts in the area. The source of water is Hillsdale Reservoir.

Rural Water District #2 supports House Bill 2006. We believe the current system of applying sales tax in our industry is extremely confusing and vague. We have been on the receiving end of an audit by the Kansas Department of Revenue. It was not a pleasurable experience, nor do we believe that it was for the auditors performing the task. The audit included all business performed from October 1, 1995 thru September 30, 1998. The end result was the District paying nearly \$5,000.00 in Consumers' Compensating Use Tax and Retailers Sales Tax, including interest.

We strive to maintain to our patrons a rate structure that does not burden their wallet. When a burden comes along, with a price tag of \$5,000, it is felt throughout the entire district. Budgets have to be revised; equipment purchases prolonged and explanations are made. In our case we felt that a clear understanding of the sales tax application was never provided.

Specifically, our issue is concerning the application of sales tax on electricity used in production and distribution of water to our customers. Electricity used in production is exempt from sales tax, however when used in the distribution system it is taxable. Other areas of concern are the application of sales tax on new construction versus repair/replacement of system infrastructure and the necessity to eliminate the tax on benefit unit charges and connection fees.

House Bill 2006 will help eliminate the administrative burden, not only for water districts and cities but for the Department of Revenue as well. We understand that the need for revenue in the state cannot be diminished at every turn. Therefore we stand in favor of House Bill 2006 with the addition of a revenue neutral collection structure.

Respectfully submitted,



Gerald Bennett
General Manager
Miami County Rural Water District 2

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WATER DISTRICT NO.1 OF JOHNSON COUNTY



Mailing Address: P.O. Box 2921, Shawnee Mission, KS. 66201
5930 Beverly Ave., Mission, Kansas 66202

Tel. (913) 895-5500
FAX (913) 895-1825

Substitute for H.B. 2006
As Amended by House Committee of the Whole

Sales Tax Treatment of Water District Purchases

Testimony Presented at the
Senate Assessment and Taxation Committee
On March 20, 2001
By Ron Appletoft, Governmental Affairs Coordinator

Water District No. 1 of Johnson County appears in support of substitute for H.B. 2006, as amended by the House Committee of the Whole, which would exempt publicly owned water utilities, including Water District No. 1, from sales tax on purchases of property and services used in the construction, operation and maintenance of publicly owned water utilities.

Water District No. 1 is organized as a regional public water utility and serves over 370,000 consumers in and around Johnson County. The Water District is operated as a quasi-municipal corporation pursuant to K.S.A. 19-3501 et seq.

In recent decades, providing water to the public has increasingly become a governmental function and should be exempt from sales tax similar to other governmental services. The Water District pays approximately \$500,000 in sales tax annually. If the Water District was exempt from this tax burden, its operational costs could be reduced, which would have a beneficial impact on water rates.

Current sales tax law, as applied to publicly owned water utilities, is complex and very confusing. The Water District has been forced to file several appeals challenging the Department of Revenue's application of the sales tax laws to the District. A recent court decision confirmed the Water District's position that electricity used to pressurize water mains should be exempt from sales tax. It is our understanding that many other publicly owned water utilities have also challenged the Department's interpretations. This is costly to water utilities and the state in terms of both time and money. The "integrated plant" tax legislation passed last year added additional confusing language to existing tax law.

Water District No. 1 urges your support of substitute for H.B. 2006, as amended by the House Committee of the Whole, that will fully exempt publicly owned water utilities from sales tax. By lowering operating costs and simplifying administration of publicly owned water utilities, the public would be benefited statewide.

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PROPOSED AMENDMENT TO HOUSE BILL NO. 2007
as amended by House Committee

On page 7, after line 20 by inserting a new section to read follows:

Sec. 4. K.S.A. 2000 Supp. 79-3609 is hereby amended to read as follows: 79-3609. (a) Every person engaged in the business of selling tangible personal property at retail or furnishing services taxable in this state, shall keep records and books of all such sales, together with invoices, bills of lading, sales records, copies of bills of sale and other pertinent papers and documents. Such books and records and other papers and documents shall, at all times during business hours of the day, be available for and subject to inspection by the director, or the director's duly authorized agents and employees, for a period of three years from the last day of the calendar year or of the fiscal year of the retailer, whichever comes later, to which the records pertain. Such records shall be preserved during the entire period during which they are subject to inspection by the director, unless the director in writing previously authorizes their disposal. Any person selling tangible personal property or furnishing taxable services shall be prohibited from asserting that any sales are exempt from taxation unless the retailer has in the retailer's possession a properly executed exemption certificate provided by the consumer claiming the exemption. Any retailer asserting a claim that certain sales are exempt who does not have the required exemption certificates in possession shall acquire such certificates within 60 days after receiving notice from the director that such certificates are required. If such certificates are not obtained within the period set forth herein, the sales shall be deemed to be taxable sales under this act.

(b) The amount of tax imposed by this act is to be assessed within three years after the return is filed, and no proceedings in court for the collection of such taxes shall be begun after the expiration of such period. In the case of a false or fraudulent return with intent to evade tax, the tax may be

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assessed or a proceeding in court for collection of such tax may be begun at any time, within two years from the discovery of such fraud. No assessment shall be made for any period preceding the date of registration of the retailer by more than three years except in cases of fraud. No refund or credit shall be allowed by the director after three years from the date of payment of the tax as provided in this act unless before the expiration of such period a claim therefor is filed by the taxpayer, and no suit or action to recover on any claim for refund shall be commenced until after the expiration of six months from the date of filing a claim therefor with the director.

(c) Before the expiration of time prescribed in this section for the assessment of additional tax or the filing of a claim for refund, the director is hereby authorized to enter into an agreement in writing with the taxpayer consenting to the extension of the periods of limitations for the assessment of tax or for the filing of a claim for refund, at any time prior to the expiration of the period of limitations. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon. In consideration of such agreement or agreements, interest due in excess of 48 months on any additional tax shall be waived.

(d) For all taxable periods subject to assessment on January 1, 1998, including periods subject to an agreement to extend the statute of limitations, and for all taxable periods commencing after December 31, 1997, interest at the rate prescribed by K.S.A. 79-2968, and amendments thereto, shall be allowed on any overpayment of tax computed from the due date of the return if it was timely filed and accompanied by the tax due or, if the return was not timely filed, from the date of payment, except that no interest shall be allowed on any such refund if the same is paid within 60 days after the date of the return or the date of payment, as the case requires.

(e) Notwithstanding any other provision of this section or the provisions of the Kansas compensating tax act:

(1) (A) Any claim for refund of tax imposed by the Kansas retailers' sales tax act or the Kansas compensating tax act based upon the provisions of subsection (kk) of K.S.A. 79-3606 in existence prior to its amendment by this act which is without dispute shall be allowed, but, with respect to any claim exceeding \$10,000, the refund associated therewith shall not be paid until after 510 days from the date such claim was filed and shall not include interest from such date. As used in this subparagraph, a claim for refund without dispute shall not include any claim the basis for which is a judicial or quasi-judicial interpretation of such subsection occurring after the effective date of this act.

(B) Any refund of tax resulting from a final determination or adjudication with regard to any claim submitted or to be submitted for refund of tax imposed by the Kansas retailers' sales tax act or the Kansas compensating tax act based upon the provisions of subsection (kk) of K.S.A. 79-3606 in existence prior to its amendment by this act not described by subparagraph (A) shall, with respect to any refund exceeding \$50,000, be paid in equal annual installments over 10 years commencing with the year of such final determination or adjudication. Interest shall not accrue during the time period of such payment.

(2) No claim for refund of tax imposed by the Kansas retailers' sales tax act or the Kansas compensating tax act based upon the application of the provisions of subsection (n) of K.S.A. 79-3606 pursuant to its interpretation by the court of appeals of the state of Kansas in its opinion filed on August 13, 1999, in the case entitled In re appeal of Water District No. 1 of Johnson County shall be allowed for tax paid prior to the effective date of this act unless such claim was filed by a city or other taxing subdivision prior to July 1, 1998, and notwithstanding that any such claim was not fully prosecuted and adjudicated. The provisions of this subsection shall not be applicable to Water District No. 1 of Johnson county.