

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 12:10 P.M. on May 1, 2006, in Room 231-N of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research
Martha Dorsey, Kansas Legislative Research
Gordon Self, Revisor of Statutes Office
Judy Swanson, Secretary

Conferees appearing before the committee:

Others attending:

See attached list.

Chris Courtwright reviewed **HB 2619, property tax exemption for certain commercial and industrial machinery and equipment, materials and supplies and HB 2525, property tax exemption for certain telecommunications machinery and equipment and railroad machinery and equipment**. Both bills have been amended into **SB 365, HB 2619** would expand both Homestead Exemption programs. Mr. Courtwright presented fiscal information. (Attachment 1)

State General Fund receipts, expenditures and balances as projected FY 2005-FY 2009 based on 4.0 percent, 4.5 percent and 5.0 percent growth were distributed by Chairman Allen. (Attachment 2)

Gordon Self said language has been developed to further define the word "acquired" in the bill. However, he has not yet reviewed that language.

Senator Schmidt presented a new m and e proposal with local sales tax option mitigation. (Attachment 3) He said the State cannot afford to fully fund the slider amendment. He led discussion on his proposal.

Chairman Allen presented another alternative m and e proposal with local option constitutional m and e exemption and statutory exemption from 21.5 mills. (Attachment 4) She said prior testimony showed that local governments did not want to bear the risk of m and e cuts, and this would allow them to exempt m and e from all non-state levies.

Raising the diminimus tax from \$400 to \$1,000 was discussed. Senator Apple requested a fiscal note for raising the amount to \$1,500.

Committee discussion followed on the m and e exemption. Senator Apple expressed concern about creating an unfair tax policy. Senator Donovan said it would not be easy for businesses to avoid paying m and e taxes by leasing equipment. Senator Lee said there is just no way for the sales tax base in some counties to make up m and e losses, and she felt this proposal would exacerbate the problems that already exist. Senator Goodwin said the original m and e bill was assumed to be a win-win situation, but after checking with her constituents, she found this bill would not be good for all counties. She said the rural counties would bear the brunt of this proposal.

Chairman Allen briefly reviewed Committee bills that were conferenceable. She requested members let her know if they have a special interest in any particular bill. Senator Lee requested consideration of **HB 2023, sales tax authority of cities under retailers' sales tax law**.

Being no further business the meeting adjourned at 1:20 p.m. Next committee meeting will be held on adjournment of the Senate today.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

12:10 PM

DATE: 5-1-06

NAME	REPRESENTING
Don Moler	LKM
Mike Taylor	UG
LARRY R. BAER	LKM
Mike Murray	Sprint
Marlee Carpenter	Kansas Chamber
Gregg Clark	Hallmark Cards
Jean Wagner	KDOR
R. Cram	KDOR
David R. Lubin	KDOR
KEN DANIEL	KSSMMLBIZ.COM
Jeff Damm	Damm & Assoc
Justin Rose	KACCT
Tony Folsom	KDOR
M. Bunn	KDOR
Steve Hill	KDOR
Mark Borangysk	Capitol Strategies
Randall Allen	Kansas Assoc. of Counties
Erik Sartorius	City of Overland Park

Pure M and E with Slider
and no homestead changes

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total thru fy 2013
motor carrier property taxes	-\$0.743	-\$2.284	-\$3.903	-\$5.600	-\$7.376	-\$8.394	-\$28.300
usd local effort (20 mills)	-\$8.449	-\$15.738	-\$22.110	-\$26.922	-\$30.599	-\$33.821	-\$137.639
st building funds (1.5 mills)	-\$0.633	-\$1.180	-\$1.658	-\$2.019	-\$2.294	-\$2.536	-\$10.320
slider transfer (initial)	-\$31.444	-\$51.253	-\$54.315	-\$42.644	-\$22.995	\$0.000	-\$202.651
slider returned to local effort	\$4.939	\$8.058	\$8.524	\$6.681	\$3.726	\$0.000	\$31.928
slider return to st bldg funds	\$0.371	\$0.721	\$0.639	\$0.501	\$0.379	\$0.000	\$2.611
net state slider impact	-\$26.134	-\$42.474	-\$45.152	-\$35.462	-\$18.890	\$0.000	-\$168.112
reduction in inc tax credit	\$11.343	\$19.455	\$26.966	\$32.545	\$36.570	\$39.928	\$166.807
net state impact	-\$24.616	-\$42.221	-\$45.857	-\$37.458	-\$22.589	-\$4.823	-\$177.564

M and E Taking Out
Slider, and Both
Homestead Amendments

	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	Total thru FY 13
motor carrier property taxes	-\$0.743	-\$2.284	-\$3.903	-\$5.600	-\$7.376	-\$8.394	-\$8.394	-\$28.300
usd local effort (20 mills)	-\$8.449	-\$15.738	-\$22.110	-\$26.922	-\$30.599	-\$33.821	-\$33.821	-\$137.639
st building funds (1.5 mills)	-\$0.633	-\$1.180	-\$1.658	-\$2.019	-\$2.294	-\$2.536	-\$2.536	-\$10.320
reduction in inc tax credit	\$11.343	\$19.455	\$26.966	\$32.545	\$36.570	\$39.928	\$39.928	\$166.807
net state impact	\$1.518	\$0.253	-\$0.705	-\$1.996	-\$3.699	-\$4.823	-\$4.823	-\$9.452

Assessment & Taxation
 Date 5-1-06 #
 Attachment # 2

Governor's Machinery and Equipment Tax Reduction Only
April Consensus Revenue Estimates for FY 2006 and FY 2007; 4.5 Percent Growth in FY 2008 - FY 2009
\$466.3 million in New K-12 Funding FY 2007 - FY 2009 - Sen. Sub. For SB 584
FY 2006 and FY 2007 Expenditures as Approved by the Legislature at First Adjournment, Plus Senate Committee Omnibus Recommendations

STATE GENERAL FUND RECEIPTS, EXPENDITURES AND BALANCES
AS PROJECTED FY 2005-FY 2009
In Millions

	Actual FY 2005	Revised FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009
Beginning Balance	\$ 327.4	\$ 481.0	\$ 622.0	\$ 528.1	\$ 282.4
Governor's Machinery and Equipment Tax Reduction Only	0.0	0.0	0.0	1.5	0.3
Senate Ways and Means Omnibus Recommendations	0.0	(4.4)	(11.4)	0.0	0.0
Receipts (April 2005 Consensus) - 4.5 Percent Growth in FY 08 and FY 09	4,843.7	5,308.7	5,356.1	5,434.2	5,667.1
Adjusted Receipts	4,843.7	5,304.3	5,344.7	5,435.7	5,667.4
Total Available	\$ 5,171.1	\$ 5,785.3	\$ 5,966.7	\$ 5,963.8	\$ 5,949.8
K-12 Additional Funding - Sen. Sub. For SB 584	-	-	181.8	143.2	141.3
Senate Ways and Means Omnibus Recommendations	-	(0.5)	46.4	48.1	48.5
Less All Other Expenditures	4,690.1	5,163.3	5,256.8	5,538.2	5,768.5
Total Expenditures	4,690.1	5,162.8	5,485.0	5,729.5	5,958.3
Ending Balance	\$ 481.0	\$ 622.0	\$ 528.1	\$ 282.4	\$ 40.0
Ending Balance as a Percentage of Expenditures	10.3%	12.0%	9.7%	5.0%	0.7%
Receipts Above Expenditures	153.6	141.5	(140.3)	(293.8)	(290.9)

- 1) FY 2006 and FY 2007 expenditures are as approved by the 2006 Legislature after first adjournment, plus Senate Ways and Means Committee omnibus recommendations.
- 2) FY 2006 revised receipts and FY 2007 projected receipts reflect the estimates of the Consensus Revenue Estimating Group as of April 17, 2006, plus Senate Ways and Means committee omnibus recommendations.
- 3) FY 2008 base receipts assume a 4.5 percent growth; and expenditures include out-year significant obligations (*i.e.*, SRS and Aging caseloads, KPERs, KDOT bonds, etc.). Others areas of government are frozen at the FY 2007 level.
- 4) \$466.3 million in new K-12 Funding FY 2007 - FY 2009 - Sen. Sub. For SB 584.
- 5) Governor's machinery and equipment tax reduction.

Prepared at the Request and Direction of Senator Barbara Allen

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Governor's Machinery and Equipment Tax Reduction Only
April Consensus Revenue Estimates for FY 2006 and FY 2007; 5.0 Percent Growth in FY 2008 - FY 2009
\$466.3 million in New K-12 Funding FY 2007 - FY 2009 - Sen. Sub. For SB 584
FY 2006 and FY 2007 Expenditures as Approved by the Legislature at First Adjournment, Plus Senate Committee Omnibus Recommendations

STATE GENERAL FUND RECEIPTS, EXPENDITURES AND BALANCES
AS PROJECTED FY 2005-FY 2009
In Millions

	Actual FY 2005	Revised FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009
Beginning Balance	\$ 327.4	\$ 481.0	\$ 622.0	\$ 528.1	\$ 309.1
Governor's Machinery and Equipment Tax Reduction Only	0.0	0.0	0.0	1.5	0.3
Senate Ways and Means Omnibus Recommendations	0.0	(4.4)	(11.4)	0.0	0.0
Receipts (April 2005 Consensus) - 5.0 Percent Growth in FY 08 and FY 09	4,843.7	5,308.7	5,356.1	5,460.9	5,723.0
Adjusted Receipts	4,843.7	5,304.3	5,344.7	5,462.4	5,723.3
Total Available	\$ 5,171.1	\$ 5,785.3	\$ 5,966.7	\$ 5,990.5	\$ 6,032.4
K-12 Additional Funding - Sen. Sub. For SB 584	-	-	181.8	143.2	141.3
Senate Ways and Means Omnibus Recommendations	-	(0.5)	46.4	48.1	48.5
Less All Other Expenditures	4,690.1	5,163.3	5,256.8	5,538.2	5,768.5
Total Expenditures	4,690.1	5,162.8	5,485.0	5,729.5	5,958.3
Ending Balance	\$ 481.0	\$ 622.0	\$ 528.1	\$ 309.1	\$ 122.6
Ending Balance as a Percentage of Expenditures	10.3%	12.0%	9.7%	5.4%	2.1%
Receipts Above Expenditures	153.6	141.5	(140.3)	(267.1)	(235.0)

- 1) FY 2006 and FY 2007 expenditures are as approved by the 2006 Legislature after first adjournment, plus Senate Ways and Means Committee omnibus recommendations.
- 2) FY 2006 revised receipts and FY 2007 projected receipts reflect the estimates of the Consensus Revenue Estimating Group as of April 17, 2006, plus Senate Ways and Means committee omnibus recommendations.
- 3) FY 2008 base receipts assume a 5.0 percent growth; and expenditures include out-year significant obligations (*i.e.*, SRS and Aging caseloads, KPERs, KDOT bonds, etc.). Others areas of government are frozen at the FY 2007 level.
- 4) \$466.3 million in new K-12 Funding FY 2007 - FY 2009 - Sen. Sub. For SB 584.
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\$466.3 million in New K-12 Funding FY 2007 - FY 2009 - Sen. Sub. For SB 584
FY 2006 and FY 2007 Expenditures as Approved by the Legislature at First Adjournment, Plus Senate Committee Omnibus Recommendations

STATE GENERAL FUND RECEIPTS, EXPENDITURES AND BALANCES
AS PROJECTED FY 2005-FY 2009
In Millions

	Actual FY 2005	Revised FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009
Beginning Balance	\$ 327.4	\$ 481.0	\$ 622.0	\$ 528.1	\$ 255.7
Governor's Machinery and Equipment Tax Reduction Only	0.0	0.0	0.0	1.5	0.3
Senate Ways and Means Omnibus Recommendations	0.0	(4.4)	(11.4)	0.0	0.0
Receipts (April 2005 Consensus) - 4.0 Percent Growth in FY 08 and FY 09	4,843.7	5,308.7	5,356.1	5,407.5	5,611.4
Adjusted Receipts	4,843.7	5,304.3	5,344.7	5,409.0	5,611.7
Total Available	\$ 5,171.1	\$ 5,785.3	\$ 5,966.7	\$ 5,937.1	\$ 5,867.4
K-12 Additional Funding - Sen. Sub. For SB 584	-	-	181.8	143.2	141.3
Senate Ways and Means Omnibus Recommendations	-	(0.5)	46.4	48.1	48.5
Less All Other Expenditures	4,690.1	5,163.3	5,256.8	5,538.2	5,768.5
Total Expenditures	4,690.1	5,162.8	5,485.0	5,729.5	5,958.3
Ending Balance	\$ 481.0	\$ 622.0	\$ 528.1	\$ 255.7	\$ (42.4)
Ending Balance as a Percentage of Expenditures	10.3%	12.0%	9.7%	4.5%	-0.7%
Receipts Above Expenditures	153.6	141.5	(140.3)	(320.5)	(346.6)

- 1) FY 2006 and FY 2007 expenditures are as approved by the 2006 Legislature after first adjournment, plus Senate Ways and Means Committee omnibus recommendations.
- 2) FY 2006 revised receipts and FY 2007 projected receipts reflect the estimates of the Consensus Revenue Estimating Group as of April 17, 2006, plus Senate Ways and Means committee omnibus recommendations.
- 3) FY 2008 base receipts assume a 4.0 percent growth; and expenditures include out-year significant obligations (i.e., SRS and Aging caseloads, KPERS, KDOT bonds, etc.). Others areas of government are frozen at the FY 2007 level.
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M and E with Local Sales Tax Option Mitigation

* Slider is removed and replaced with a "local-option" mitigation strategy.

* Counties would have the option of imposing a sales tax of up to 0.5 percent pursuant to a publication and protest petition procedure once their machinery and equipment property tax receipts had fallen below a certain percentage of the 2005 (base year) receipts.

* The new sales taxes collected would be required to be used for property tax relief and would be distributed to taxing subdivisions located in counties utilizing this authority based on the LAVTRF distribution formula (which provides for distributions to all taxing subdivisions except school districts).

* The Secretary of Revenue would be responsible for certifying when each county's machinery and equipment property tax receipts had declined to the "triggering point" that would authorize the new authority.

* The new authority would be triggered if tax year 2006 business m and e property tax receipts were 5% or more below tax year 2005 receipts; if tax year 2007 receipts were 10% or more below tax year 2005 receipts; if tax year 2008 receipts were 15% or more below tax year 2005 receipts; if tax year 2009 receipts were 20% or more below tax year 2005 receipts; or if tax year 2010 receipts were 25% or more below tax year 2005 receipts.

* Any county imposing such a tax would be required to comply with all other timing requirements with respect to imposition of other local sales taxes (could not start until the next calendar quarter, etc.)

* Any such tax imposed by a county would be permanent.

* Other two forms of mitigation (expansion of both homestead programs) also removed.

* Current m and e provisions of SB 365 have cumulative f note of \$298.664 million through FY 2013. (The school finance homestead 20k-30k provision is not in this version). Removing the expansion of the traditional homestead program would reduce that cumulative fiscal note to \$177.564.

* Removing the slider provisions and replacing them with the local option sales tax would reduce the cumulative fiscal note to only \$9.452 million through FY 2013.

Local Option Constitutional M and E Exemption and Statutory Exemption from 21.5 Mills

* Statutory exemption would be provided for new m and e purchases/acquisitions from the state levies of 21.5 mills.

* The exemption would be applicable from the mandatory school district general fund levy (20 mills) and the state building fund levies (1.5 mills).

* State impact is reduced from \$177.564 million through FY 2013 to \$9.452 million.

* A constitutional amendment would authorize counties to exempt new m and e from all non-state levies.

* If adopted by voters in November, boards of county commissioners would have the authority to exempt the new m and e after January 1, 2007.