

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on March 13, 2002 in Room 519-S of the Capitol.

All members were present.

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferrees appearing before the Committee:

Representative Aurand
Representative Cook
Representative Feuerborn
Representative Rehorn
Representative Sloan
Duane Goossen, Director of the Budget
Dan Hermes, Kansas Alcohol and Drug Service
Providers Association
Leslie Kaufman, Kansas Farm Bureau
Mike Beam, Kansas Livestock Association
Mark Tallman, Kansas Association of School Boards
Karl Peterjohn, Kansas Taxpayers Network
Don Denney, Wyandotte County Administrator's office
Mike Rundle, Mayor of Lawrence
Charles Jones, Douglas County Commission
Kelvin Heck, Lawrence Chamber of Commerce
Larry Paine, City of Baldwin
Mike Worswick, Wolfe's, Topeka
Tom Whitaker, Kansas Motor Carriers Association
Tom Palace, Petroleum Marketers & Convenience Stores
Ron Hein, R. J. Reynolds Tobacco Company

Others Attending: See attached list

Hearing was opened on

HB 2827 - Sales tax exemption for certain substance abuse prevention service providers.

Dan Hermes presented testimony in support of **HB 2827** on behalf of the Kansas Alcohol and Drug Service Providers Association (Attachment #1). Mental Health provides are already tax exempt. Providers doing the same service. In effect when state provides them the same rate sometimes \$28 their case management is basically operating at a 6% discount. Bill to correct that inequity.

Hearing on HB 2827 was closed.

Hearing was opened on

HB 3011 - Retailers' sales tax; Anderson County jail.

Representative Feuerborn presented the request to allow Anderson County Commissioners to put on the ballot a sales tax to build a new jail.

Hearing on HB 3011 was closed.

CONTINUATION SHEET

Consideration of HB 2804

Representative Huff moved, Representative Owens seconded, to recommend HB 2804 - School district finance; teacher benefit and classroom enhancement favorable for passage.

Representative T. Powell moved, Representative Wilson seconded, substitute motion that HB 2804 would apply only to those districts who had reached their maximum local option budget. Substitute motion was adopted.

Representative Cook moved, Representative Mays seconded, to amend HB 2804 as follows:

Add the following language in line 33, page 1, following Sec. 1 (b) and in line 36 page 2, following Sec. 4(a)(2):

Except as provided further, in any election held pursuant to this section, no school district funds shall be expended to promote or reject such budget adoption. The school district may print and distribute a two-page informational document concerning such election 14 days prior to the date of the election.

Add the following language as Sec. 5, line 14 page 5:

No school district may decrease the amount paid for the salaries and benefits for teachers from the operating budget unless the entire budget is decreased in the same percentage amount.

"Sec. 5", line 14 page 5 becomes Sec. 6.

Discussion followed.

HB 2804 was withdrawn from consideration.

Hearing was opened on HB 2788 - State tax system restructuring.

Representative Aurand said the purpose of introducing **HB 2788** was to provide some proposals for consideration to increase revenue due to the budget. He answered questions from the committee as to what the effect of these changes would be.

Leslie Kaufman presented testimony on behalf of the Kansas Farm Bureau (Attachment #2) in support of two provisions of **HB 2788**: section 1(b) on page 1, lines 30-32 and section 6 on page 4 lines 38 through page 5 line 6. She said the provisions cited are consistent with their long held position of supporting increased reliance on sales and income tax and reducing the reliance on the property tax. She called attention to the policy statements provided in the testimony.

Mike Beam presented testimony on behalf of the Kansas Livestock Association in support of **HB 2788** (Attachment #3). He testified their members believe the property tax system is largely antiquated because it is a nineteenth century concept, when land ownership was more of a reliable indicator of wealth or of a taxpayer's ability to pay and is a product of the days when our economy was based largely on agricultural activity.

Mark Tallman presented testimony on behalf of the Kansas Association of School Boards in opposition to **HB 2788** (Attachment #4). He said they understand the bill is designed to be revenue neutral but that the Association believes the most important need for an increase in sales tax is to help the state address the current budget shortfall, and the most critical property tax issue in school finance is not the statewide mill levy but is the local option budget. It is their position that if the sales tax increase were to increase the base budget per pupil to an adequate level, local option budgets can be reduced and property taxes will also be reduced.

CONTINUATION SHEET

Written comments were provided from Karl Peterjohn on behalf of the Kansas Taxpayers Network in opposition to **HB 2788** (Attachment #5).

Hearing was closed on **HB 2788**.

Hearing was opened on

HB 2785 - Redemption of real estate bid off by county, Wyandotte County.

Representative Rehorn presented testimony in support of the bill (Attachment #6), explaining that under the provisions of current Kansas law 103 Kansas counties can apply the payment of delinquent property taxes to the oldest tax year. In Wyandotte County and Johnson County the payment is applied to the most recent tax year. Wyandotte County is requesting this legislation to allow them to apply the redemption payments to the oldest tax year.

Don Denney, Wyandotte County Administrator's Office provided comments in support of the bill.

Hearing was closed on **HB 2785**.

Hearing was opened on

HB 2828 - Douglas County authorized to impose sales tax for industrial and recreational park purposes.

Representative Sloan presented a letter on behalf of the Douglas County legislative delegation in support of **HB 2828** (Attachment #7). They explain that the bill is a result of work of Douglas County Commissioners, Lawrence City Commissioners, and interested citizens on a proposal to increase the county's public recreation and industrial park acreage.

Mike Rundle, Mayor, provided testimony on behalf of the City of Lawrence in support of the bill (Attachment #8). He said at its March 5, 2002 meeting the Lawrence City Commission unanimously agreed to support the bill with suggested amendments which were provided with his testimony. One of the amendments was to remove Section 3 allowing the County to keep all of the sales tax revenue which will allow all cities within Douglas County to share in the revenue from the tax if it is approved by the voters. He described the support of studies by the Lawrence Chamber of Commerce on the importance of open space preservation.

Charles Jones presented a letter from the Chairman of the Douglas County Commission in support of **HB 2828** (Attachment #9). The County Commission concurs in deletion of Section 3 allowing all cities in the County to share in the revenue.

Kelvin Heck presented testimony on behalf of the Lawrence Chamber of Commerce in support of the bill (Attachment #10). Mr. Heck served as chair of the ECO2 Task Force of the Chamber and described their studies which resulted in request for this legislation.

Larry Paine, Administrator of the Baldwin City, provided oral testimony in support of the bill and the proposal to allow cities to share in the revenue, describing business activities and growth in Baldwin City.

Hearing on **HB 2828** was closed.

Hearing was opened on

HB 2834 - Temporary sales tax exemption for sales of personal computers.

Representative Cook presented testimony in support of **HB 2834** (Attachment #11). She said it is modeled after legislation in Pennsylvania that allows two weeks each year as sales tax holidays for the purchase of personal computers, peripheral devices, or internet access devices for non-business use.

CONTINUATION SHEET

She testified economic studies show that one of the most significant recent declines is in technology investment and outlined benefits from this bill, including the fact that individuals delaying a computer purchase will have a strong reason to go ahead and make the purchase. Representative Cook said she would like to work with the Department of Revenue on the fiscal note attempting to factor in extra income from computer purchases.

Mike Worswick of Wolfe's, Topeka, provided oral comments. He said he was here not only because he sells computers but also because he is active in the economic committee of USD 501 working with low income households.

Hearing was closed on **HB 2834**.

Hearing was opened on
HB 2805 - Revenue enhancements for the financing of state government.

Duane Goossen, Director of the Budget, explained that this is the third of three major tax bills this committee has considered, representing a compilation of the Governor's tax proposals. He provided the history of the budgeting process beginning with the Governor's budget presented in January (the Green Book budget). He explained the provisions of **HB 2805** and reviewed the economic situation including the recent revenue forecast.

Mr. Goossen responded to questions. He discussed possible cuts, possible further revenue requirements for SRS and the programs involved, and implications for the highway program. He responded to questions about possible loss of matching federal funds. He said the list of highway projects that were identified as possibilities to be eliminated was prepared by the Secretary of Transportation.

He said with reference to SRS that as a policy there were some aspects of the medical and medicaid expenditures not absolutely required by federal government and appropriate committees, including Ways and Means, are looking at that in some detail and that although it is true that not all those are required, it would be very difficult to undo some of them, such as the pharmacy program.

At the request of Committee members he described the budget process. Agencies are asked to submit a "current service" budget, a "reduced circumstances" budget, and have the ability to ask for what is called an "enhancement" request. He explained that expenditure for General Government (legislative, Governor, judicial, etc.) is just under \$200 million from state general fund..

Chairman Edmonds thanked the Director for appearing to provide information to the Committee.

Tom Whitaker presented testimony on behalf of Kansas Motor Carriers Association in opposition to the motor fuel tax provisions of **HB 2805** (Attachment #12), and explained its probable effect on the motor carrier industry. In response to questions he said the Association supported the transportation plan

Tom Palace presented testimony on behalf of the Petroleum Marketers and Convenience Store Association of Kansas in opposition to the motor fuel and cigarette tax provisions of **HB 2805** (Attachment #13).

Ron Hein presented testimony on behalf of r. J. Reynolds Tobacco Company in opposition to the provisions to increase taxes on cigarettes contained in **HB 2805** (Attachment #14).cigarette#14 - comments in appearing in opposition to 2805.

Written testimony on behalf of the Kansas Taxpayers Association in opposition to **HB 2805** was presented by Karl Peterjohn (Attachment #15).

Hearing was closed on **HB 2805**.

The meeting adjourned at 11:05 a.m. The next meeting is March 14.

GUEST LIST

DATE Wed., March 13

NAME	REPRESENTING
George Peterson	Ks Taxpayers Network
Don Denny	Unified Govt. Wyandotte Co.
Charles Jones	DOUGLAS COUNTY COMMISS
Mike Rynold	City of Lawrence, KS
Bernie Koch	Wichita Area Chamber
LARRY R BAER	LICM
Christi Stewart	KS Motor Carriers
Mike Beam	Ks. Luth. Assn.
Ron Herli	Herli Law Firm, Chtd
BRAD BURKE	CESSNA
Jack Glaves	Calu. P-W + KM
Larry Paine	City of Baldwin City
Michael White	PMCA
KELVIN HECK	LAURENCE CHAMBER
July Melen	KAC
Wendy Williams	KRMCA - KAPA
Glenn J. Coulter	Ks. Good Roads
Orville Cole	Sen. Tyson
Tom Whitaker	KS Motor Carriers Assn
Deann Williams	KS Motor Carriers Assoc.
Leslie Kaufman	Ks Farm Bureau
Michelle Peterson	Kp. Governmental Consulting

PUBLIC SOLUTIONS

DAN HERMES
315 SW 4TH STREET, SUITE 7
TOPEKA, KS 66603

MANAGEMENT CONSULTING AND
LOBBYING SERVICES

PHONE: 785.234.4306
CELLULAR: 785.221.7419
E-MAIL: HERMES4@MINDSPRING.COM

LEGISLATIVE TESTIMONY

TO: Representative John Edmonds and Members of the House Taxation Committee
Corrections

DATE: March 13, 2002

SUBJECT: HB 2827 – Sales Tax Exemption for Substance Abuse Service Providers under
Contract with the Department of SRS

Mr. Chairman and Members of the Committee, my name is Dan Hermes and I represent the Kansas Alcohol and Drug Abuse Service Providers Association (KADPSA). KADPSA is an association of 20 not-for-profit agencies that provide alcohol and drug abuse services in the state. Services include education, treatment and prevention.

The bill in front of you today provides an exemption for sales taxation for these organizations that provide the services under contract with the Department of Social and Rehabilitation Services. The cost to the state would be less than \$100,000 on an annual basis and would correct an inequity in taxation among these groups.

Under current law, Community Mental Health Centers are exempt from sales tax while “stand-alone” providers are subject to the tax. Both of these groups provide substance abuse services for SRS and both of these groups have members in KADPSA. The state rate for services is identical for these entities. In effect, the rate for “stand-alone” providers is about six percent less assuming a one percent local sales tax.

As an example, in Wichita, CommCare pays no sales tax while other groups contracted to provide the same service, such as Parallax, DCCCA and the Knox Center pay the tax. Enacting HB 2827 would correct this inequity and provide needed financial relief to your partners in the state that provide these necessary services.

I thank the committee for its time and attention and would stand for any questions.

House Tax 3-13-02
Attach. No. 1
Page 1 of 1



Kansas Farm Bureau

2627 KFB Plaza, Manhattan, Kansas 66503-8508 • 785.587.6000 • Fax 785.587.6914 • www.kfb.org
800 S.W. Jackson, Suite 817, Topeka, Kansas 66612 • 785.234.4535 • Fax 785.234.0278

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

**Re: HB 2788 – concerning the structure of
the state tax system.**

**March 12, 2002
Topeka, Kansas**

**Prepared by:
Leslie Kaufman, Associate Director
Public Policy Division**

Chairman Edmonds and members of the House Committee on Taxation, thank you for the opportunity to provide comments on certain portions of HB 2788, concerning the structure of the state tax system. I am Leslie Kaufman and I serve as the Associate Director of Public Policy for Kansas Farm Bureau. Our comments today are in support of two provisions contained in HB 2788. Those are section 1(b) [page 1, lines 30-32] and section 6 [page 4, lines 38 through page 5, line 6].

Farm Bureau members have a long history of supporting increased reliance on sales and income tax and reducing the reliance on the property tax. Policy statements relative to this concept include:

- ***We support an equitable mix of taxing revenues that would decrease the dependency on property tax.***
- ***We support replacement of those property tax revenues by increasing reliance on sales and income tax revenues while preserving existing sales tax exemptions for business, industry and agriculture.***
- ***We strongly support reducing the reliance on the property tax.***

House Tax 3-13-02
Attach. No. 2
Page 1 of 2

- ***We support increasing reliance on sales and income taxes for the support of state and local governmental units, when coupled with a corresponding reduction in the property tax.***

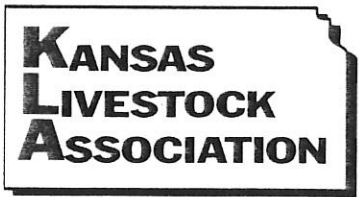
The provisions of HB 2788 cited above are consistent with these policy provisions. As such, we support two portions of HB 2788. Obviously, the state is faced with hard financial choices at this time. We indicate our support for the provisions outlined above and leave it to the wisdom of the committee as to action on the entire proposal. Thank you for the opportunity to share our comments. If you have questions regarding our policy or our statement, please call us.

KFB Public Policy Division – Topeka Office 234-4535
Leslie Kaufman
Janet McPherson

KFB Headquarters – Manhattan 785-587-6000
Patty Clark, ext. 6106

Kansas Farm Bureau represents grassroots agriculture. Established in 1919, this non-profit advocacy organization supports farm families who earn their living in a changing industry.

House Tax 3-13-02
Attach. No. 2
Page 2 of 2



Since 1894

To: House Taxation Committee
Representative John Edmonds, Chairman

From: Mike Beam, KLA Governmental Affairs Staff

Subject: HB 2788 Property Taxes for Education Funding

Date: March 12, 2002

The Kansas Livestock Association (KLA) supports the concept of HB 2788, which is a reduction in the statewide mill levy of 20 mills to 12 mills for the funding of public education. KLA members have historically and consistently adopted a tax policy statement that supports non-property tax sources to fund school districts. Because of this long held position, we are appearing this morning as a proponent of HB 2788.

Our members have adopted this position on the belief that the property tax system is largely antiquated because it is a nineteenth century concept, when land ownership was more of a reliable indicator of wealth or of a taxpayer's ability to pay. It is a product of the days when our economy was based largely on agricultural activity. At that time, those one-room schoolhouses and county courthouses had to be funded, whether or not agriculture actually made a profit.

Today, our entire society has changed dramatically. No longer is real property ownership the only determination of wealth or the most assured method of measuring a taxpayer's ability to pay. Today, it is not necessarily correct to assume that a mortgaged piece of land or building is a reliable indicator of wealth. We believe, therefore, that sales and income taxes are a more appropriate method for collecting revenue for public education needs.

I realize that school finance is a complex and comprehensive issue. We don't pretend to have all the answers for addressing this matter, especially in light of the unprecedented budget challenges you face in the next few weeks.

We merely wanted to take this opportunity to express our current and historical support for efforts to move away from property taxes as a method of funding education.

Thank you!

House Tax 3-13-02
Attach. No. 3
Page 1 of 1

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS



1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on
HB 2788 – Sales Tax Restructuring
Before the
House Committee on Taxation

By
Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

March 12, 2002

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to offer comments on HB 2788. As we understand the bill, it would reduce the statewide mill levy for school districts from 20 mills to 12 mills, and raise the state sales tax to cover the cost of that reduction. It is designed to be revenue neutral.

We appear in opposition to this measure for several reasons. First, we believe that the most important need for an increase in the sales tax is to help the state address the current budget shortfall. We do not believe that state taxes should be raised in order to reduce the statewide mill levy when school districts are facing a significant reduction in their operating budgets.

Second, we believe the most critical property tax issue in school finance is not the statewide mill levy – it is the local option budget. During the past seven years, the Legislature has eliminated the statewide mill from motor vehicles, lowered the statewide rate from 35 to 20 mills, and created a residential exemption. General state revenues were used to replace those “local” revenues. However, that reduced the funding available to increase the base budget per pupil. As a result, school districts were forced to raise their local option budgets in order to meet costs that were increasing more than base increases and, for that matter, the Consumer Price Index.

The result has been a tax shift: as the statewide mill has been reduced, local option budgets have increased just about as much. We believe this is the wrong approach. The goal of the statewide mill levy is to ensure that all Kansans are paying a similar tax rate to support their schools. Although the state aid is provided for the local option budgets, the wealthiest districts can still generate revenues to fund the LOB at a lower effort than property-poor districts.

We believe that an increase in the state sales tax should be used to increase the base budget per pupil. If the base is increased to an adequate level, local option budgets can be reduced and property taxes will also be reduced – or, districts can continue to use the LOB for enhanced educational programs.

Thank you for your consideration.

House Tax 3-13-02
Attach. No. 4
Page 1 of 1

KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208

home.southwind.net/~ktn

316-684-0082
fax 316-684-7527

12, March, 2002

Testimony Opposing H.B. 2788
By Karl Peterjohn

The Kansas Taxpayers Network has repeatedly testified in opposition to bills that would provide temporary tax relief while creating a permanent increase in another tax. That is the primary reason for our opposition to H.B. 2788.

H.B. 2788 contains an eight mill reduction in the statewide mill levy for K-12. Cutting property taxes has been a regular position of KTN and we have regularly testified in support of similar provisions in bills before both the senate and house tax committees.

This proposed property tax reduction is identical in the millage amount of the property tax cut enacted in 1997. This bill would offset this revenue loss by raising the state sales tax .45 of one percent or a 9.2 percent increase.

H.B. 2788's property tax relief provides no protection that the same result from the reduction in the statewide mill levy from 35 mills down to 20 mills would not occur again.

In 1997 the eight mill reduction the state generated was almost immediately grabbed by USD 259. The school superintendent in Wichita claimed that he wanted a ".7 mill" property tax reduction. Actually what he wanted to do was to grab 7.3 mills of the eight mill state reduction before the money was returned to the taxpayers in the form of a lower mill levy.

KTN led the opposition to this proposal, collected over 11,000 signatures in 30 days to meet the 7,500 valid signature requirement and a special election was held in August 1997. Roughly 60 percent of the voters agreed with KTN and vote down this property tax hike. However, in many other school districts and also other local units the mill levy reductions enacted by the state were grabbed by local units. In many areas taxpayers saw little or no decrease in their property taxes.

Shortly thereafter the legislature enacted a new LOB statute that restricted petitioning to force Local Option Budget (LOB) elections. Last year USD 259's lame duck school board operating under the direction of Superintendent Brooks enacted a massive 9 mill property tax hike that could not be stopped by petition. This increased the total school mill levy by roughly 25 percent.

Since 1999 there has been no effective lid on local property taxes from cities, counties, and other local units. Unlike our neighboring states where these tax referendums are automatic in Missouri, Colorado, and Oklahoma, Kansas voters have been largely disenfranchised on tax referendum issues. With the notable exceptions of sales and school bond elections, there are fewer opportunities for voter input on important tax questions. This is particularly true since in Missouri and Oklahoma there are provisions requiring a super-majority of voters before some fiscal questions are approved at a tax referendum.

KTN's objection to this bill would be reduced if there was a provision preventing all local units from grabbing this tax reduction before it was returned to taxpayers. Trading a permanent increase in the sales tax for temporary property tax relief is not a good bargain. The fact that the local units have grabbed almost all of the 15 mills the state reduced in 1997-98 is a good indicator of the fatal flaw contained within this bill.

House Tax 3-13-02
Attach. No. 5
Page 1 of 1

RICK REHORN
REPRESENTATIVE, 32ND DISTRICT
WYANDOTTE COUNTY
STATE CAPITOL, ROOM 278-W
TOPEKA, KS 66612-1504
(785) 296-7680



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
RANKING MINORITY MEMBER: FEDERAL & STATE AFFAIRS
MEMBER: BUSINESS, COMMERCE & LABOR
JUDICIARY

March 13, 2002

Chairman Edmonds, Members of the Committee:

Thank you for the opportunity to testify in support of HB 2785.

Under current Kansas law, a homestead property must be three years delinquent on property taxes before the county may bring a foreclosure action. A homeowner can redeem the property and prevent foreclosure by making a payment on one delinquent tax year.

In 103 counties, this payment is applied to the oldest tax year. In Johnson County and Wyandotte County, for reasons no one can remember, the payment is applied to the most recent tax year.

Wyandotte County wants to join the other 103 counties in applying the redemption payment to the oldest tax year. This is beneficial for two reasons. The county collects more taxes because the oldest tax year requires the highest payment. However, it also benefits the taxpayer because the oldest tax year is accumulating the highest interest.

Thank you for your time and I hope you can support HB 2785.

A handwritten signature in black ink, appearing to read "Rick Rehorn".

Rick Rehorn

House Tax 3-13-02
Attach. No. 6
Page 1 of 1

TOM SLOAN
REPRESENTATIVE, 45TH DISTRICT
DOUGLAS COUNTY



TOPEKA

HOUSE OF
REPRESENTATIVES

STATE CAPITOL BUILDING
ROOM 446-N
TOPEKA, KANSAS 66612-1504

1785-296-7677
1-800-432-3924

772 HWY 40
LAWRENCE, KANSAS 66049-4174
1785-841-1526

TESTIMONY
HOUSE BILL 2828

Mr. Chairman, Members of the Committee:

HB 2828 permits Douglas County Commissioners to call an election for voters to decide if the local county-wide sales tax should be increased by 1/4 cent.

Douglas County commissioners, Lawrence City Commissioners, and interested citizens have been working on a proposal to increase the county's public recreation and industrial park acreage to accommodate our growing population.

While the exact proposal (size of project and funding method) is still being determined through public discussion, HB 2828 was introduced to keep the sales tax funding option available. HB 2828 simply states that: 1) If the Douglas County Commission ultimately decides to proceed with a land acquisition program, and 2) if the Commissioners decide to fund the acquisition through the sales tax, then 3) that financing option is available only if the voters approve. HB 2828 is Douglas County specific, permissive and not mandatory, capped at 1/4 cent, contains a sunset provision, and requires a public vote. It has been developed to protect citizen rights, require citizen participation, and is limited in scope.

Several amendments to clarify the intent of HB 2828 will be offered by Lawrence City Commissioners. The Douglas County delegation support these amendments.

On behalf of the Douglas County legislative delegation, thank you for your consideration. We encourage you to approve HB 2828. If you have questions, please contact any member of our delegation.

Tom Sloan
Representative
45th District

Troy Findley
Representative
46th District

Barbara Ballard
Representative
44th District

Ralph Tanner
Representative
10th District

Lee Tafanelli
Representative
47th District



City of Lawrence KANSAS

MIKE WILDGEN, CITY MANAGER

CITY OFFICES
BOX 708 66044-0708 6 EAST 6th
785-832-3000
TDD 785-832-3205
FAX 785-832-3405

CITY COMMISSION
MAYOR
MIKE RUNDLE
COMMISSIONERS
SUE HACK
DAVID M. DUNFIELD
JAMES R. HENRY
MARTIN A. KENNEDY

March 6, 2002

Representative Tom Sloan
Capitol Office
Room 446-N
Topeka, KS 66612

Dear Representative Sloan:

At our March 5, 2002 meeting, the Lawrence City Commission considered the provisions of House Bill 2828. The Commission unanimously agreed to support the enactment of the bill with the following amendment:

1. Revise Section 1 of the Bill such that K.S.A. 12-187(b)(11) reads as follows:
 - (11) The Board of County Commissioners of Douglas County may submit the question of imposing a countywide retailer's sales tax at the rate of .25% and pledging the revenue received therefrom for the purposes of preservation, access, and management of open space and for industrial and business park-related economic development.
2. Delete Section 3 of the Bill. This is the section that allows counties to keep all of the sales tax revenue. Removal of this section would allow all cities within Douglas County to share in the revenue from the tax if it is approved by the voters.

The Lawrence Chamber of Commerce's ECO2 Group has spent considerable time and effort in studying the needs and opportunities for open space preservation and industrial and business park-related economic development. House Bill 2828 provides an opportunity for the voters of Douglas County to determine whether they support a sales tax to fund both of these efforts. The Lawrence City Commission urges your support of House Bill 2828, with the recommended amendments.

Your continuing work on behalf of our community is appreciated.

Sincerely,

Mike Rundle
Mayor

cc: City Commission
Douglas County Commission
Kelvin Heck
Bill Sepic, Lawrence Chamber of Commerce

House Tax 3-13-02
Attach. No. 7
Page 2 of 2





MIKE WILDGEN, CITY MANAGER

City of Lawrence KANSAS

CITY OFFICES
BOX 708 66044-0708 6 EAST 6th 785-832-3000
TDD 785-832-3205
FAX 785-832-3405

CITY COMMISSION
MAYOR
MIKE RUNDLE
COMMISSIONERS
SUE HACK
DAVID M. DUNFIELD
JAMES R. HENRY
MARTIN A. KENNEDY

To: Members of the House Taxation Committee
From: Mayor Mike Rundle
Date: March 13, 2002
Re: House Bill 2828

At our March 5, 2002 meeting, the Lawrence City Commission considered the provisions of House Bill 2828. The Commission unanimously agreed to support the enactment of the bill with the following amendment:

1. Revise Section 1 of the Bill such that K.S.A. 12-187(b)(11) reads as follows:

(11) The Board of County Commissioners of Douglas County may submit the question of imposing a countywide retailer's sales tax at the rate of .25% and pledging the revenue received therefrom for the purposes of preservation, access, and management of open space and for industrial and business park-related economic development.
2. Delete Section 3 of the Bill. This is the section that allows counties to keep all of the sales tax revenue. Removal of this section would allow all cities within Douglas County to share in the revenue from the tax if it is approved by the voters.

House Tax 3-13-02
Attach. No. 8
Page 1 of 2



The Lawrence Chamber of Commerce's ECO2 Group has spent considerable time and effort in studying the needs and opportunities for open space preservation and industrial and business park-related economic development in our county. House Bill 2828 provides an opportunity for the voters of Douglas County to determine whether they support a sales tax to fund both of these efforts. It is important to emphasize that this initiative would allow the County to undertake a unique program of simultaneous job creation and environmental improvement. These are symbiotic programs as the jobs create income to support the community's growth and the open space creates a quality of life that attracts employers. Kansas statutes provide numerous communities with additional sales tax authority for both recreational purposes and economic development initiatives - Douglas County now seeks to join these communities and combine both economic development and open space preservation to build a better community for our current citizens and those to come in future years.

The Lawrence City Commission urges your support of House Bill 2828, with the recommended amendments. Thank you for the opportunity to present my testimony.

Douglas County Commission

March 11, 2002

Honorable Representative John Edmonds, Chairman of Taxation Committee
House of Representatives
State Capitol
Topeka, Kansas 66612

Dear Chairman Edmonds:

This is written on behalf of the Douglas County Commission to express our position on HB 2828. The majority of the Douglas County Commission supports this bill with the amendments that have been proposed by the City of Lawrence. Specifically, Section 1 of the Bill should be revised so that K.S.A. 12-187(b)(11) reads as follows:

- (11) The Board of County Commissioners of Douglas County may submit the question of imposing a countywide retailer's sales tax at the rate of .25% and pledging the revenue received therefrom for the purposes of preservation, access, and management of open space and for industrial and business park-related economic development.

Section 3 of the Bill should also be deleted. This is the section that allows counties to keep all of the sales tax revenue. Removal of this section would allow all cities within Douglas County to share in the revenue from the tax if it is approved by the voters.

The Lawrence Chamber of Commerce's ECO2 Group has spent considerable time and effort in studying the needs and opportunities for open space preservation and industrial and business park-related economic development. House Bill 2828 provides an opportunity for the voters of Douglas County to determine whether they support a sales tax to fund both of these efforts. The Douglas County Commission urges your support of House Bill 2828, with the recommended amendments, so that we will have the option to call an election.

Your continuing work on behalf of our community is appreciated.

Sincerely,



Jere McElhaney, Chairman of Douglas County Commission

House Tax 3-13-02
Attach. No. 9
Page 1 of 1



Lawrence

Lawrence Kansas Chamber of Commerce

To: Members of the House Taxation Committee
From: Kelvin Heck ECO2 Task Force Co-Chair
Date: March 13, 2002
RE: House Bill 2828

Dear Chairman Edmonds and Members of the House Taxation Committee;

It is my pleasure to be here before you this morning. For the past two years, I have been co-chair of a task force assembled by the Lawrence Chamber of Commerce called ECO2. The name evolved from our dual purposes of **e**conomic development and **e**cology.

The ECO2 initiative began as a result of a very bitter community battle over a significant development project. Upon the conclusion of that debate, several of us in the development community invited individuals from segments of Douglas county, including representatives from all four cities, the University of Kansas, agriculture, business and environmental interests, to gather around the table and discuss how we could do development better. Our goals include securing a funding stream to provide much needed resources for economic development and to provide access to and protection of open space.

We have realized three tangible results from ECO2: 1) with the financial support of the Lawrence City Commission and the Douglas County Commission, both on unanimous votes, we contracted with Fort Hays State University to undertake a comprehensive labor shed study to more full understand the characteristics of our workforce and employers, 2) in cooperation with the Lawrence/Douglas County Planning /Staff, University of Kansas Geography department, and the Douglas County Appraiser's office, we developed a GIS mapping system including overlays such as soil type, floodplain, transportation links, slope of the land, tree cover, and a dozen more characteristics to help us identify potential areas to develop and protect, and 3) I believe that most importantly, we have opened a dialogue between two traditionally antagonistic groups in our community. The dialogue has produced significant common ground.

As of yesterday, we completed our first draft of our plan and we should be ready to make that document public next week, although much of it has already been available since most of our meetings are open to the public and the press. We will be seeking input from all the residents of Douglas County as soon as we can schedule those hearings.

Yes, there are still details to be worked out, and education that needs to occur. I can tell you that we need to continue to grow our property tax base to help pay the increasing costs of public services. Investing in economic development and continually improving quality of life are the best ways we know to do this.

House Tax 3-13-02
Attach. No. 10
Page 1 of 2



Lawrence

Lawrence Kansas Chamber of Commerce

Should you support the passage of House Bill 2828, and we ask that you do so with the amendments offered by the City and the County, it would give us the opportunity to begin that education process, and potentially take to the residents of Douglas County a referendum on a proposed 0.25% sales tax increase that we anticipate would sunset in 10 years.

The funds raised from this sales tax increase would go for economic development and open space. Our draft document states that any land acquired through this process would be done strictly on a voluntary basis. No condemnation procedures could be utilized as we envision this program.

I would ask that you recommend this bill as amended, for passage, and I stand before you to answer any questions that you might have. Thank you.

Representative Mary Pilcher Cook

Testimony in Support of
Computer Tax Holiday

March 14, 2002

Mr. Chairman, thank you for allowing me to come here today to testify in support of **HB 2834**. This legislation, used in Pennsylvania last year, will allocate the week of August 5th through August 12th, 2002, and the week of February 17th through February 24th, 2003 as sales tax holidays for the purchase of personal computers, peripheral devices, or Internet access devices for non-business use.

Economic studies show that one of the most significant recent declines is in technology investment. Some of the major benefits of this legislation are

- ✓ Produces an economic stimulus.
- ✓ Encourages reluctant individuals to make their first computer purchase.
- ✓ Helps to eliminate the digital divide in Kansas.
- ✓ Attracts consumer purchases from bordering states.
- ✓ Individuals delaying a computer purchase because of anticipating and wanting the latest in technology will have a strong reason to go ahead and make the purchase.
- ✓ More individuals with computers in the rural areas
 - Could hasten the ability to do distance learning
 - Give small businesses in rural areas better chance of having access to internet

The fiscal note should take into account the extra income generated from the computer purchases that would then be taxed, and also the extra income produced from the generation of sales from bordering states.

The computer technology industry varies significantly from other industries, especially when initial computer purchases are evaluated. It used to be the hardware vs. software question. Why buy the hardware when the software choices are limited and why develop the software if there is not enough hardware to support the software. Indeed, we have this same dilemma before us in the rural areas, except now instead of hardware vs. software; it is computer hardware versus the network availability for the Internet. So, not only do we have the opportunity to put legislation in place that will help to eliminate the barrier of the digital divide; but to also give the state a short term economic stimulus.

Thank you, Mr. Chairman. I will stand for questions.

House Tax 3-13-02
Attach. No. 11
Page 1 of 1



KANSAS MOTOR CARRIERS ASSOCIATION

P.O. Box 1673 ■ Topeka, Kansas 66601-1673 ■ 2900 S. Topeka Blvd. ■ Topeka, Kansas 66611-2121
Telephone: (785) 267-1641 ■ FAX: (785) 266-6551 ■ www.kmca.org

Trucking Solutions Since 1936

KEN LEICHT
Frito-Lay Service & Distribution
President

JOHN LATHROP
Roadway Express
Chairman of the Board

GLENN UNREIN
Golden Plains Trucking, Inc.
First Vice President

TONY GASTON
Rawhide Trucking, Inc.
Second Vice President

JEFF ROBERTSON
J.M.J. Projects, Inc.
Treasurer

LARRY "DOC" CRIQUI
Kansas Van & Storage/Criqui Corp.
Corporate Secretary

MIKE MILLER
Miller Trucking, LTD
ATA State Vice President

JERRY ARENSDORF
Arensdorf Trucking, Inc.
ATA Alternate State Vice President

MIKE ROSS
Ross Truck Line of Salina, Inc.
ProTruck PAC Chairman

KELLY KILE
Wal-Mart Stores, Inc.
Public Relations Chairman

MEL GRAVES
S&G Associates, Inc.
Allied Industries Chairman

TOM WHITAKER
Executive Director

Legislative Testimony by the Kansas Motor Carriers Association

In Opposition to House Bill No. 2805

Presented before the House Taxation Committee
Representative John Edmonds, Chairman
Tuesday, March 12, 2002 Statehouse, Topeka, Kansas

MR CHAIRMAN AND MEMBERS OF THE HOUSE TAXATION COMMITTEE:

I am Tom Whitaker, executive director of the Kansas Motor Carriers Association. I appear before you this morning representing our 1,400 member firms and the Kansas trucking and highway transportation industry.

The Kansas Motor Carriers Association is opposed to the motor fuel tax and registration fee increases contained HB 2805. Our opposition to the bill has nothing to do with our continued support of the 1999 Comprehensive Transportation Plan. The trucking industry simply cannot afford an increase in taxes at this time.

HB 2805 increases the tax on all motor fuels (including diesel) by \$.01 per gallon, effective June 1, 2002. There is already a \$.01 increase scheduled to take effect on July 1, 2003. In addition, the bill increases motor vehicle registration fees by 3%.

The registration fee increase provision becomes effective on July 1, 2002, instead of the normal start of the registration year on January 1. The Governor has also proposed elimination of the \$147 million demand transfer from the state general fund to the state highway fund scheduled for FY 2003. He is proposing to pay back this one-time demand transfer reduction over the next seven years.

Truckers in Kansas currently pay substantial state and federal taxes. A 2001 Peterbilt truck tractor and semi-trailer pays a \$.23 (\$.02 more than gasoline) per gallon state diesel tax and a \$.244 (\$.06 more than gasoline) per gallon federal diesel tax. The registration fee for an 80,000 lb. truck tractor and semi-trailer is \$1,760. Additionally, this combination vehicle will pay a \$550 federal heavy vehicle use tax; a federal excise tax which is 12% on the retail value of the vehicle and approximately \$3,745 in ad valorem taxes.

House Tax 3-13-02
Attach. No. 12
Page 1 of 4

Based on current state fuel tax, registration fees, property tax and other third-structure taxes, Kansas ranks third in the nation in amount of total state truck taxes. (See attached ranking).

Trucking business failures are at all-time high. The attached graph illustrates the plight of our industry. While fuel prices have dropped, insurance costs have increased dramatically. The American Trucking Associations and its 50 state affiliates, including Kansas, participated in a study of truck insurance rates that included 1,000 motor carriers. The study indicates that during 2001, primary truck insurance premiums increased 32%, on average, which is significantly higher than that registered in 2000. For those carriers that renewed after Sept. 11, 2001, the average premium increase was 37%. Umbrella insurance premiums jumped 87% in 2001. And for those renewing umbrella coverage after Sept. 11, 2001, the average increase was 120% with some carriers reporting more than a 1000% increase.

Additionally, trucking companies cannot afford to buy new and more efficient equipment. The *Washington Post* reported on Jan. 25, 2002, that President Bush would cut federal transportation money by \$9.1 billion because a reduction in fuel tax collections, and a 50% reduction in the sale of new trucks, which reduces the amount of federal excise tax collected. KMCA is lobbying Congress to spend down the \$21 billion balance in the Federal Highway Trust Fund.

The American Trucking Associations recently reported that the industry average operating ratio increased in 2000 to 99.66 from the previously reported 1999 figure of 98.0. Based on the 2000- operating ratio, in order to pay the \$ 202.35 per truck increase as proposed in SB 452, that one truck would have to produce \$57,514.71 revenue.

We all hope the economy will strengthen in the near future. Hopefully costs will come down and freight volumes will increase, but today, this is just wishful thinking. Mr. Chairman, the Kansas trucking industry is struggling mightily to make it through these tough economic times, therefore we must oppose the fuel tax and registration fee increases contained in HB 2805.

Thank you for the opportunity to appear before you today. I would be pleased to respond to any questions you may have.

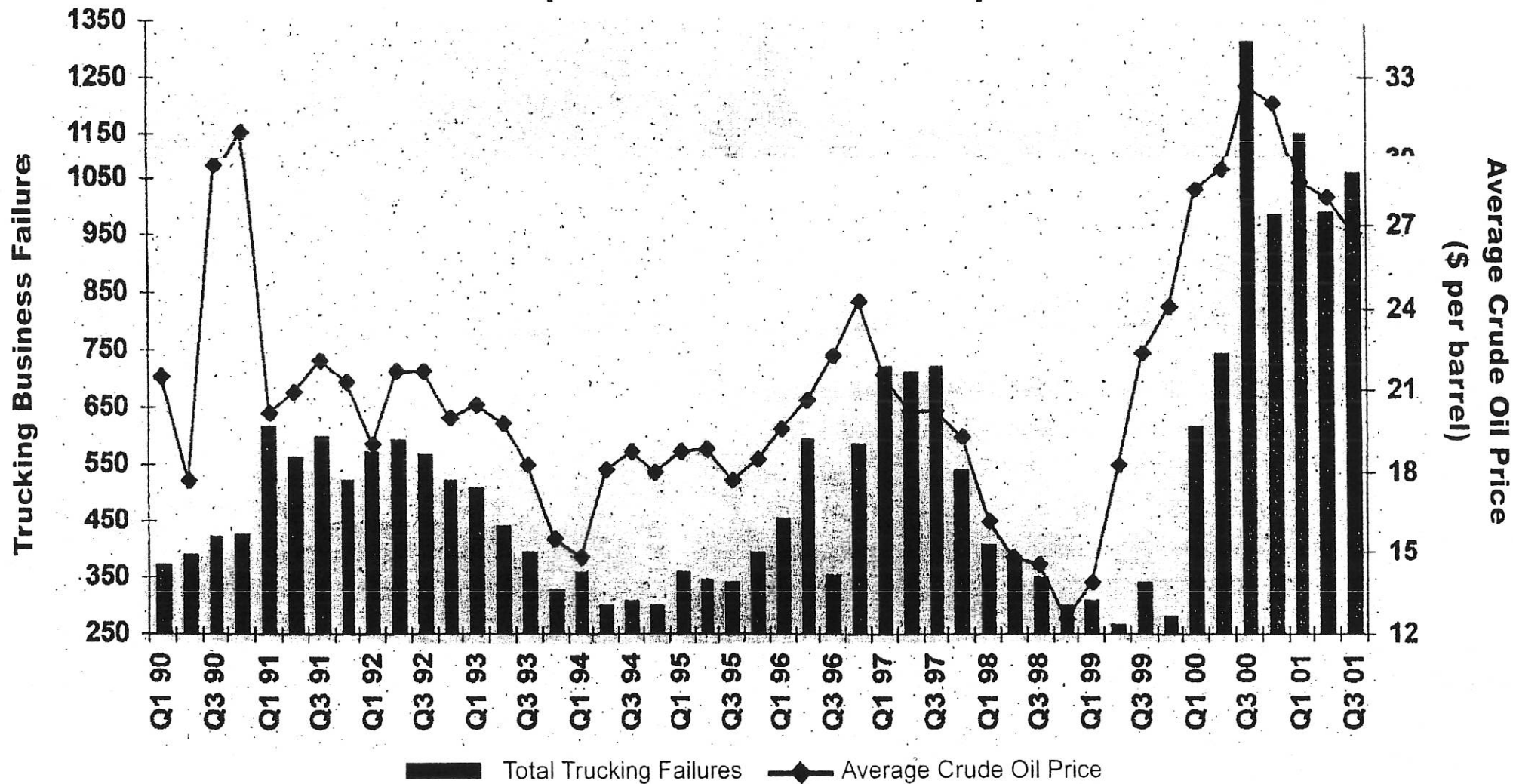
States Ranking for Total Truck Taxes

State	Regis. fees	Fuel tax rate	Fuel tax on 14,035 Gal.	Ad-Valorem tax	Other taxes	Total
OR	320	0	0	0	9576	9896
NY	968	0.2985	4189	0	3960	9117.2985
KS	1760	0.23	3228	3745		8733.23
AZ	3631	0.26	3649			7280.26
CA	1618	0.271	3803	1600		7021.271
IL	2790	0.296	4154	0		6944.296
WA	1608	0.23	3228	2044		6880.23
ID	3360	0.25	3509	0		6869.25
CO	1772.5	0.205	2877	2100		6749.705
CT	1520	0.18	2526	2435		6481.18
MA	1215	0.21	2947	2250		6412.21
WI	1967.5	0.303	4253	0		6220.803
KY	1260	0.12	1684	926	2280	6150.12
NV	1360	0.27	3789	952		6101.27
ME	877	0.23	3228	1920		6025.23
WV	1131.25	0.2565	3600	1163		5894.5065
PA	1507.5	0.309	4337	0		5844.809
VA	1368	0.16	2246	2153		5767.16
UT	666	0.245	3439	1360		5465.245
VT	1775.58	0.26	3649	0		5424.84
IN	1350	0.16	2246	1800		5396.16
MT	750	0.2775	3895	750		5395.2775
NC	963	0.241	3382	1042		5387.241
MO	1729	0.17	2386	1180		5295.17
AR	1350	0.225	3158	768		5276.225
NM	129.5	0.18	2526	0	2534	5189.68
NH	736	0.18	2526	1800		5062.18
WY	1400	0.14	1965	1620		4985.14
RI	1044	0.28	3930	0		4974.28
FL	970	0.2797	3926	0		4896.2797
IA	1695	0.225	3158	0		4853.225
NE	1280	0.245	3439	0		4719.245
SD	1457	0.22	3088	0		4545.22
OH	1340	0.22	3088	0		4428.22
MN	1595	0.2	2807	0		4402.2
DE	1280	0.22	3088	0		4368.22
MD	940	0.2425	3403	0		4343.2425
TN	1366	0.17	2386	577		4329.17
SC	800	0.16	2246	1088		4134.16
MS	1512	0.18	2526	0		4038.18
ND	1045	0.21	2947	0		3992.21
AL	845	0.17	2386	674		3905.17
TX	840	0.2	2807	0		3647.2
NJ	1087	0.175	2456	0		3543.175
GA	725	0.1108	1555	1239		3519.1108
LA	504	0.2	2807	0		3311.2
MI	1660	0.09	1263	0		2923.09
OK	948	0.13	1825	0		2773.13
HI	440	0.16	2246	0		2686.16
AK	221	0.08	1123	0		1344.08

Registration fees provided by International Registration Plan database
 Fuel taxes provided by International Fuel Tax Agreement
 Ad-Valorem taxes provided by American Trucking Associations
 Information provided by Kansas Motor Carriers Association

House Tax 3-13-02
 Attach. No. 12
 Page 3 of 4
 2/1/02

Total Trucking Business Failures vs. Average Crude Oil Prices (Q1 1990 - Q3 2001)



Trucking business failures rose in the third quarter of 2001 to 1,065. This was a 7.6% increase from 990 failures during the second quarter of 2001. Average crude oil prices fell 4.7% in the third quarter of 2001 from the previous quarter, going from \$28.02 per barrel to \$26.69.

**Presented by Kansas Motor Carriers Association
February 2002**

Source: A.G. Edwards, Dun & Bradstreet

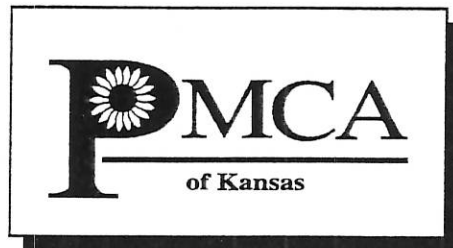
Testimony

**Prepared for the
House Taxation Committee
John Edmonds, Chairman**

**Presented by
Thomas Palace
Executive Director
Petroleum Marketers and Convenience Store
Association of Kansas**

March 12, 2002

House Bill 2805



House Tax 3-13-02
Attach. No. 13
Page 1 of 3

To: Members of the House Taxation Committee
From: Thomas M. Palace, Executive Director
Petroleum Marketers and Convenience Store Association of Kansas
Date: March 12, 2002
Testimony: HB 2805

Mr. Chairman and members of the House Taxation Committee:

My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 360 independent petroleum marketers and convenience store owners throughout Kansas.

I appreciate the opportunity to appear before you today in opposition to two components of HB 2805: the one-cent increase in the Kansas motor fuel tax and the 65 cent per pack increase in the Kansas cigarette tax.

Motor Fuel Tax Increase

Most people think that a one-cent bump in the motor fuel tax is nothing but a simple matter of passing the increase through to the consumer. Under normal conditions, that might be true, but with the advent of the "big box" retailers (large corporations selling gasoline as a loss leader), many marketers and retailers have had to absorb any increase in product cost since they are competing against companies who are selling fuel below the acquisition cost.

Petroleum marketers and convenience store retailers are in the same economic plight as the State of Kansas. While health care costs, insurance costs and compliance and employee costs are rising steadily, our profits are not keeping pace. The small business just can't compete with the giant corporation which can afford to sell gasoline below cost.

The situation is exacerbated by lower motor fuel tax rates in the states surrounding Kansas. In 2003, Kansas will be five cents per gallon higher than Missouri and Oklahoma on gasoline taxes and 10 cents per gallon higher than Oklahoma on diesel fuel taxes. With thirty percent of the Kansas population residing along the eastern and southern borders, purchasing fuel across the border is an attractive enticement. And when motorists stop to fill up in Missouri and Oklahoma, they also purchase cigarettes and other products, meaning an even larger loss of revenue for Kansas.

For these reasons we oppose any increase in the state motor fuel tax.

Cigarette Tax Increase

The proposed 65 cent-per-pack increase in HB 2805 would hike the tax on cigarettes in Kansas from 24 cents per pack to 89 cents per pack - a 271% increase. In a scenario that mirrors the motor fuel tax disparity between surrounding states, Kansas consumers could save money buying cigarettes from states on any of its borders. The proposed 89 cent per pack tax would tower over the tax in Missouri cigarette tax of 17 cents, Colorado cigarette tax of 20 cents, Oklahoma's 23 cents and Nebraska's 34 cents. Clearly Kansas retailers will face another competitive "border" disadvantage.

House Tax 3-13-02
Attach. No. 13
Page 2 of 3

Tobacco sales, coupled with gasoline sales are the "bread and butter" of the convenience store industry. Cigarettes are an important product for convenience stores, not only because cigarette sales make up approximately 23% of gross sales, but also because these sales lead to other sales such as pop, coffee, sandwiches, etc. The increased price of cigarettes has the potential of changing peoples' buying patterns, thus reducing store revenues for all products sold in convenience stores...as well as sales tax revenue for the State of Kansas.

Kansas could also be threatened with Internet sales of cigarettes, as well as cigarette smuggling from Native American reservations where, in many instances, state sales and excise taxes do not apply to cigarette sales. One major source for tribal sales is Oklahoma, where a compact exists that permits the tribes to levy a very small cigarette tax (approximately 5 cents per pack). This means that if the Kansas tax were raised to 89 cents per pack, Oklahoma reservations could provide Kansas consumers a savings of \$8.40 per carton.

Mr. Chairman, we have posed a number of reasons as to why the motor fuel tax and cigarette tax provisions of HB 2805 are detrimental to our members and the State of Kansas. It's not an issue of our industry paying its "fair" share to help the state out of its current financial crisis: we already collect and remit "high end" taxes on two of our major products - gasoline and cigarettes - while also collecting the state sales tax on the rest of our inventory). But to jeopardize the survival of small businesses by increasing taxes on two major sources of income -- or what "should" be two major sources of income were it not for competitive factors beyond our control -- is a matter of great concern for our members.

In short, we can't afford to lose any more business to surrounding states, the Internet or Native American tribes, nor can we afford to "eat" a motor fuel tax increase while big box retailers can cushion the blow with inside sales.

We ask you to oppose the motor fuel and cigarette tax increases.

Thank you.

HEIN LAW FIRM, CHARTERED

5845 SW 29th Street, Topeka, KS 66614-2462

Phone: (785) 273-1441

Fax: (785) 273-9243

Ronald R. Hein

Attorney-at-Law

Email: rhein@hwchtd.com

March 11, 2002

Testimony re: HB 2805

House Taxation Committee

Presented by Ronald R. Hein

on behalf of

R. J. Reynolds Tobacco Company

March 12, 2002

Mr. Chairman, Members of the Committee:

RJR opposes HB 2805, which increases the Kansas cigarette tax from 24¢ to 89¢ per pack, because it would hurt consumers and retailers alike.

Current tax rate and past tax increases

Supporters of increasing the cigarette tax in Kansas have cited frequently that the current state excise tax on cigarettes has not been raised in a number of years. However, this does not tell the entire story.

Since the Kansas excise tax was last increased, Kansas smokers have seen significant increases in the cost of cigarettes, some of that increase goes to the federal government because of excise tax increases, much of that increase goes to the state of Kansas as a result of the Master Settlement Agreement (MSA) between the state attorneys general and the tobacco industry, and smokers pay increased sales tax on the increases in the cost of cigarettes.

The federal tax on smokers has increased substantially over the past 15 years. Since 2000, federal taxes on a pack of cigarettes have increased 62.5%, including an additional federal tax of 5 cents beginning January 1, 2002.

Under the MSA, Kansas will collect \$1.6 billion over the next 25 years from the nations' largest cigarette manufacturers. (Although payments are calculated over a 25-year time-frame, in fact they go on for perpetuity.) This means that Kansas smokers will pay approximately \$1.6 billion over the next 25 years to the state of Kansas in addition to the excise taxes and sales taxes they are paying on cigarettes.

Kansas will receive approximately \$65 million per year in annual MSA payments. This amounts to a payment to Kansas that is more than the amount that Kansas derives from its current 24¢ per pack cigarette tax.

House Tax 3-13-02
Attach. No. 14
Page 1 of 5

Lastly, Kansas imposes a sales tax on cigarette sales. The 4.9% state sales tax is also imposed on the excise taxes and MSA payments built into the cost of a pack of cigarettes. Since the cost of a pack has gone up substantially as a result of the MSA, Kansas is taxing smokers much more with the additional sales tax. Nationally, from 1998 to 2001, the average price per pack rose from \$2.04 to \$3.28. If this national average was also true in Kansas, the amount of state sales tax imposed on smokers would have increased greater than 50% during that three-year period.

All together Kansas smokers are financing federal and state governments to the tune of \$1.33 per pack. The typical Kansas smoker now pays about \$700 in total cigarette taxes per year, larger than the average income liability for the bottom half of federal income tax filers (about \$540 in 1998.) After a 65¢ Kansas tax hike the total tax would rise to a stupendous \$1.98 per pack. A Kansas smoker would be paying about \$1.000 per year.

The argument that Kansas smokers have not had a tax increase in years is simply not accurate, as seen by the above information.

Effect on Kansas Retailers.

Kansas retailers should also be concerned. The new 89¢ tax would be **more than double** the rate in Nebraska (34¢), **more than five times** the existing Missouri tax (17¢), **more than four times** the tax in Colorado (20¢), and **almost four times** the Oklahoma rate (23¢). If the Governor's proposal of increasing the cigarette tax 65¢, to a total of 89¢ were to pass, that would mean Kansans could save money simply by crossing borders. Colorado also does not impose a sales tax on cigarettes, making the differential even higher.

Cigarette purchasing patterns have changed dramatically since 1989. High-tax states have seen tax reported sales plunge, while low-tax states have seen a corresponding increase.

With low tax Missouri, Colorado and Oklahoma on its borders, Kansas' retailers could confront a competitive challenge. Nearly 25% of Kansas' population lives in the greater Kansas City area, which borders Missouri. Kansas consumers could save as much as \$7.20 per carton purchasing in Missouri, assuming their existing tax rate. These margins come close or exceed the Advisory Commission on Intergovernmental Relation's bootleg "flashpoint" of \$3.80 per carton. Tax differences above the "flashpoint" are likely to encourage serious investments in cigarette smuggling. Kansas retailers, and ultimately state law enforcement budgets, would be vulnerable to smuggling.

Tobacco products are sold in many types of stores including convenience stores, gas stations, supermarkets, tobacco stores, drug and proprietary stores. According to a 1998 study by the American Economics Group (AEG), nearly 11,000 jobs were directly and

indirectly created due to such activities.

Tobacco sales have an especially magnified impact on smaller establishments. This is because cigarette sales comprise such a large share of their sales. In 2000, The National Association of Convenience Stores reported that tobacco sales in such stores accounted for nearly 30% of merchandise sales. Over 50% of all tobacco products are sold through convenience stores nationwide.

Loss in Cigarette Sales Volume – Assuming no changes in tax rates of surrounding states, it is projected that a 65¢ per pack tax increase will reduce Kansas cigarette sales by approximately 24%. Most of this would be due to lost sales to low-tax states and zones.

Loss in Retail Sales - The gross retail value of lost cigarette sales would be approximately \$30 million (10 million packs evaluated at a final retail price of \$3.00 per pack). Sundry product sales, or products normally bought in conjunction with tobacco products, would fall by about \$12 million (based on past estimates of this phenomenon by Price Waterhouse).

Lost Jobs - It is estimated that nearly 400 Kansas jobs would be lost as a result of a 65¢ tax increase.

It is estimated that a 65¢ per pack tax hike will lead to about a \$152 million reduction in cigarette sales for Kansas' businesses. Sundry product losses would be about \$46 million. It is obvious that Kansas businesses will lose revenue, and the state will lose corresponding excise and sales taxes from the cigarettes and other sundry items.

The Cross Border Threat

Cigarette purchasing patterns have changed dramatically due to more than 70 state cigarette tax increases since 1989. High-tax states have seen tax reported sales plunge, while low-tax states have seen a corresponding increase. The Tax Foundation examined this shift in a 1996 study, The Effect of Excise Tax Differentials on Smuggling and Cross Border Cigarette Sales. They discovered that tax differentials between high and low-tax states were creating substantial increases in both casual cross-border purchases and the organized smuggling of cigarettes. In a subsequent study, the Tax Foundation estimated that cross-border sales represented nearly 14% of total U.S. sales in 1997.

The Tax Foundation noted that the following high-tax block of states -- California, Massachusetts, Michigan, and New York -- with an average tax of 73¢ per pack, sell fewer cigarettes than the following low-tax states -- Indiana, Kentucky, Missouri, New Hampshire, North Carolina, Tennessee, and Virginia -- with an average tax of 13¢ per pack. Yet the four high-tax states have a population (65.4 million) nearly double that of the low-tax states (34.4 million).

In 1995, for the first time in history, the low-tax block sold more cigarettes (4.4 billion packs) than the high-tax block (4.3 billion packs). Since then, the gap has widened. In FY 2000, tax-reported sales in the low-tax block were 20% greater than such sales in the high-tax block. Kansas could easily be swept up in the cigarette smuggling epidemic that now plagues some other states.

Consider the case of Michigan. After it increased its cigarette tax from 25¢ to 75¢ per pack in May of 1994, annual Michigan cigarette sales nose-dived by 27 percent. On the other hand, annual cigarette sales went up by 8 percent in Kentucky, 14 percent in South Carolina, 12 percent in Indiana, 7 percent in Tennessee, 6 percent in North Carolina, 4 percent in Missouri, and 2 percent in Ohio. The sales volume gain in the low-tax states more than matched the 200 million-pack loss in Michigan.

In the words of Robert Manes, head of the Michigan State Police Treasury Enforcement Division, “[E]fforts to get around the tax increase are a growing problem. With the amount of money that can be made now, everybody who has an avenue is getting into it.” (Associated Press, December 13, 1994).

More recent cross border episodes include:

New York - The Empire State cigarette tax increased by 55¢ (from 56¢ to \$1.11 per pack) on March 1, 2000. During the following 12 months, New York tax-paid cigarette volume packs nose-dived by 24%. Neighboring Vermont (44¢) and Pennsylvania (31¢) have seen their sales volume rise over this time. It has been estimated that contraband and cross border cigarette sales now take nearly 25% of the New York market.

California - The Golden State’s cigarette tax increased by 50¢ (from 37¢ to 87¢) on January 1, 1999. California tax paid cigarette sales volume has fallen by nearly 25%. California State officials now estimate that cigarette excise tax losses due to tax evasion exceed \$150 million per year. This means that tax-evading sales take more than 12% of the entire California cigarette market. According to state tax officials, “illegal and untaxed sales have mushroomed.”¹ According to state officials, counterfeit stamps can be found throughout the state and appear to be a growing problem. Internet sales have grown as well, and are now estimated to be beyond \$60 million per year in California.

Regressivity

A recent study by the Barents Group of KPMG Peat Marwick shows that cigarette taxes are incredibly regressive, extracting a far greater percentage of income from modest wage earners compared to those with high incomes.

¹ “State Officials Fear Big Drop in Tariff Revenue,” *San Diego Times-Union*, April 19, 2001.

Barens looked at U.S. families in the bottom half of the income distribution, those earning approximately \$30,000 a year or less. While this group represents roughly 50% of all households in the country, it earns only 16% of all income generated. This group pays about 15.3% of all federal income and FICA taxes, but pays over 47% of all tobacco taxes.

Barens found that while most excise taxes are regressive, tobacco excise taxes are the most regressive of all. While the bottom half of U.S. households only reaped 16% of all income, they paid 47% of tobacco taxes, 17% of wine taxes, 30% of gas taxes, 30% of distilled spirits taxes and 34% of beer taxes. Clearly, the Kansas cigarette tax hike will harm those with modest incomes the most.

Thank you very much for permitting me to testify and I will yield for any questions.

KANSAS TAXPAYERS NETWORK
P.O. Box 20050
Wichita, KS 67208

home.southwind.net/~ktn
316-684-0082
fax 316-684-7527

12, March, 2002

Testimony Opposing H.B. 2805
By Karl Peterjohn

The Kansas Taxpayers Network has repeatedly testified in opposition to the governor's proposal to raise a variety of Kansas taxes and fees. This is particularly true because of some of the egregious examples of inappropriate and wasteful state spending. I will mention three recent examples: 1) the new state airplane with a total cost exceeding \$5.3 million; 2) the newly filled executive vice chancellor's position at KU with a \$195,000 pay scale; and 3) the notorious KDOT tunnels under Topeka.

This committee should consider what Governor Graves said during his first term, "Through most of Kansas' great history our heritage has been one of sound, prudent management of our financial resources. In Kansas, we have traditionally rejected the notion that it's possible to spend our way into prosperity or to tax our way into an economically stronger future for ourselves and our children."

"But in recent decades this heritage of prudent management has been compromised. Instead of setting priorities and making tough decisions about the level of government services, we simply raised taxes - beyond the current income of the state. This trend has stifled Kansas' economy and diminished the personal income of every Kansan."

"It is a trend we cannot afford to continue."

KTN agrees totally with this statement from the governor. We also agree with his statement in his 1999 State of the State speech where he said that Kansas, "Taxes are too high and they must be reduced."

Instead, this committee has another tax increase proposal coming from the governor to consider. KTN urges this committee and this legislature to reject higher taxes. Kansas state taxes per capita are already higher than all four of our surrounding states according to data compiled by the Tax Foundation's Special Report, February, 2002, page 6. This data conforms to the federal census data that indicates that Kansas state taxes are higher per capita than all of our surrounding states.

That means that Kansas will continue in its dubious position as the high tax point on the prairie. KTN urges this committee to reject H.B. 2805 and stop the latest tax hike proposal coming out of the governor's office.

House Tax 3-13-02
Attach. No. 15
Page 1 of 1