

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 8, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Representative Joe Humerickhouse, (written testimony only)
Randall Allen, Kansas Association of Counties, (written testimony only)
William Prescott, Osage County Commissioner
Brad Hamilton, Kansas County Commissioners Association
Wendy Harms, Kansas Aggregate Producers Association
Ramon Gonzalez - Hamm, Inc.
Warren Sick, assistant Secretary and State Transportation Engineer, KDOT
John H. Hutton, Attorney, MidStates Materials, LLC

Others attending:

See attached list.

HB 2987 - Authorizing counties to impose an excise tax on removal and severance of aggregate.

Chris Courtwright explained that the bill authorizes counties to impose a severance tax on rock and aggregate at a rate not to exceed 20 cents a ton. The Department of Revenue would administer the severance tax, on behalf of the counties. He defined "aggregate." This bill is a version of a bill from the 1990s. The fiscal note would only be modest administrative costs.

The Chairman opened the public hearing on **HB 2987**

PROPONENTS:

Representative Joe Humerickhouse submitted written testimony in support of **HB 2987**, that stated the option would be initiated at the county level by the governing body and implementation would be by resolution and subject to petition of not less than 5% (Attachment 1).

Randall Allen, Kansas Association of Counties, provided written testimony that stated that Osage County has brought forth an idea which allows the county to capture some revenues from the "severance" of its aggregate materials which can then be used to maintain its road and bridge infrastructure and provide basic services. It is an option - a permissive option which would be subject to protest petition and a vote of the public (Attachment 2).

William Prescott, Osage County Commissioner, said that Osage County produces over a million tons of quarried products annually and is also one of the largest purchasers of road rock, however, the added traffic pressure on their county roads has created an added financial burden to their taxpayers. HB 2987 is meant to assure good, usable roads for the quarrying business without it being an undue burden on the taxpaying public (Attachment 3).

Brad Hamilton, Kansas County Commissioners Association, said that HB 2987 is a way for counties to generate some revenue and reduce the reliance on property taxes used to provide basic services such as road and bridge maintenance. He urged the Committee to give this bill their full consideration (Attachment 4).

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 8, 2006 in Room 519-S of the Capitol.

OPPONENTS:

Wendy Harms, Kansas Aggregate Producers Association, said that in 1998 **SB 602** was enacted to make it clear that counties do not have the power to impose a severance tax. If enacted, **HB 2987** would repeal the reasonable legislative policy currently in place and would create bad public policy. She gave five reasons the bill should be defeated (Attachment 5).

Ramon Gonzalez - Hamm, Inc., said one reason they are opposed to the bill is its vagueness. He asked why the tax is aimed solely at rock producers and where the money collected will be used? He believes the aggregate industry currently pays their share to the counties through sales taxes, property taxes, and the services they provide to the surrounding areas (Attachment 6).

Warren Sick, Assistant Secretary and State Transportation Engineer, KDOT, said that passage of **HB 2987** would increase their aggregate costs by approximately \$600,000 annually or nearly \$1.8 million for the remaining years of the Comprehensive Transportation Program. The agency's cash forecast for the remainder of the period is very tight and in fact they expect to complete the program on fumes (Attachment 7).

John H. Hutton, Attorney, MidStates Materials, LLC, testified on behalf of an Osage County quarry. He said that a user fee or something of that nature, is part of every negotiation between the quarry and purchaser, and addressed the issues raised by the counties (No written testimony).

The Chairman closed the hearing on **HB 2987**.

Sub. SB 358 - Withholding requirements; filing certain statements by electronic means

The Chairman opened the public hearing on **Sub. SB 358**.

Richard Cram explained that the bill is part of the department's effort to move taxpayers from a paper to an electronic filing environment. The bill would amend statutes to require than an employer with 51 or more employees to file copies of W-2 statements with the department electronically.

The purpose of this bill, from the Department's perspective, is for DOR to gain access to the information that is contained on a W-2 electronically. This information can then be used in electronic data-matching operations to identify income tax non-filers. Attached is an information sheet, prepared by Jeff Scott, Executive Manager, Compliance Enforcement Department, DOR, which summarizes the benefits the department derives from having an electronic access to W-2 information (Attachment 8). There are currently 85,000 employers that file withholding annual reports; 73,000 of those have 50 or fewer employees. Passage of **Sub.SB 358** would encourage taxpayers to file electronically.

Seeing no other conferees, the Chairman closed the public hearing on **Sub. SB 358**.

Sub. SB 359 - Eliminate monetary limitations on tax refund funds

The Chairman opened the public hearing on **Sub. SB 359**.

Richard Cram said this proposal would eliminate the artificial caps that have been imposed on various tax refund funds (Attachment 9). He explained the chart, attached to his testimony, which lists the funds, statute, current caps imposed and the date the funds were created. The current system creates an administrative headache. They have to work with the Department of Administration to monitor the cash flow, and deposit funds day to day, in order to stay under the cap but have money available to pay the refunds. This process is labor intensive, therefore they suggest the elimination of the cap, in order to pay out refunds, as they become due.

Discussion followed regarding the philosophy behind maintaining 13 refund funds verses drawing money from one specific fund, designated solely for refunds. The Chairman requested that Richard Cram have someone from appropriations get that answer back to the Committee. The Chairman

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 8, 2006 in Room 519-S of the Capitol.

suggested that perhaps this was an opportunity to streamline an over-encumbered system.

Seeing no other conferees, the Chairman closed the public hearing on **Sub. SB 359.**

Substitute HB 2023 - Uniformity and the Excise Tax

The Chairman opened the discussion on the Excise Tax. Conversation continued on; rates of increases; Pros and cons of excise tax verses impact fees; and Problems pertaining to infrastructure needs between cities and developers. The Chairman stated there would no further public hearings on the bill and his intention was that they work the bill on Friday.

The meeting was adjourned at 10:30 A.M. The next meeting is March 8,

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: March 8, 2006

NAME	REPRESENTING
Wendy Hamm	KAPA
Ramon Gonzalez	N. R. Hamm
Wood Moses	KAPA
John Hutton	Midstates Materials LLC
WARREN L. SICK	K.P.O.T
Ken Gudenkauf	KDOT
Gary Conliffe	KDOT
Stan Stott	"
David R. Corbin	KDOR
Ann Dukes	DOB
Markon Shivers	KDOR
Robin Chlans	KDOR
Andrew Kapp	KDOR
Dave Holtwick	HBA of 9th K.C.
Erik Sartorius	City of Overland Park
LARRY R BAER	CKW
Don Murray	Federico Consulting
Robert K Miller Jr	Wabauwsee County Appraiser
DAVE Staewe	Wab. Co. Zoning Admin.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: 3-8-2006

NAME	REPRESENTING
William Prescott	Orange County Commission
BRAD HAMILTON	JACKSON COUNTY COMMISSIONER
Ted Emde	PAC

JOE D. HUMERICKHOUSE
REPRESENTATIVE, FIFTY-NINTH DISTRICT
OSAGE AND WESTERN FRANKLIN
AND SOUTH CENTRAL DOUGLAS COUNTIES
712 S. FIFTH
OSAGE CITY, KANSAS 66523
(785) 528-3289

ROOM 525-A
STATE CAPITOL
TOPEKA, KS 66612-1504
(785) 296-7641



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
BUSINESS COMMERCE AND LABOR
FINANCIAL INSTITUTIONS
INSURANCE
TRANSPORTATION
JOINT COMMITTEE ON STATE
BUILDING CONSTRUCTION

Testimony before the
House Taxation Committee
Regarding HB2987
March 8, 2006

Chairman Wilk and members of the Committee:

Thank you for your time to consider HB2987

This bill would authorize counties to impose an excise tax on the removal and severance of aggregate. The option would be initiated at the county level by the governing body. Implementation would be by resolution and subject to petition of not less than 5%.

The tax collected are to be returned to the county from which it is collected.

I am sorry that schedules are in conflict and it is important that I am present in Commerce and Labor Committee also meeting at this time.

Mr. Chairman and Committee I would encourage your favorable passage of House Bill 2987.



WRITTEN TESTIMONY
concerning House Bill No. 2987
re. Permissive Severance Tax Authority on Aggregate
House Taxation Committee
Submitted by Randall Allen, Executive Director
Kansas Association of Counties
March 8, 2006

Chairman Wilk and members of the committee, thank you for the opportunity to submit written testimony *in support of HB 2987* on behalf of the Kansas Association of Counties and its 96 member counties.

Over the past few years, both tax committees have challenged local governments to develop and submit ideas for generating revenue that would reduce reliance on ad valorem property taxes and state-shared revenues. We have recognized that each counties have their own assets and resources. Some are blessed with oil or natural gas or helium production. Others are excellent sites for wind generation facilities. Some are accessible to interstate highways while others merely dream of access to a 4-lane highway.

Osage County has brought forth an idea which allows the county to capture some revenues from the "severance" of its aggregate materials which can then be used to maintain its road and bridge infrastructure and provide basic services. Not every county has the abundance of aggregate as Osage County. As such, HB 2987 does not benefit all Kansas counties. However, consistent with the philosophy of counties taking care of their own revenue needs whenever and wherever possible, this bill offers a way for Osage County and other counties with rock quarries to capture some revenue to defray the cost of road and bridge maintenance, some of which is hastened by the transportation of aggregate materials over county roads.

We do not know at this point how many counties would take advantage of HB 2987 if it is enacted. We do not argue that it would be or even should be a panacea for any county's revenue needs. We would suggest, however, that it could address some of a few counties' revenue needs. *It is an option – a permissive option which would be subject to protest petition and a vote of the public.* We strongly recommend that the committee report this bill favorably. Thank you for the opportunity to submit written testimony.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randall Allen or Judy Moler by calling (785) 272-2585.

300 SW 8th Avenue
3rd Floor
Topeka, KS 66603-3912
785•272•2585
Fax 785•272•3585

House Taxation
3-8-06
Attachment 2

Osage County Commissioners

*Osage County Courthouse
P.O. Box 226
Lyndon, Kansas 66451 - 0226*

WRITTEN TESTIMONY

Concerning House Bill No. 2987

**Re: Permissive severance Tax Authority on Aggregate
House Taxation Committee**

Submitted by William Prescott, Osage County Commissioner
March 8th, 2006

Chairman Wilk and members of the committee, thank you for allowing me to voice Osage County's opinion this morning. I am here in support of HB 2987 that would allow an excise tax on the severance and removal of aggregate.

Osage County is home to some of the highest grade limestone rock in the state, and we would like to share it. My county annually produces over a million tons of quarried products. The county itself is one of the largest purchasers of road rock and benefits greatly from having multiple quarries in the county. However, the added traffic pressure on our county roads has created an added financial burden to our taxpayers.

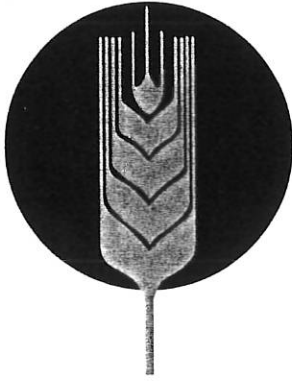
Expenses over and above normal road maintenance for quarry roads during 2005 were an extra \$7,920 per mile for gravel and \$3,000 per mile for magnesium chloride dust control, plus many equipment and employee hours grading, wetting, and packing these materials into the roadbed. A portion of this cost was shared by the quarry operators. The current method of funding the extra maintenance cost is by negotiating with each quarry operator individually, this has been very time consuming and has resulted in a very inconsistent and inadequate method of funding quarry road maintenance.

We commissioners, acting on advice from our engineering firm, have lowered the speed limits and limited operating hours to lessen the degradation of the roadway.

HB 2987 makes clear what is expected from all parties involved. Having a well defined set of guidelines for quarry operations will benefit both the county and the quarrying company. There is also a checks and balance system through the right to petition if a party feels they have been taxed unfairly. HB 2987 is meant to assure good, usable roads for the quarrying business without it being an undue burden on the taxpaying public.

Thank you for letting me voice Osage County's opinions on HB 2987. I would be happy to answer any questions you might have.

House Taxation
3-8-06
Attachment 3



Kansas County Commissioners Association

300 SW 8th Avenue
3rd Floor
Topeka, KS 66603
785/272-2585 Fax 785/272-3585

TESTIMONY

concerning House Bill No. 2987

re. Severance Tax on Aggregate

House Taxation Committee

Presented by Brad Hamilton, Jackson County Commissioner

President, Kansas County Commissioners Association

March 8, 2006

Chairman Wilk and members of the committee, my name is Brad Hamilton. I am a Jackson County Commissioner and I am President of the Kansas County Commissioners Association (KCCA). I want to thank you for the opportunity to testify *in support of HB 2987*, on behalf of county commissioners who might want the opportunity to impose such a tax to help finance basic county services such as road and bridge maintenance.

Like you, county commissioners continually face the challenge of providing important services to Kansans with a severely challenged revenue base. No one likes any tax, but the property tax is perhaps the most hated tax. As such, our county commission and commissioners across the state look for ways to finance services so that everyone pays something and no one is so overly burdened that they cannot make a living and enjoy life in Kansas.

We look at House Bill 2987 as a way for some (while certainly not all) counties to generate some revenue and reduce the reliance on property taxes used to provide basic services such as road and bridge maintenance. We appreciate the work that has been done on this bill by the Board of Osage County Commissioners and Rep. Joe Humerickhouse. HB 2987 shows that we need not continue loading every cost onto the property tax burden. There are alternatives and this is one. Please give this bill your full consideration. We urge you to report this bill favorably for passage.

The Kansas County Commissioners Association (KCCA) is comprised of elected boards of county commissioners in Kansas. The KCCA is governed by a six-member governing body including Commissioner Brad Hamilton, Jackson County, President; Commissioner Harold Wilber, Republic County, Vice President; Commissioner Raymond Brown, Haskell County; Commissioner Jerry Carson, Labette County; Commissioner John Miller, Wallace County; and Commissioner Tim Norton, Sedgwick County. For more information, call (785) 272-2585.



Kansas Aggregate
Producers' Association

Edward R. Moses
Managing Director

Testimony

**By The
Kansas Aggregate Producers' Association**

**Before the
House Taxation Committee**

Regarding HB 2987 – Aggregate Tax

March 8, 2006

Good morning, Mr. Chairman and members of the committee. My name is Wendy Harms, Associate Director of the Kansas Aggregate Producer's Association. The Kansas Aggregate Producers' Association (KAPA) is an industry-wide trade association comprised of over 200 members located or represented in all 165 legislative districts in this state, providing basic building materials to all Kansans.

We thank you for the opportunity to come before you today with our comments in opposition to HB 2987.

In April 1997, a Charter Resolution was introduced and passed by the Board of County Commissioners in Dickinson County mandating a .20¢ per ton severance tax for the removal and processing of aggregates. During this period, KAPA had attempted to work with the Dickinson County Commissioners to resolve the issues regarding severance tax, and had been unsuccessful. In our meetings with the County Commissioners, it became apparent to us that the purpose of a severance tax was to fund government operations, as the revenue generated by the severance tax was to be placed in the general fund. We felt it was unjust to put the burden of funding county government on three aggregate operators in the county.

SB 602 (1998) was introduced at our request to resolve this issue and to make it clear that counties do not have the power to impose a severance tax. SB 602 was passed by both chambers on overwhelming margins and signed by the Governor. If enacted, HB 2987, the bill before you today will repeal the reasonable legislative policy established in 1998. In our opinion, this policy is still reasonable and HB 2879 is opposed for the following reasons:

House Taxation
3-8-06
Attachment 5

1. Counties should be prohibited from passage of a severance tax as it creates inequities among other political subdivisions. Should taxpayers in non-aggregate producing counties be forced to pay a .20¢ per ton severance tax, which will accrue to benefit counties with rock processing operations? For example, our largest counties Johnson and Sedgwick both could conceivably be forced to pay a \$1.00 – (?) per ton, as they are net importers of rock. Additionally, in the jurisdiction of Osage County, the citizens of Burlingame, Lyndon and other Osage County townships and cities would be forced to pay the same tax.
2. A countywide severance tax on rock and quarry operations located within the imposing county put producers at a competitive disadvantage when competing with the producers operating outside the county line. These operators would suffer loss of sales and a corresponding reduction in employment would be necessary. Ironically, the county would suffer property tax loss as the appraised values of operations would decline.
3. The Kansas Department of Transportation being the largest single purchaser of aggregates in the state would also be forced to pay severance tax. Such a tax would increase the cost of highway work while shifting tax burden to all Kansans.
4. Also note that the Kansas Turnpike Authority is currently working on the turnpike east of Topeka and is getting its aggregate supply from an Overbrook, KS quarry located in Osage County, which would then force them to pay the severance tax. Such a tax would increase the cost of the turnpike project.
5. After examination of the statutes governing home rule power delegated to counties regarding taxation, it is easy to ascertain that this attempt to pass a severance tax is clearly beyond the boundaries of legislative intent.

In short, HB 2987 creates bad public policy and we close by simply asking this committee to take no action. Thank you for allowing me the time to appear before you today. I am willing to respond to any questions you may have at the appropriate time.

Bill Analysis (Final)

BILL NUMBER 602

SPONSOR(S): Kansas Aggregate
Producers' Association

DATE: April 24, 1998

PREPARED BY: Edward R. Moses

COMMITTEE: House Committee of the Whole

COMMITTEE RECOMMEDATIONS:

House taxation committee recommended favorable passage

UPDATED SUMMARY OF BILL:

Prohibits counties from establishing severance taxes on crushed stone and other commodities

PEANUT AND POLITICAL RAMIFICATIONS:

Non-resource-producing counties (appx. 2/3 of counties in state) in the state of Kansas would be forced to pay tax on natural resources over which they have no vote or jurisdiction. Creates an unequal competitive situation for producers of natural resources and could be extended to wheat, water and other commodities.

PROPONENTS:

Kansas Aggregate Producers' Association
Kansas Department of Transportation

OPPONENTS:

Dickinson County Commission

FISCAL NOTE: none

E. Dean Carlson
Secretary of Transportation

KANSAS DEPARTMENT OF TRANSPORTATION
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FAX (913) 296-1095

Bill Graves
Governor of Kansas

**TESTIMONY BEFORE THE SENATE COMMITTEE
ON ASSESSMENT AND TAXATION**

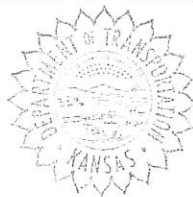
**Regarding Senate Bill 602
Prohibiting counties from levying a severance tax
February 24, 1998**

Madam Chair and Members of the Committee:

Thank you for the opportunity to provide testimony on Senate Bill 602. I am Mike Lackey, Assistant Secretary and State Transportation Engineer for the Kansas Department of Transportation (KDOT). This bill would amend current law to prohibit counties from levying an excise, severance, or any other tax on the physical severance and production of any material from the earth or water.

A significant amount of aggregate is used each year by KDOT in our highway construction and maintenance activities. In 1996, the Department used approximately 13.5 million tons of aggregate in the construction of highways. It is estimated that approximately 85 percent of these materials were produced within the state of Kansas. Assuming that a 10 cent per ton severance tax was to have been applied to all of these in-state produced materials, the additional cost to the Department would have been approximately \$1,147,500.

KDOT supports this legislation because if it is not passed there is a potential for significant increased costs to the Department.



**KANSAS DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY OF TRANSPORTATION**

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E. Dean Carlson
SECRETARY OF TRANSPORTATION

Bill Graves
GOVERNOR

Testimony Before The House Taxation Committee
Regarding Senate Bill 602
Prohibiting counties from levying a severance tax
March 17, 1998

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to provide testimony on Senate Bill 602. I am Mike Lackey, Assistant Secretary and State Transportation Engineer for the Kansas Department of Transportation (KDOT). This bill would amend current law to prohibit counties from levying an excise, severance, or any other tax on the physical severance and production of any material from the earth or water.

This legislation is the result of actions taken by a county to levy a severance tax against quarry operators who haul their product over the county's roads. The county approached the Department of Transportation for assistance but was advised that assistance on local haul-roads was only provided through the specification of our contracts and was limited to project-specific instances where a specific threshold of hauled tonnage is met or exceeded. Such assistance would not apply to all of the roads traveled by a commercial quarry as a part of their day-to-day business. The Department of Transportation's current specifications on haul-roads have evolved over the years in numerous meetings with county officials, contractors, and aggregate suppliers providing a fair and equitable solution for all parties involved. The objective of this part of our specifications is simply to hold local roads harmless from damages caused by large state highway projects.

With respect to this specific severance tax, a significant amount of aggregate is used each year by KDOT in our highway construction and maintenance activities. In 1996, the Department used approximately 13.5 million tons of aggregate in the construction of highways. It is estimated that approximately 85 percent of these materials were produced within the state of Kansas. Assuming that a 10-cent per ton severance tax was to have been applied to all of these in-state produced materials, the additional cost to the Department would have been approximately \$1,147,500.

KDOT supports this legislation because if it is not passed there is a potential for significant increased costs to the Department.



QUARRIES
CONSTRUCTION
ASPHALT
WASTE MANAGEMENT

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Perry, KS 66073-0017
Telephone 785-597-5111
FAX 785-597-5117

TESTIMONY

By the

Hamm, Inc.

Before the
Taxation Committee

Regarding HB 2987
An Act to Excise Tax on Aggregate

March 9, 2006

Mr. Chairman and members of the committee my name is Ramon Gonzalez, I'm an employee of Hamm Inc. located in Perry, KS and a member of the Kansas Aggregate Producers Association. I would like to take this time to thank you for allowing me to appear before you today in opposition of HB 2987. N.R. Hamm Quarry, Inc. and N.R. Hamm Contractor, Inc., the two major subsidiaries of Hamm, Inc. have been providing crushed limestone products and heavy-highway construction for the state of Kansas for over 52 years. Hamm, Inc. is an employee owned company employing 270 to 300 Kansas citizens in NE Kansas.

N.R. Hamm Quarry, Inc. operates numerous quarries in over 14 counties in NE Kansas. Many of our quarries are in operation primarily for state, county, and township projects. Some are even in operation exclusively for the production and sale of aggregate to the County the quarry is located.

One of the primary reasons we are in opposition of HB 2987 is because of the vagueness of the bill. Why is this taxed aimed solely at rock producers and where is the money collected going to be used? Is this a tax to help cover the cost of road maintenance in the County or will the money be deposited into the general fund? If the tax is to be used to help cover the cost of road maintenance then does this pre-empt pre-existing Road & Maintenance agreements between quarries and counties. Hamm Quarry already has Road & Maintenance agreements with individual counties in order to maintain haul roads. These agreements and the conditions of these agreements were created at zoning meetings between the operator and the County. Some agreements were made before the quarry was established while others were added throughout the life of the quarry. Hamm Quarry currently pays road "user" fees at 6 quarry locations and provides maintenance and dust control to numerous others. This is why there are zoning meetings. These are all questions and arrangements that should be left up to County Planning & Zoning Committees.

We are also in opposition of this bill because we feel this is simply an additional tax to generate revenue for the County. Counties with quarries already receive revenue from the quarry operator. From sales taxes when the material is sold to the property tax charged on all the crushing equipment, haul trucks, drills, and loaders sitting at the quarry site. We feel it is unjust to solely ask quarry operators to be responsible for the general funding of the local government.

A benefit to a County with a quarry located in it is simply the availability of material. A County with multiple sites will sometimes view a quarry as a burden forgetting the accessibility and ease of which the County is able to acquire material. The rising cost of fuel has greatly affected the price of hauling material from the quarry to the desired destination. A quarry in a county will significantly reduce the price of delivered aggregate to that county. This allows the county's road department to utilize their budget on actual material and not waste it on the additional fuel cost. There are Kansas counties without operational quarries which are forced to travel across two or more counties in order to obtain material. With this tax these counties will be paying a greater price for the material without any benefit. This could also lead to an unfair competitive advantage to quarries located just outside the Kansas state line.

In closing we feel the aggregate industry currently pays their share to the counties through sales taxes, property taxes, and the services they provide to the surrounding areas. Each quarry should be judged on an individual basis and these matters should be addressed at County Zoning meetings. These stipulations on the quarry should remain at the local level with current laws and without new State Legislation. We see no justification for additional laws to raise taxes locally. I urge this committee to oppose HB 2987. I would like to thank you for allowing me to appear here today and would be willing to answer any questions you may have at the appropriate time. Thank you.

KANSAS

DEPARTMENT OF TRANSPORTATION
DEB MILLER, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

TESTIMONY BEFORE THE HOUSE TAXATION COMMITTEE

Regarding House Bill 2987
Excise Tax on Aggregates

March 8, 2006

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to provide testimony on House Bill 2987. I am Warren Sick, Assistant Secretary and State Transportation Engineer for the Kansas Department of Transportation (KDOT). This bill would amend current law to allow counties to impose an excise tax on the removal and severance of aggregate.

In 1998, House Bill 2584 was passed prohibiting counties from imposing a severance tax on aggregates. At that time, KDOT testified in support of that bill and our concern remains the same today.

House Bill 2987 would allow all counties to impose a 20 cent per ton severance tax on aggregates. In calendar year 2005, we used approximately 3.5 million tons of aggregate for the construction and maintenance of highways. It is estimated that approximately 85 percent of these materials were produced within the state of Kansas. Passage of HB 2987 would increase our aggregate costs by approximately \$600,000 annually or nearly \$1.8 million for the remaining years of the Comprehensive Transportation Program (CTP).

As Secretary Miller has related during budget hearings, the agency's cash forecast for the remainder of the CTP is very tight and in fact we expect to complete the program on fumes. The agency must carefully manage the program during the next three years. It is important that any potential cost increases are brought to the attention of decision-makers.



K A N S A S

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
OFFICE OF POLICY AND RESEARCH

Testimony to the House Taxation Committee
Richard Cram

March 8, 2006

Senate Bill 358—E-File Readiness

Representative Wilk and Members of the Committee:

Substitute for Senate Bill 358 is part of the department's effort to move taxpayers from a paper to an electronic filing environment. It will also enhance the department's ability to collect taxes due and owing from non-filers. The bill would amend K.S.A. 79-3299 to require that an employer with 51 or more employees must annually file copies of W-2 statements with the department electronically. Under current federal guidelines, employers are required to file W-2's electronically with the federal government when 250 or more employee records are involved. The department follows those federal guidelines. The department requests that for state withholding tax purposes, this electronic filing threshold should be lowered to include employees with 51 or more employees. Requiring more employers to file W-2's electronically will provide the department better and more timely access to current taxpayer information shown on the W-2. This information can then be used in electronic data-matching operations to identify income tax non-filers. The department's compliance program will be enhanced by timely identification of non-filers through data-matching from electronically filed W-2's. Attached is a description of the tax compliance benefits to be gained from increasing the department's access to electronic data from W-2's.

Filing W-2's electronically with the department is simply a matter of e-mailing them or placing the data on a magnetic media in the required format, such as a CD, and mailing it to the department.

We urge the Committee's recommendation of this bill favorable for passage.

**What does, and can the Kansas Department of Revenue
do with the electronic W2 information?**

- Generate tax revenue with discovery of non-filers or under-reporters through validation with the current W2 information.
- Accelerate employer detection for garnishment processes of tax delinquencies.
- Reducing the requirement from 250+ employees to 50+ employees affects approximately 6,067 employers.

Compliance checks are performed using the following data sources. Processes used to verify compliance are, Tax Clearance, Automated Data Matching, and manual research.

Federal Data we receive now to match to Kansas tax files:

- IMF – Detailed Individual Master Files with Kansas Addresses
 - Filed Individual Income Tax Returns with Kansas addresses
- CP2000 – Individual Filers
 - Data Match of income reported on W2s and 1099s not reported by the Individual Income Filer
- RAR - Federal Revenue Agent Report/Audit
 - Federal audits of Corporate and Individual Income we load into our computer system and data match with Kansas Master Tax Files checking for needed amended Kansas returns because of the Federal Audit, Non-filers, or those who have underreported income. Each of these generally indicates unpaid tax liability.
- BMF – Business Master File
 - Filed Corporate Tax Returns with Kansas Addresses

State Datasets utilized for matching:

- Kansas State Regulatory Boards issuing Professional Licenses
 - Kansas professional licensees
- Kansas State Contracts - Vendor Data
 - State service contracts/vendor and contractor information
- All Kansas State Employees
 - All new hires every two weeks (payroll periods)
 - All State employees annually
- KPERS matching - for all KPERS retirement funds
 - These funds are not taxable Federally, but is taxable in Kansas. Must be added back to the tax Kansas tax return which some people miss.
- Governor's Office
 - Political Appointments
- New and Used Vehicle dealers licensed in Kansas
 - *Vehicle Salesperson licenses – in the works with Division of Vehicles*
- Kansas Drivers License Files
- Current Kansas residency verification reference
- Master Tax Files Cross Matching
 - Comparing business filings to individual filings. (i.e. Sole Proprietors)

Other/External Data:

- Public business phone listings
- Yellow pages – white pages – directories, etc.

Potential Sources for Data Matching. (what we could do)

- **The following sources have potential for high revenue generation and return on investment.**
 - Federal Data Not Yet Utilized:
 - IRMF – Individual Return Master File
 - Data of All W2s and 1099s reported to the IRS – *Contains Federal Income Data Only*
 - Federal requirement for electronically filing W-2's is **250+ employees**

State Data Not Yet Utilized:

- Department of Labor
 - Currently working on a Memorandum of Understanding with DOL Chief Counsel to cross match Businesses and Employees registered for Unemployment Insurance

Additional Benefits of Electronic Filed W-2's

- It can be attached (scanned) to the taxpayers account with an exact image for asset/employer location and possible garnishment actions.
- Efficient to track and query electronically.
- Locate Non-registered businesses for Kansas Withholding Tax who are issuing W-2's but not filing their WH
- Businesses who have not filed for the previous year(s) --- Non-filers
- Business whose Withholding KW-3 reconciliation forms do not match the Kansas Withholding reported on the electronic media – i.e. allows for auto audit balances for discrepancies
- Individuals who are non-filed but have been issued a W-2 showing Kansas income/withholding --- tax discovery
- Individuals who have reported withholding on their individual return but do not match the withholding reported by their employer – (overstated WH credit)
- Federal W-2 programs only report federal data on the electronic tapes
 - (*No state wages/withholding information is captured by the IRS*)
 - Matching programs utilizing federal W-2 information only verifies *Income Earned* and the Employer who collected it, not State of Kansas Withholding. We need the Kansas W-2 for verification.
- Less paper within the Department – eventual resource reduction to manage

We need the State withholding (W2) data electronically loaded ... *paper records are no longer efficient in our "do more with less" goal. Paper records are exceedingly human resource dependent.*

The State of Kansas loses a great deal of unreported revenue/income due to not having all the State of Kansas W-2 data electronically submitted so we can efficiently manipulate it for tax discovery/verification.

- We cannot match "paper" against other types of datasets electronically without data entry.
- To match paper by hand would require hundreds of additional FTE, and an extraordinary amount of time to hand match each return or research each W-2 submitted on paper, which is not realistic or efficient.



K A N S A S

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Testimony to the House Taxation Committee
Richard Cram

March 8, 2006

Senate Bill 359—Eliminating Caps on Various Refund Funds

Representative Wilk and Members of the Committee:

KDOR administers numerous refund funds for the purpose of returning overpayments of tax to individuals and businesses. These funds are not appropriated and for expenditure purposes are considered “no limit” funds. However, the underlying statutes which create the various refund funds impose capitalization limits on the amount which can be in a fund at any given time. Most of these statutes were enacted many years ago and the capitalization limits are not consistent with the dollar volume flowing through the funds in today’s environment. This proposal would eliminate the capitalization limits on all refund funds to allow refunds to flow on an as-needed basis without violating the restrictions found in current law. Attached please find a list of the refund funds, statutory caps sought to be eliminated, and statutes sought to be amended in this proposal.

This proposal primarily impacts KDOR and the Division of Accounts and Reports (A&R). Both agencies are bound by the current capitalization limits, causing extra work when daily refund flow exceeds the capitalization limit on certain funds. The most recent example involved a refund of motor carrier property tax authorized by the Special Claims Committee in an amount larger than the capitalization limit on the Motor Carrier Property Tax Refund Fund. A&R advised that it could not process the refund under current law, requiring the use of a proviso in an appropriations bill to temporarily override the limit. This scenario is likely to occur again with this and other refund funds, emphasizing the need for a general cleanup of these statutes.

We encourage the Committee to recommend Senate Bill 359 favorable for passage.

SB 359

9-2

Section	Fund Name	Statute	Authorized Balance	Fund Created
1	Transient Guest Refund Fund	12-1694a	5,000.00	1976
2	Transient Guest Refund Fund	12-16,100	5,000.00	1977
3	PVD Mtr. Carrier	79-6a09	5,000.00	1955
4	Inheritance (Estate Tax Refund)	79-15,113	50,000.00	1978
5	Corp / Ind. Inc. / Withholding	79-32,105	4,000,000.00	1965
6	Cigarette Tax Refund Fund	79-3311	10,000.00	1933
7	Mtr. Fuel / Sp. Fuel Tax Refund Fund	79-3461	1,000,000.00	1949
8	LP Motor Fuels Refund Fund	79-3491a	1,000,000.00	1983
9	Sales Tax Refund Fund	79-3620	100,000.00	1937
10	Consumers / Retail / RC Auto Lease	79-3710	200,000.00	1937
11	Local Alcoholic Liquor Refund Fund	79-41a09	10,000.00	1983
12	Oil & Gas Mineral	79-4227	50,000.00	1983
13	Bingo Refund Fund	79-4711	10,000.00	1977

Purpose of bill is to enhance processing efficiency. When total refunds processed for a particular day exceed fund caps, some must be deferred, potentially causing payment of interest to taxpayer.

Refund funds are capitalized by transfers from receipts in amounts estimated to cover routine processing requirements.

Money remains in state treasury until refund check is actually cashed by taxpayer.

For expenditure purposes, all funds are classified "no limit."