

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 25, 2008 in Room 519-S of the Capitol.

All members were present except: Representatives Worley.

Committee staff present:

Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Representative King
Representative McKinney
Ron Gruber - Southern Plains Coop.- Greensburg, KS
Jeff Morris - Coffeyville City Manger
Dennis Pruitt - Executive Director, Montgomery County Action Council
Larry Baer - Kansas League of Municipalities
Randy Kelly, Greensburg, KS
Ronald Wright, Greensburg, KS

Written Only

Leslie Kaufman- Kansas Coop Council Written Only

Others attending:

See attached list.

The following bill introductions were requested

Representative Lukert requested a bill introduction that would restrict the resale of athletic and entertainment tickets to face value, and limits the processing fees charged by consolidators. Representative Goyle seconded the motion and the motion carried.

Representative Holland requested a bill introduction pertaining to a state university property tax exemption. Representative Wilk seconded the motion. The motion carried.

The Chairman acknowledged Senator Umbarger and former Representative Cronister in attendance.

HB 2640 - Income tax credit for capital investments in business located in a city substantially damaged by disaster.

Gordon Self, Office of Revisor of Statutes, said that **HB 2640** provides for non-refundable income tax credits of 10% of capital investment made by a business in cities sustaining substantial damage from a disaster, made within 3 years of the disaster, with the credit not to exceed \$100,000 per taxpayer. The objective of the bill is to offer businesses located in an area that has been declared substantially damaged by disaster tax credits to offset the costs of rebuilding. It is effective FY 2007 and all tax years thereafter. Unused credit may be carried forward for up to 10 years. He described the process that must occur before this bill would take effect.

Discussion followed regarding: exclusion of businesses located outside the defined boundaries and certain definitions, such as capital investment and substantially damaged.

The Chairman opened the public hearing on **HB 2640**.

Representative King began his testimony by addressing several of the Committee's questions. He explained the bill was a result of interim committee studies and its intent was never to limit the relief just to the city limits, but to have a radius around the city limit. With that in mind he said that he would offer an amendment that would expand the limit to include property three miles outside of the city boundaries, if that would address exclusivity concerns of the Committee. He explained specifically why **HB 2640** is necessary

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 25, 2008 in Room 519-S of the Capitol.

and what it would do (Attachment 1). The following six points were addressed in the bill: Housing development block grants; Establishment of Recovery Investment Zones; Provide cash flow in disaster-affected cities and counties; Demolition assistance; Green space redevelopment; and Kansas Housing resources corporation enhancements. He distributed and explained a chart provided by the Adjutant General's office pertaining to the number of severely damaged structures affected disasters (Attachment 2).

Representative McKinney said the bill would permanently place a recovery tool on the books. He stressed that the faster a community can re-build results in a faster growth of its tax base, thus the quicker the community can move away from the need for state assistance (Attachment 3).

Ron Gruber, Southern Plains Co-op appeared in support of the bill (Attachment 4). He described the damage that occurred in Lewis, Kansas. He said any tax credit or assistance would be appreciated and urged the Committee to consider passage. Representative McKinney said Southern Plains Co-op is to be commended. They are going to receive a major award in recognition of their efforts in disaster recovery efficiency in securing all fertilizers, in multiple locations, with no environmental damage.

Jeffrey D. Morris, Coffeyville City Manager, said the bill can be beneficial to businesses that have the ability to make an investment (Attachment 5). He said there were seventy-two businesses damaged and as of today, forty businesses remain closed with only a few of that group still working to reopen. He suggested that refundable tax credits would be more advantageous to small businesses.

The meeting recessed at 9:55 a.m., reconvening at 10:25 a.m., upon adjournment of the House.

Jeffrey Morris returned to the podium to answer Committee questions.

Dennis Pruitt, Director, Montgomery County Action Council rose in support of **HB 2640** (Attachment 6). He appeared earlier in January, for the Senate Ways & Means Committee in support of **SB 417**, which would establish a housing development block grant for disaster-declared counties. He offered eleven recommendations for the Committee's consideration as outlined in his testimony and added that slow economic recovery will have a negative fiscal impact on state and local governments.

Randy Kelly, Greensburg Business owner, spoke to the Committee about **HB 2640** (Attachment 7). He said this 10% credit would help in overcoming expenses and help them achieve their goal to rebuild their businesses for the future of towns in rural Kansas. He suggested the bill be expanded to give credit to all businesses located anywhere in the county affected by the disaster.

Ronald Wright, a motel owner, whose business was totally destroyed in Greensburg, testified in support of **HB 2640** (Attached 8). He said that he worked through the tremendous amount of paperwork involved in financial applications and provided details of re-building. He urged the committee to draft new legislation in the simplest possible language to streamline the process for business owners in re-development of the community.

Larry Baer, League of Kansas Municipalities, said that **HB 2640** is one of a series of bills to be introduced this session to assist citizens of Kansas in their recovery from the large losses sustained in the many natural disasters that befell Kansas last year. The League spends a lot of money to encourage businesses to locate, exist, and expand in their cities and they support this form of tax credits to assist them (Attachment 9).

Leslie Kaufman, Executive Director, Kansas Cooperative Council, submitted written testimony in support of **HB 2640**. The council believes that the tax credit proposed is another mechanism to foster rebuilding efforts in devastated communities across Kansas (Attachment 10).

Joan Wagnon and Richard Cram, KDOR, appeared to clarify issues and answer various questions pertaining to the impending legislation. She called attention to testimony distributed from Richard Cram (Attachment 11) and committed their support to craft the correct language in the bill. The Secretary described what efforts the state had accomplished to date. She spoke of multiple trips she and members of the Governor's Economic Growth Sub-Cabinet had made to the disaster sites. Those trips resulted in a bill that ran during

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 25, 2008 in Room 519-S of the Capitol.

Seine Die, that gave sales tax exemptions to Greensburg. Kathleen Smith, KDOR, said that expenditures in Kiowa county were approximately \$19 million, resulting in sales tax exemptions of \$1 million. A memo from Kathleen Smith, KDOR, was distributed that provided data on the pre-approved assistance program, authorized by the Finance Council, out of the \$25 million in the emergency fund (Attachment 12). The Finance Council capped the amount at \$5 million for a cash grant program for the Kiowa County Business Restoration Assistance Program. The Secretary reviewed the number of applicants and dollars given in Kiowa County and Southeast Kansas. The program expires June 30, 2008.

Gordon Self said there is a request for a retroactive sales tax exemption bill, similar to the sales tax exemption awarded to Greensburg. It would be introduced in the House Agriculture and Natural Resources Committee soon.

The Secretary made the following suggestions in addition to those in Mr. Cram's testimony :

- Sales tax exemption is one part of the total package.
- If they choose to address the whole area they must determine how much damage needs to occur to warrant this special treatment. Specific language needs to be added to provide guidance for anyone determining eligibility.
- A Senate bill will be introduced soon, similar to last session's **HB 2170**, which eliminates HPIP, and creates an investments and jobs credit. They have added provisions in that bill that would also allow those same kind of credits in a disaster zone and she urged the Committee to study those provisions for guidance.
- She said an updated fiscal note reflects approximately \$22 million for seven cities.

The Chairman closed the public hearing on **HB 2640**.

The Chairman requested the following information for the meeting on February 1:

- What is the potential fiscal note for the sales tax exemption for SE Kansas?
- What is the definition of "Capital Investment"?
- Request clarifying language on the "disaster declaration" and the impact of changes they are making.
- Request clarifying language for "Substantially Damaged". What are the standards of review?
- While they are working this issue, should they look again at the Seine Die language for guidance as they move forward? Look at the proposed language on the sales tax exemption for Greensburg.
- Reformat data, provided by Kathleen Smith, with clearer definitions and attach a copy of an application.

HB 2641 - Nondeduction of property taxes paid by certain nonresident taxpayers subject to Kansas income tax liability.

The Chairman directed the Committee's attention to **HB 2641**, reminding them of the hearing on Wednesday, January 23, and he questioned the desire of the Committee.

Representative Davis moved that they pass HB 2641 favorable for passage. Representative Siegfried seconded the motion. The motion carried.

The meeting adjourned at noon. The next meeting is January 28, 2008.

JEFF KING

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TOPEKA

HOUSE OF

REPRESENTATIVES

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TAXATION

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GOVERNMENT EFFICIENCY

Thank you Chairman Wilk and fellow members of the House Taxation Committee for the opportunity to appear before you today in support of HB 2640. This bill is part of a comprehensive disaster relief plan designed by the southeast Kansas and Kiowa county legislative delegation. To acquaint you with the entire disaster relief plan, I have included a handout containing that information with my testimony.

Why HB2640 is necessary

Ms. Morgan from the Adjutant General's office yesterday discussed the three stages of disaster planning: mitigation, immediate response, and long-term recovery. Kansas has a mitigation plan. Kansas has an extensive (and very successful) immediate response plan. Kansas lacks, however, any plan or funding source for long-term recovery.

Other parts of the disaster relief package address the crippling effects on single-family housing, community infrastructure, and the local tax base that result from large disasters. Nowhere, however, does Kansas address the need to help local businesses rebuild and reinvest following a disaster.

Instead, the harsh reality is that current law makes it more financially attractive for a business to leave a disaster-stricken community than to rebuild there. The reason is simple: local governments must spend millions of dollars to recover from disasters at the same time that they lose substantial tax revenue from destroyed or damaged properties. This forces cities and counties to: (a) raise taxes and (b) lower tax incentives to retain existing businesses or recruit new ones. Other counties and states do not suffer from these constraints, so they can offer disaster-located businesses lower taxes and greater incentives to relocate. Thus, at the very time we want to encourage businesses to rebuild and grow in disaster-stricken areas, our tax and economic policy encourages the opposite.

What HB 2640 would do

HB 2640 would fix this problem and encourage business to remain and invest in disaster-stricken cities. HB 2640 would provide a 10% investment tax credit for investments in "a city substantially damaged by disaster" made within three years of that disaster. To ensure that these tax credits are spread among numerous businesses (and to control the cost to the state), the credits are capped at \$100,000 per business per disaster.

To best tailor this tax incentive and lower the cost to the state, while providing the Governor with maximum flexibility to address real disaster-related economic needs, HB 2640 carefully defines the eligible cities. Only a "city substantially damaged by disaster" is eligible. It is defined in HB 2640 as one that is: (a) located within a county declared a federal disaster area by the President **and** (b) declared by the Governor to have suffered from the disaster major damage to real and personal property, displacement or dislocation of residents, significant economic disruption, and significant cost to taxpayers. Thus, even within disaster-stricken counties, only those cities that themselves suffered substantial destruction of housing stock, lost economic activity, and significant expense for local taxpayers would qualify.

HB 2640 so defines eligible cities for two reasons. First, this tax incentive is needed most in local communities whose business, residential, and governmental entities suffered from the disaster, either through direct destruction or loss of tax/business revenue. If a disaster causes wide-scale damage (such as the recent ice storm), but does not cause a prolonged loss of local tax revenue or economic activity, then the investment tax credit is not essential to economic recovery.

Second, HB 2640 is about addressing the 2007 disasters **and** having a system in place to quickly help communities that suffer from the next major disaster to hit Kansas. You will hear testimony today about the importance of having an incentive package in place almost immediately after the disaster to ensure the maximum help for affected communities. If we named only specific cities in this bill, we would help those most deeply harmed by the 2007 disasters, but we would do nothing to better prepare Kansas for tomorrow's storms. Both goals are vital, and both are achieved in HB 2640.

Thank you for your consideration of HB 2640. I look forward to answering your questions and urge your support of this important disaster recovery measure.

With many thanks,

A handwritten signature in black ink, appearing to be a stylized name, possibly "L. ...".

Proposed long-term recovery legislation for disaster areas

November 10, 2007

Of the funds set aside by the legislature for disaster response on *sine die*, \$17.5 million remains unused. This proposal from the regional legislative delegations representing the flood-affected areas of Southeast Kansas and the tornado-affected area in Kiowa County proposes to use the remaining disaster-relief funds for long-term recover in the regions as follows:

1. **Housing Development Block Grants:** Jump-starting the construction of new housing is the top long-term priority in the tornado and flood-affected disaster areas. This proposed legislation would establish a new state block grant program for local governments to access when developing new housing projects. The program would provide 90 percent of funding for a qualified project, principally for infrastructure development, with a 10 percent local match. The program would be administered by the Kansas Housing Resources Corporation and would be funded at \$4 million per year from excess lottery proceeds. For the first three years, only communities within the flood-affected or tornado-affected areas would be eligible; after that, the program would be available statewide to address the statewide need for housing development. Fiscal note: \$4 million.

2. **Disaster Recovery Investment Zones:** The long-term drain on a regional economy from a major natural disaster is severe. In addition, very little assistance is available to help businesses to recover from a disaster. To help stimulate a region's economy after a disaster and to provide assistance to businesses seeking to rebuild, this proposed legislation would establish "Disaster Recovery Investment Zones" whenever a major natural disaster occurs and causes significant property damage within a city.

The zones would be established in cities that are in a county declared to be both a federal and state natural disaster area and that are further declared by the governor to have suffered substantial economic damage as a result of that disaster. Each zone would commence at the time of the disaster and would last for three years. During that time, business capital investment made in the region would be eligible for a 10 percent Kansas income tax credit. The credits may be carried forward for up to 10 years but are not refundable or transferable. The maximum credit that any single taxpayer could claim during any three-year period for investing in a disaster recovery investment zone would be \$100,000. Fiscal note: \$7.5 million.

3. **Cash flow in disaster-affected cities and counties:** The local units of government most seriously damaged are facing substantial cash-flow problems as a result of the tornadoes and flood. For example, the City Osawatomie and Montgomery County have both pursued no-fund warrants to deal with flood-

related costs. This proposed legislation would allow the state to pay the interest on bonds issued pursuant to no-fund warrants if the bond proceeds are used to pay costs arising from the disaster. Local units that have received authority from BOTA to issue no-fund warrants under current law would be authorized to further apply to the Adjutant General for authority to have the state pay the interest. Fiscal note: \$500,000.

4. **Demolition assistance:** This legislation would authorize cities and counties in the flood-affected disaster area to request assistance from KDOT and/or the Kansas National Guard to help demolish flood-damaged structures. This is necessary because the actual demolition of many flood-damaged structures will occur months or years from now, long after emergency authority for state assistance has expired. The authority would last for five years. Fiscal note: \$500,000.

5. **Green space redevelopment:** The demolition of houses in flood-affected neighborhoods is going to create the need for new land-use decisions by cities. Most of this land is in flood plains and cannot be redeveloped under requirements of the National Flood Insurance Program. Therefore, there is an anticipated increase in demand for green space. An appropriation of \$1.5 million in fiscal year 2009 will be requested to partially fund the popular Local Government Outdoor Recreation Grant Program and to target those new funds to the affected counties. Fiscal note: \$1.5 million.

6. **Kansas Housing Resources Corporation enhancements:** To help deal with long-term housing needs exacerbated by the tornadoes and floods, an additional \$3.5 million will be requested for the Kansas Housing Resources Corporation in fiscal year 2009. The funds would be used as follows:

A. **Housing loan guarantees:** Legislation would establish a new loan guarantee program to incent developers to build housing in the affected areas. The program is modeled on the new loan guarantee program established in 2007 Senate Bill 11.

B. **Senior housing projects:** The program leverages federal funds through federal tax credits. This program will target seniors and those earning at or below 60% of median income for the state. A family of four earning \$29,800 or below qualify for the program.

C. **Single family mortgage revenue bonds:** Explore possibility of making this program available statewide.

D. **Permanent funding source for Housing Trust Fund.** Work to identify a permanent source of funding for the state's Housing Trust Fund.

Subject: Tables of destroyed/damaged structures
 Date: Fri, 25 Jan 2008 07:53:54 -0600
 From: Atmorgan@agtop.state.ks.us
 To: jeffkingks@hotmail.com

DR-1699-KS: flooding and tornadoes - May 2007

40-80%

County	Destroyed	Major	Minor	Affected
Barton	6	10	268	300
Clay		1	34	15
Cloud			1	
Comanche			16	5
Dickinson			34	48
Edwards	11	4	17	
Ellsworth		1	59	36
Leavenworth		1	18	
Kiowa	961	105	67	11
Lyon		1	99	51
McPherson		3	22	32
Osborne	1	1	53	
Ottawa	16	9	12	
Phillips			9	
Pottawatomie		2	8	1
Pratt	6	2	2	
Reno	1	20	539	
Rice		7	47	50
Riley		3	93	92
Saline	9	31	192	17
Shawnee		87	600	125
Smith		1	1	
Stafford	9	37	24	

DR-1711-KS: flooding July 2007

County	Destroyed	Major	Minor	Affected
Allen	25	89	104	
Anderson			8	9
Bourbon			3	2
Butler				21
Chautauqua	1	2	2	1
Cherokee	3	1	1	7
Coffey		1	4	16
Cowley		5	154	1,055
Crawford		2	5	3
Edwards		5	4	40
Elk	20	50		
Franklin	5	20	23	21
Greenwood	1	5	9	1
Harper	5	35	106	5

HS Taxation
 1-25-08
 Attachment 2

Labette	2	11	2	3
Linn		7	17	1
Miami	250	250	500	
Montgomery	500	500		
Neosho	50	100		
Osage	2	5	10	
Pawnee		1	8	
Wilson		500		
Woodson		2	3	

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MINORITY LEADER'S OFFICE

Testimony to the House Committee on Taxation

House Bill 2640

Thank you Mr. Chairman for the opportunity to testify on HB2640 which would create a tax credit for investments in areas that have suffered major natural disasters.

Enactment of this proposal would permanently place a recovery tool on the books. It would save us the trouble of having to reinvent the recovery "wheel" every time a disaster occurs.

We should also remember that the more investment in rebuilding a community the quicker its tax base grows and quicker the community moves away from the need for state assistance. In addition, the quicker the local tax base grows the more revenue is raised from the 20 mill school finance mill levy which means less school finance aid is required from the state. Therefore, a measure such as HB2640 facilitates private sector investment that benefits the state as well as the affected community.

Having lost 91% of our residential assessed valuation and 96% of our commercial assessed valuation we know we have a long way to go in Greensburg and Kiowa County. However, we see many opportunities ahead for us. To grasp those opportunities we know we need many partners from both the private and public sectors. This bill helps us to bring in those partners who will assist us in showing how rural redevelopment can be done.

We also know that our biggest partner will be the State of Kansas. We want to assure you that we are committed to rebuilding a community of which you will be proud, a community in which you will be glad to have been a partner in rebuilding.

Thank you again Mr. Chairman.



Southern
Plains
Co-op

P. O. Box 128

Lewis, Kansas 67552

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Friday January 25, 2008
House Committee on Taxation

Testimony from:

Ron Gruber
President Southern Plains Co-op
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Lewis, Kansas 67552
Ph. 620-324-5536
cplew@gbta.net

RE: HB 2640 – Tax Credit for Capital Investment in a Disaster Area

Thank-you Chairman Wilk and members of the Taxation Committee for the opportunity to appear before you today.

I am Ron Gruber, President and General Manager of Southern Plains Co-op which is headquartered in Lewis, Kansas with five branches located in Edwards and Kiowa County Kansas. One of the branches is located in Greensburg, Kansas.

On Friday May 4, 2007 a massive tornado struck Greensburg wiping 80% of the community off the map. The Co-op lost seven of its structures leaving only the concrete grain elevators standing in the middle of a huge debris pile. In addition, eighteen vehicles ranging from pickups to dry fertilizer applicators were also destroyed. With the help of dedicated employees from all the branches, we were able to provide fertilizer and feed service to our customers within four days. Within eight days, with the assistance of employees and suppliers, we had temporary electricity to our elevator and a temporary office brought in to handle the customers' needs. The primary objective was to provide service to the customers of the area. The results of the tornado were drastic but the cattle still needed to be fed, and the corn fertilized.

Today we have built a new chemical building; a new dry plant; a new card-trol fuel station (located on the highway); a new feed warehouse; and a new office

HS Taxation
1-25-08
Attachment 4

building. When needed repairs are made to the grain elevators, we will have spent approximately three million dollars to reach this level which does not include replacement of all lost structures.

The community of Greensburg is not proceeding nearly as quickly in their rebuilding efforts. As of last week, 38 building permits have been approved for new commercial structures. Eight of those permits were for Co-op buildings. House Bill No. 2640 would not only provide financial assistance to our business and to those in the process of trying to build, but also encourage business development by others.

I have been talking only of Greensburg, but this bill would also benefit other communities in Kansas. Believe me, when faced with such destruction as seen with the tornados and floods, any assistance is appreciated. The 10% restoration assistance which the Governor signed in the middle of our destroyed office and the tax exemptions available to this point were an important benefit and this legislation would be just as beneficial. They are valuable tools to spur redevelopment and bring needed business back to communities after a disaster.

~~2007 was not a good year for many Kansas communities, but if we work together, all the communities and the state itself will be stronger when the businesses are rebuilt and back in operation.~~

Thank-you for your time.

Kansas House of Representatives

Taxation Committee

January 25, 2008





7th & Walnut • P.O. Box 1629 • (620) 252-6163
Coffeyville, Kansas 67337-0949

House Taxation Committee
January 25, 2008

RE: HB 2640

Chairman Wilk and other members of this committee, I am Jeff Morris City Manager of Coffeyville located in Montgomery County in Southeast Kansas.

On June 30th of 2007 Coffeyville experienced a major flood event unlike any other in its 139 year existence. Verdigris River flood waters exceeded the height of the levee that was built to protect our city by nearly four (4) feet. The flood waters covered approximately 25% of our community. To make matters worse, the flood waters also carried 90,000 gallons of oil into our community.

The damage left behind as the waters receded was devastating. Water entered 549 residential and commercial structures in our community damaging over 400 homes and 72 business and non-profit entities including 6 hotels, 5 restaurants, 4 convenience stores/gas stations, 2 mobile home parks, a grocery store and 3 churches. To date, 40 businesses remain closed with only a few of that group still working to reopen. A number of non-profit entities are still unable to operate as well.

The disaster in Coffeyville is somewhat unique to other disasters typically experienced in Kansas in that this particular flood affected an area that is primarily a 500 year flood plain. Therefore, very few entities carried flood insurance and have no insurance proceeds for repairs and replacement of equipment. Further, FEMA does very little if anything in the form of cash assistance for business. This leaves flood affected business entities in Coffeyville with very limited options. Those options include going into debt by borrowing money, using cash from

House Taxation Committee
January 25, 2008

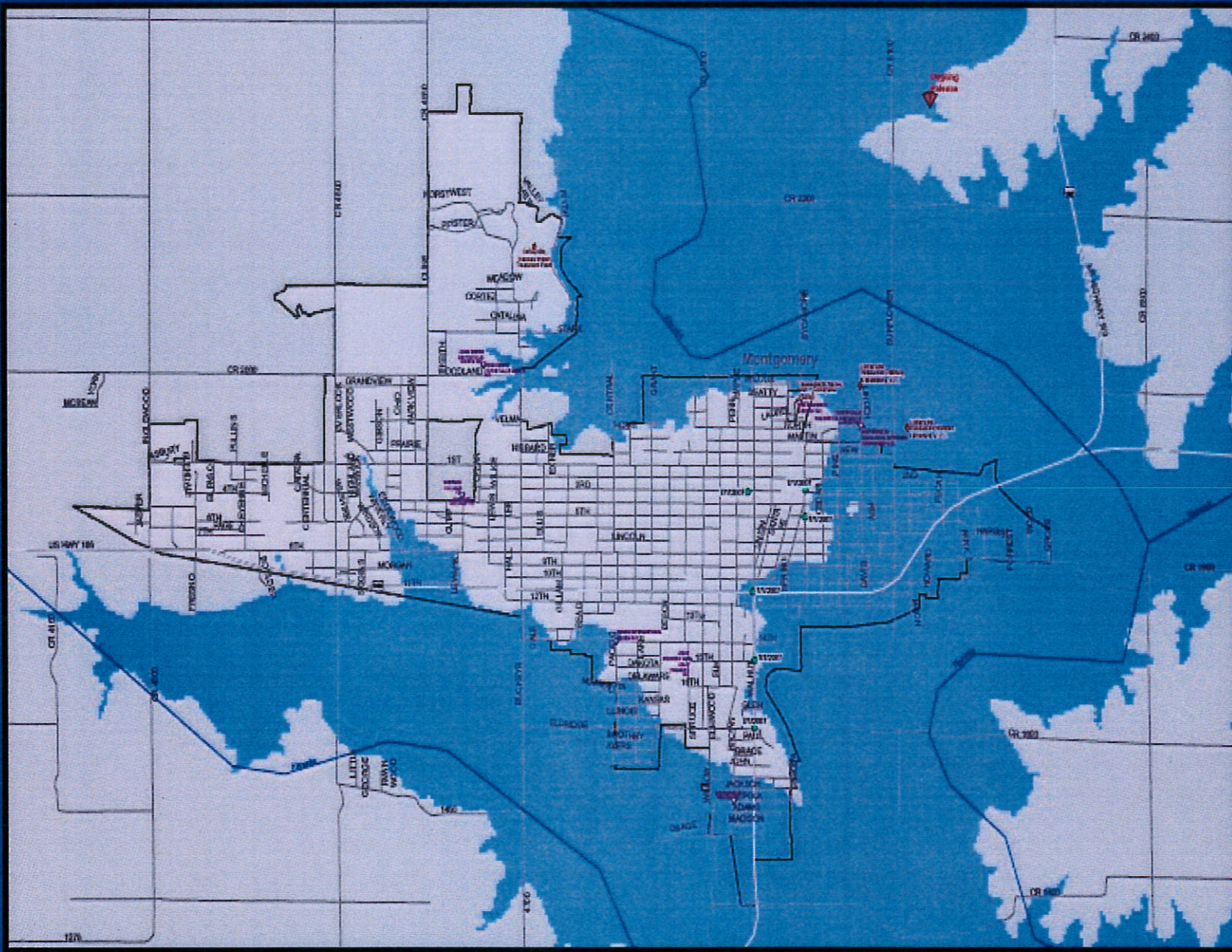
any savings they have accumulated, and closing the doors for good. Unfortunately, it appears many in Coffeyville are choosing to close their doors for good.

With the loss of the homes and businesses, Coffeyville will see a decrease in its tax base as well as a decrease in utility revenues. Further, the city must fund its share of repairs to its own facilities and the levee which are estimated at a total of \$5.8 million. (City share estimated at \$957,000 worst case) We need your help to assist businesses and residents in whatever ways possible to rebuild tax base to minimize the burden on the remaining tax and rate payers.

I do support this bill and believe it can be beneficial to businesses that have the ability to make an investment. However, business owners who make a substantial investment in a business may show little if any profit for a number of years as a result of depreciation expense on the new investment. Business owners also have an option to fully expense, subject to tax code limitations, the cost of new equipment in the very first year, which may result in a substantial loss in the first year that can be carried forward to offset any profit in future years. If the above does happen, the bill as written may not provide the benefit you are looking for. Therefore, I will close by asking that you consider making the proposed tax credits refundable for flood impacted businesses so that this bill would provide some immediate assistance to those business owners.

Thank you for this opportunity to share.

Jeffrey D. Morris
City Manager
City of Coffeyville
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jmorris@coffeyville.com



2007 FLOOD



2007 FLOOD

Business & Industry Impacted



2007 FLOOD

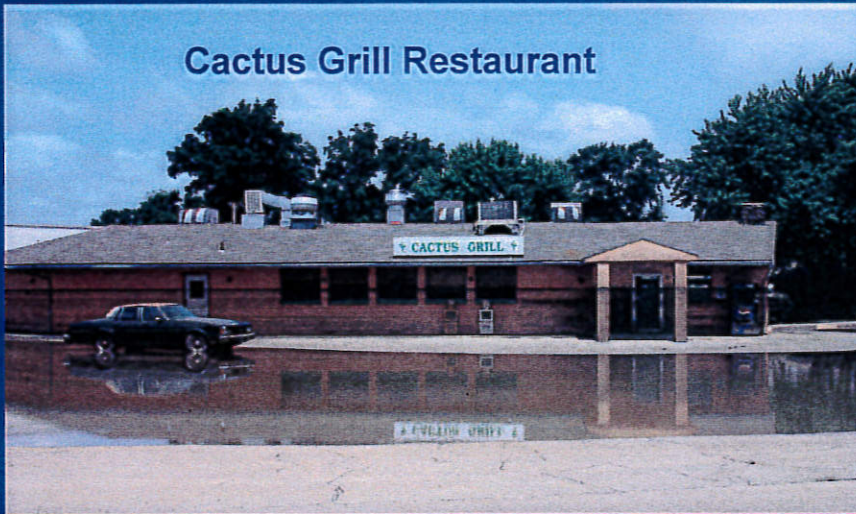
Business & Industry Impacted



2007 FLOOD

Business & Industry Impacted

Cactus Grill Restaurant



China Garden Restaurant



Kanoma Co-Op

Sav-A-Lot Grocery



Kansas House Taxation Committee Testimony: HB 2640 Disaster Recovery Zone

January 25, 2008

Dennis Pruitt, CEcD, AICP

Director

Montgomery County Action Council

P.O. Box 588

Independence, Kansas 67301

620-331-3830

Thank you for the opportunity to discuss with you economic recovery strategies for disaster-impacted communities. I am the director of the Montgomery County Action Council, a public/private economic development agency in southeast Kansas.

I. THE NEED FOR BUSINESS ASSISTANCE

On January 18, 2008 I testified to the Kansas Senate Ways & Means Committee in support of Senate Bill 417 which would establish a housing development block grant for disaster-declared counties. I will not repeat that testimony but just stress a key point: businesses suffered tremendously by the flood. Approximately 86 businesses in Montgomery County suffered direct flood damage, with more than \$29 million in losses. Please note this does not include Coffeyville Resources or farmers.

A slow economic recovery in the disaster area will have a negative fiscal impact on state and local governments for years to come. Revenue from property tax, sales tax, guest tax, and utilities will be diminished. Smart state assistance at this time could pay huge dividends in the future. A full economic recovery in the disaster zone is in the best interest of all of us.

II. A TWO-TIERED APPROACH

Economic restoration in the disaster zone requires financial assistance to impacted businesses and the creation of an environment that stimulates economic investment.

A. Business Assistance

At the federal level, there is only a "low-interest" loan program from the Small Business Administration. At the state level, there is the Southeast Kansas Business Restoration Assistance Program. There are three main components:

- **Investment Assistance**

A grant of up to 10% of qualifying investment made to rebuild or replace a business facility within the same community in one of the affected counties and the business machinery and equipment of a business that has been damaged or destroyed by the flood or other severe weather that began on June 26, 2007.

- **Job restoration Assistance**

A grant of up to \$3,500 per qualifying job to a business damaged by the flood and other severe weather that began on June 26, 2007 that restores an employment position within the same community in one of the affected counties.

- **Rental Assistance**

An assistance grant for the rent paid by a qualified business to lease a temporary business facility within the same community while the permanent facility is being rebuilt. Rental assistance will be granted for a period of up to six months and may not exceed a total of \$1,500.

I have spoken with many businesses following the flood and the message was a consistent call for cash grants, not loans. Cash flow has been inversely proportional to water flow. As of December 1, 2007, only 17 of the impacted businesses in Coffeyville have reopened. We need to do more to help.

B. Disaster Investment Zone

Today we are discussing the creation of a 10% investment tax credit in disaster communities. I am supportive of efforts to create a special investment zone. I would suggest that in lieu of a tax credit, this committee consider a “refundable tax credit” based on the amount of investment. Unless a tax credit can be sold or transferred, it is only of benefit to companies with a tax liability. A disaster of the magnitude we experienced limits the profitability of a company.

I am not an expert on tax credits so I asked others to review this bill. Here is the analysis provided by Mr. Bruce Fairbank: *If someone invested \$1 million to get the \$100,000 tax benefit, they would have to show an accumulative \$2.5 million in taxable income (assuming 4% Kansas tax rate) within a ten year period. I think that could be a problem for many small businesses. The income level drops to \$1.67 million using a 6% tax rate. Thus, a taxpayer would have to have between \$167,000 and \$250,000 in Kansas taxable income each year for ten years to use the benefit. Then the question is how much is the benefit really worth when you add in the inflation factor of an 8-10 year period.*

A refundable credit would provide a real benefit. To limit the fiscal impact on the state, the refund could be capped or spread out over time.

III. RECOMMENDATIONS

Here are my suggestions for the proposal currently under consideration:

- Do not limit the investment zone to a city substantially damaged by a disaster but define the zone at the county level. Many of our industrial parks are outside city limits and residents displaced by the flood may actually work in another city within the county that was not damaged.
- Instead of using tax credits, make the incentive a “refundable credit” tied to the level of investment.
- If tax credits are the preferred mechanism then these credits should be sellable, redeemable, or transferable.
- Make the tax credit retroactive to July 1, 2007
- Provide additional incentives for “Green Industries”.

In addition to this bill I suggest the legislature consider these measures:

- Establish a disaster relief fund for businesses. Disasters will continue to ravage our state and we need to be prepared.
- Provide matching grants for the construction of speculative industrial buildings to communities impacted by a disaster.
- Provide matching grants for the rehabilitation of downtown buildings in communities impacted by a disaster.
- Provide funding for regional targeted industry planning and marketing.
- Provide assistance to farmers. The flood damaged 75% of our fall crops.
- Amend 12-747 to include "hazard mitigation" as a required component of a comprehensive plan (current requirements: land use, population & building intensity, public facilities, transportation & transportation facilities, economic conditions, natural resources)

IV. CONCLUSION

Bill Grinker, CEO of Seedco Financial, a non-profit community lending organization wrote an op-ed piece in the September 27, 2005 Wall Street Journal. In it he discussed some of the recovery lessons learned from the September 11th attack. Here is his concluding advice: *"The lesson of lower Manhattan is crisis-tested and clear: If the government wants to help local employers recover from disaster, it must shelve the usual bureaucratic procedures. A rapid, flexible response customized to the needs of the individual applicants is the region's best hope of preserving these businesses and the jobs they provide to their employees."*

I encourage you to continue to solicit the input of businesses on this and other bills. I also encourage you to support Senate Bill 417 which provides housing incentives in disaster communities. And finally, whatever disaster zone incentive program is enacted, I ask for you to make it simple for the businesses to implement. We need rapid assistance, not cumbersome regulations. Thank you.

Randy Kelly Greensburg, Kansas

I was born and raised on a farm south of Greensburg and now own a farm north of Greensburg. I had an accounting business on Main Street in Greensburg. I am currently serving on the South Central Community Foundation Future Fund committee, the Business Redevelopment board, the Community Recovery Action Committee, and am on the board of directors of the Twilight Theatre.

Having been an accountant for almost 30 years now, I can see this bill as a positive statement to the towns in Kansas affected by disasters. I had clients affected by the storm and they had to relocate their businesses in our neighboring towns of Haviland and Mullinville. It is very costly now to rebuild or repair buildings and businesses. This 10% credit will help in overcoming the expenses and help us achieve our goal "to rebuild our business for the future of our towns in rural Kansas".

This bill will also encourage new business development in our towns. This may just be the deciding factor in swaying a new business to build in our town instead of down the road 20 miles. New business will bring more sales into our towns, leading to more property taxes and sales tax which not only helps our towns, but our state as well. As well as new businesses, this will enable existing business to expand out their services, i.e. lumber and hardware stores can expand to sell ICF block, SIPS, office supply stores to add office furniture to their line, machinery dealers to add construction equipment, on and on.

Something I would like to see incorporated into this bill would perhaps be to make the credit available to any person from that town that was affected by the disaster that had to rebuild their business outside of the town limits but in the same county. We had some business that had to be up and going quickly or they would lose their business entirely. Some of them put up sheds, etc. a few miles away and like I stated earlier, some moved to one of our neighboring towns to keep going. That was the only option in some cases. No utilities, natural gas, phones etc in town. It that is not feasible, at least go to a 1 mile radius outside to city limits to incorporate some of the new business there. I know that Greensburg is forming an industrial park just east of town that is not in the city limits. Personally, I would like to see the bill envelope the entire county of the cities affected by the various disasters that have occurred in Kansas.

I would like to thank everyone here today for the honor of allowing me the time to share with you the opinions of our community. It is exciting times and I am proud to be a part of it.

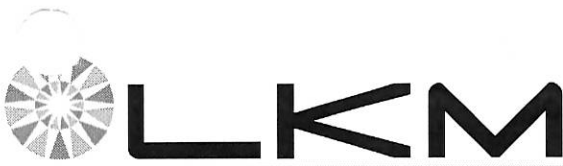
AN ACT concerning income taxation; relating to credits, capital investments in businesses located in a city substantially damaged by disaster.

Ronald Wright
2071 Fanestil Drive
Emporia, Kansas 66801

My name is Ron Wright and prior to the tornado that destroyed Greensburg, Kansas, I was the owner of the Best Western J-Hawk Motel which was located on the west side of Greensburg along Highway 54. Although I actually live in Emporia, I have owned and operated the Best Western J-Hawk Motel since May of 1979. I have been a part of the community for almost twenty-nine years. It has not only proven to be a privilege to be in the community all of these years, but has also proven to be a very successful financial venture. I have had the privilege of speaking at several town meetings prior to the tornado concerning the growth and future development of the community. However, the tornado has most certainly changed not only the physical appearance of the community, but also destroyed the entire business sector and needs of the community. There simply is no business sector left in Greensburg. Presently I am completing my financing and hope that I will have an opportunity in the immediate future to start construction on a new Best Western motel there. Although the property that I had prior to the tornado was successful, as I stated before there is considerable concern for any small business man or woman that we will be able to obtain financing and run a successful business in a community that has been devastated at the level of Greensburg. First, I would like to say that I applied for the Business Restoration Assistance Program through the state of Kansas and have been Pre-Approved at this time for both Investment and Job Restoration Assistance through the program. This boost or help has been of great value in my search for financing for my motel project. When I learned of the possibility of additional help of up to \$100,000 through a tax credit not to exceed 10% of such investment against the tax imposed by the Kansas Income tax act I immediately said yes. When I say yes I am not speaking just for myself, I am speaking I believe for ALL of the businesses that were in the Greensburg community. The possibility of this credit could very well make the difference between a small business owner moving forward or electing not to proceed. In my case, I worked my way through the maze of paperwork and was accepted into the Investment Assistance and Job Restoration Assistance program. However, I sincerely believe that many of the small business owners that were in Greensburg have most likely not completed or have not been able to complete the necessary paperwork to make them eligible for the Business Restoration Assistance program. I foresee this bill of direct tax credits being applied to Capital Investment a very strong tool that could be presented to a bank or other lending institution as a partial base for a new business loan. Hopefully the implementation of the tax credit would not be beyond the majority to complete or implement. I believe these funds should also be available to anyone else that would like to build or start a business in the Greensburg community. We need and must have

development back in the community for this town to re-develop, build a new infrastructure, and a tax base. Without business and industry, the community cannot grow. This bill needs to be available to all prospective businesses old and new. Additionally, I further believe that these funds should reach outside the proposed city limits at this time. Whether that is the entire county or within three to five miles of the city limits. For example the proposed new industrial park for Greensburg is presently not within the city limits and as such anyone trying to develop a business in the park would not be eligible for help. Greensburg, or for that matter, any city in Kansas destroyed by a tornado, flood or natural disaster desperately needs an incentive to generate growth and development. WE, Greensburg, need a means to reach out to prospective companies and employers and say we have possible funding that sets us apart from other communities. I believe that this bill may well give us or any other city so designated as a disaster area an extra step up in recruiting business development. Thank you for your consideration.

Ron Wright



League of Kansas Municipalities

Date: January 25, 2008
To: House Taxation Committee
From: Larry R. Baer
Assistant General Counsel
Re: HB 2640
Testimony in Support

Thank you for allowing me to appear before you today and present testimony in support of HB 2640 on behalf of the League of Kansas Municipalities and its 627 member cities.

As we understand it, HB 2640 is one of a series of bills to be introduced this session to assist the citizens of Kansas in their recovery from the large losses sustained in the many natural disasters that befell Kansas last year. In addition, it will also make these same type of benefits available in future years to those Kansans unfortunate enough to suffer similar hardships. It is following these trying times that it is important to step out and extend a hand to those with a need.

HB 2640 and the tax credits to be allowed thereunder, is one way that the state of Kansas can extend its hand. Sometimes the deciding factor in whether a business will remain in a small city or a rural area is simply the difference of a few thousand dollars. The tax credits contemplated in this legislation just might be the catalyst that encourages a business owner to rebuild rather than relocate or close.

Our members spend a lot of money to encourage businesses to locate in their cities. They spend much money on retaining existing businesses and helping these businesses expand. It seems only right that money is expended, in this case in the form of tax credits, to assist them in their recovery from a natural disaster.

For these reasons the League of Kansas Municipalities stands in support of HB 2640.

Again, thank you for allowing me to appear before you today.



Kansas Cooperative Council
816 S.W. Tyler St., Suite 300
Topeka, Kansas 66612

Phone: 785-233-4085
Fax: 785-233-1038
Toll Free: 888-603-COOP (2667)
Email: council@kansasco-op.coop

www.kansasco-op.coop

The Mission of the Kansas Cooperative Council is to promote, support and advance the interests and understanding of agricultural, utility, credit and consumer cooperatives and their members through legislation and regulatory efforts, education and public relations.

House Committee on Taxation

January 25, 2008
Topeka, Kansas

HB 2640 - Tax Credit for Capital Investment in a Disaster Area.

Chairman Wilk and members of the House Taxation Committee, thank you for the opportunity to share our support for HB 2640 establishing a tax credit for capital investment in a disaster area. I am Leslie Kaufman and I serve the Kansas Cooperative Council as Executive Director.

The Kansas Cooperative Council represents all forms of cooperative businesses across the state -- agricultural, utility, credit, financial and consumer cooperatives. Cooperative enterprises operate in every county across Kansas.

Several of our members were impacted by sever weather conditions in 2007. By far the most extensively damaged was Southern Plains Cooperative's Greensburg branch. Southern Plains is a member of the Kansas Cooperative Council. Except for the concrete grain storage, most of their facility was wiped-out. Ron Gruber, President of Southern Plains will present testimony regarding their experiences so I will not go into detail myself. The co-op is committed to reestablishing their facility in Greensburg and has made significant steps to rebuild.

It will take time to basically re-build a town from scratch. The tax credit provides an incentive for businesses to come back into an area devastated by disaster, wherever in Kansas that may occur. If businesses return, residents will be encouraged to come back. More residents will entice other businesses and a town can grow.

Many tools are needed to help a disaster area recover. We think the tax credit proposed in HB 2640 is another mechanism to foster rebuilding efforts in hurting communities across our state. We respectfully encourage this committee to act favorably on this measure.

Thank you.

Leslie Kaufman, Executive Director
Kansas Cooperative Council
785-220-4068

HS Taxation
1-25-08
Attachment 10

Testimony to the House Taxation Committee

Richard Cram

January 25, 2008

Department Concerns with House Bill 2640

Representative Wilk, Chair, and Members of the Committee:

House Bill 2640 provides for non-refundable income tax credits of 10% of capital investment made by a business in cities sustaining substantial damage from a disaster, made within 3 years of the disaster, with the credit not to exceed \$100,000 per taxpayer. Unused credit may be carried forward for up to 10 years. There is no requirement that the business must have sustained damage from a disaster, or that the investment repair or replace damaged property. Also, the term "capital investment" is not defined in the bill.

The bill provides: "Notwithstanding any other provision of law, no taxpayer shall claim more than one credit for the same investment as provided by this section." This provision should prevent taxpayers from attempting to claim more than one tax credit under different tax credit programs for the same investment. However, additional language needs to be inserted to prevent a taxpayer from attempting to claim tax credits under this section, based on investment made under the grant program for Kiowa County businesses under 2007 HB 2540 or the business assistance program for SE Kansas businesses damaged by the June-July 2007 flooding approved by the state finance council in August, 2007. Under those two programs, qualifying businesses are currently receiving payments of 10% of the costs of rebuilding tornado-damaged or flood-damaged business premises. Those same investments should not also qualify for the tax credits contemplated under this program.

In order for a city to be considered "substantially damaged by disaster," it must be located in a county within a disaster emergency area declared by the Governor and the President, and declared by the Governor to have suffered major property damage, displacement of residents, significant economic disruption, and significant costs to city taxpayers. According to the FEMA website, www.fema.gov, during 2007, there were 3 Presidential disaster declarations for Kansas, all of which were preceded by Governor disaster declarations:

- (1) FEMA-1675-DR for the early 2007 Western Kansas severe snowstorms, which included 44 counties in the western half of the state;
- (2) FEMA-1699-DR for the Kiowa County tornado, as well as other severe weather and flooding in Spring 2007 in other areas of the state, which included 41 counties, including

such populous counties as Shawnee, Lyon, Leavenworth, Douglas, Riley, Saline, Reno, and Ellsworth; and
(3) FEMA-1711-DR for severe flooding in Southeast Kansas in summer 2007, including 23 counties.

Only about 10 counties (Mitchell, Republic, Barber, Sedgwick, Wyandotte, Johnson, Atchison, Jefferson, Geary and Marion) fell outside one of the above disaster declarations during 2007. Given the criteria set forth in the bill, capital investment by a business located in any city in Kansas, except for the those located in the above 10 counties, could potentially qualify for the tax credits. The bill lacks firm guidance to the Governor for determining which cities within those 95 counties in the State have sustained sufficient damage from disasters for the businesses within those cities to qualify for this tax credit program. The bill should provide clear parameters for making such a determination. Hard criteria should be provided for defining what should be considered "major property damage," "significant disruption," "significant costs," "displacement of residents," etc. The bill also should provide a timeframe for when those determinations are to be made.

Assuming that any city within the boundaries of the above 3 disaster declarations could potentially be determined as "substantially damaged by disaster," the fiscal impact could reach an estimated negative \$22 million in FY 09 and in out years. Administrative costs are programming and implementation expenses of \$313,485 and annual recurring costs of \$54,290. Taxpayers claiming the credit for 2007 capital investment will need to file amended returns.

The bill also creates open-ended liability for the State for future disasters. If Kansas sustains another year of disasters on the scale of those suffered in 2007, or even worse, will the State resources have the resources available to fund this tax credit program?

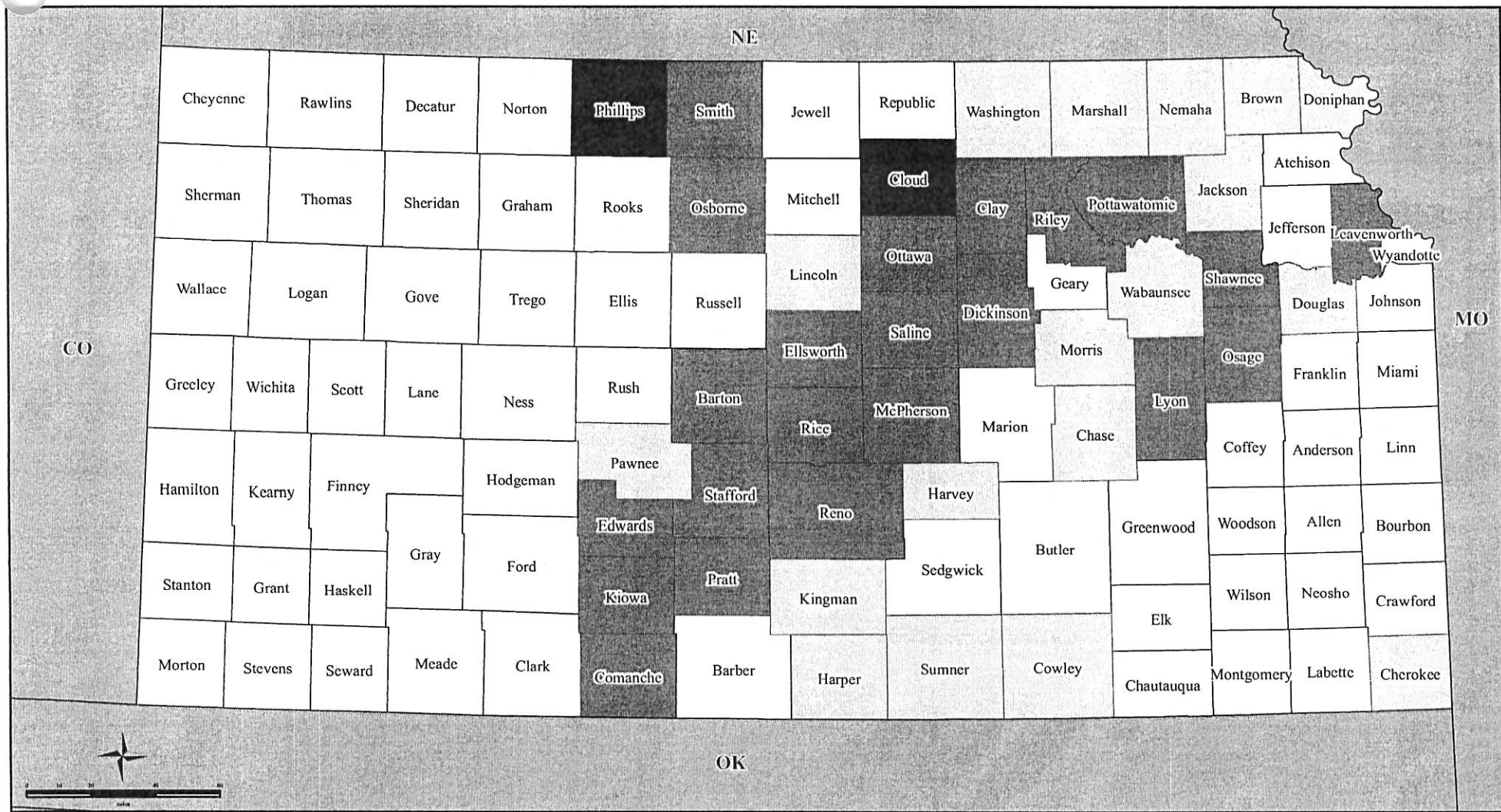
The Department recommends that the bill should identify the specific dates, disasters, and cities in determining the capital investment that should qualify for the tax credits. If the intent is to provide continuing assistance to businesses in cities damaged by the Southeast Kansas flooding in the summer of 2007 or the Kiowa County tornado, then the bill should be limited to that. If the intent is to provide an on-going tax credit program for businesses in cities damaged by future disasters, then the tax credit should have a total cap per fiscal year, with an application process to allocate the credits to the areas most in need.

The Department would be pleased to work with the proponents of this bill in revising the bill's provisions to address the above concerns.

FEMA-1699-DR, Kansas

Disaster Declaration as of 07/31/2007

4-11



Legend

Designated Counties	
	No Designation
	Public Assistance
	Individual Assistance
	Individual Assistance and Public Assistance

All counties are eligible for Hazard Mitigation



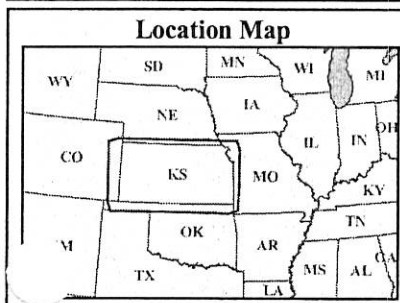
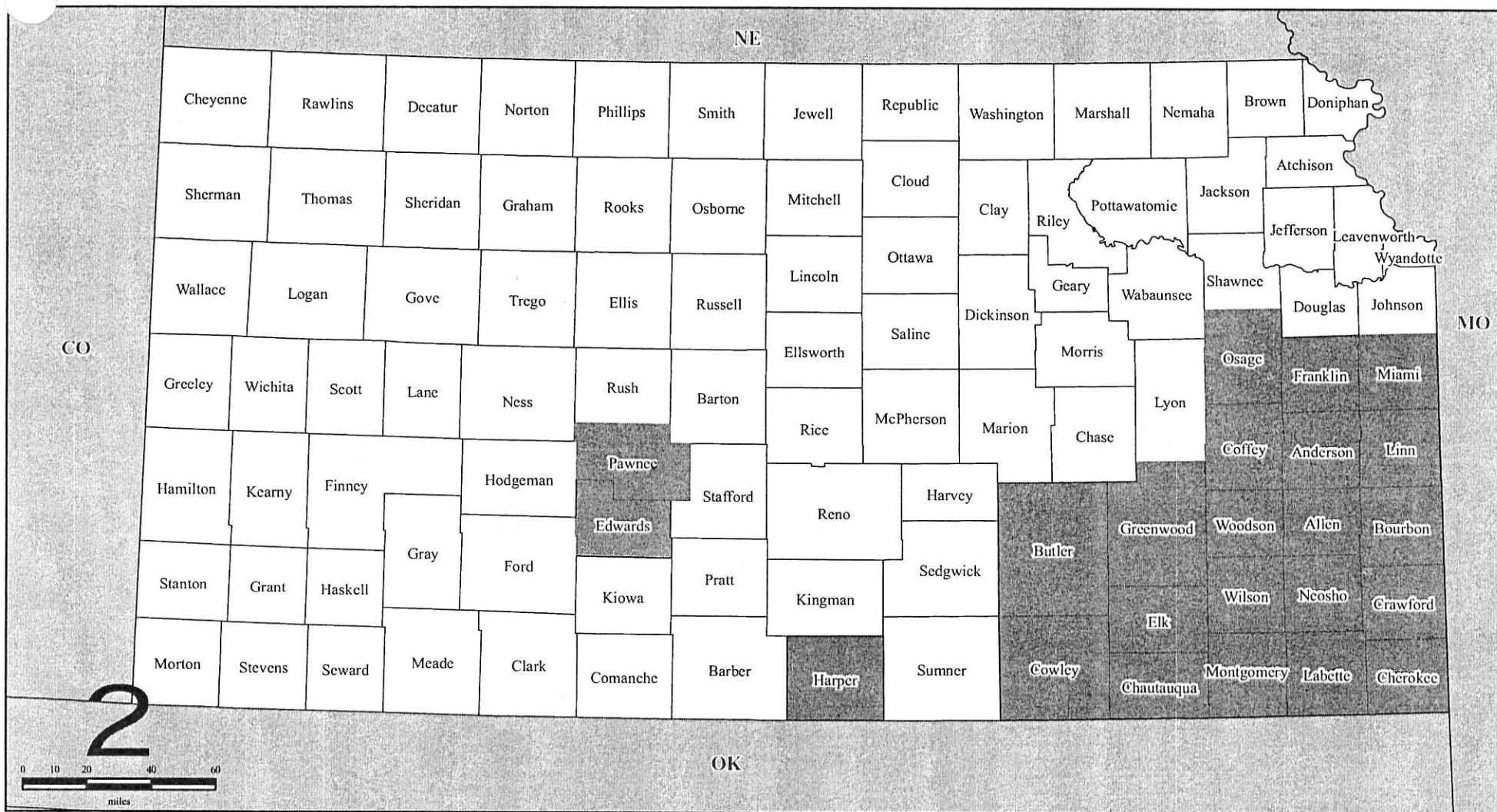
ITS Mapping & Analysis Center
Washington, DC
08/01/07 -- 09:27 AM EDT

*Source: Disaster Federal Registry Notice
Amendment No. 13 - 07/31/2007*

FEMA-1711-DR, Kansas

Disaster Declaration as of 08/17/2007

5-11



Legend

Designated Counties	
□	No Designation
■	Individual Assistance and Public Assistance

All counties are eligible for Hazard Mitigation



FEMA

ITS Mapping & Analysis Center
Washington, DC
08/17/07 -- 01:00 PM EDT

Source: Disaster Federal Registry Notice
Amendment No. 6 - 08/17/2007

Kiowa County Business Restoration Assistance Program

House Bill 2540 was passed by the 2007 Kansas Legislature establishing the Kiowa County business restoration assistance program. The program was established for the purpose of assisting businesses that were in operation in Kiowa County and damaged by the tornado and other severe weather in Kansas on May 4, 2007.

The business restoration assistance program includes:

- **INVESTMENT ASSISTANCE**
A grant of up to 10% of qualifying investment made to rebuild or replace a business facility in Kiowa County and the business machinery and equipment of a business that has been damaged or destroyed by the tornado or other severe weather that occurred on May 4, 2007.
- **JOB RESTORATION ASSISTANCE**
A grant of up to \$3,500 per qualifying job to a business damaged by the tornado and severe weather on May 4, 2007 that fills an employment position in Kiowa County, Kansas.
- **SALES TAX EXEMPTION**
A sales tax exemption is available for those businesses in Kiowa County that were damaged as a result of the tornado and other severe weather on May 4, 2007. This sales tax exemption will exempt all construction, reconstruction, materials and machinery and equipment to be incorporated into the business facility. Replacement of tornado damaged or destroyed fencing, the purpose for which is to enclose land devoted to agricultural use shall also be exempt from sales tax.

To date the Kansas Department of Revenue has pre-approved assistance as follows for the Kiowa County Business Restoration Assistance Program:

70 applications have been pre-approved for assistance

Pre-approved assistance total-\$4,171,607

Investment assistance-\$2,691,107

Job restoration assistance-\$1,480,500 (423 jobs)

To date the Kansas Department of Revenue has processed the following requests for payment of the restoration assistance:

15 requests for payments have been received and processed

Total assistance given to businesses-\$635,088

Investment assistance-\$36,588

Job restoration assistance-\$598,500 (171 jobs)

To date the Kansas Department of Revenue has received the following requests for sales tax exemption:

65 requests for project exemption certificate have been received and approved

Total estimated project costs-\$19,056,412

Estimated state sales tax foregone-\$1,000,000

Southeast Kansas Business Restoration Assistance Program

A Southeast Kansas (SEK) business restoration assistance program was established by the State Finance Council for the purpose of assisting businesses with less than 50 employees that were in operation in one of the affected counties and damaged by the flooding and other severe weather in Kansas that began on June 26, 2007. The counties included in this SEK business restoration assistance program are: Allen, Anderson, Bourbon, Butler, Chautauqua, Cherokee, Coffey, Cowley, Crawford, Edwards, Elk, Franklin, Greenwood, Harper, Labette, Linn, Miami, Montgomery, Neosho, Osage, Pawnee, Wilson, and Woodson

The business restoration assistance program includes:

- **INVESTMENT ASSISTANCE**
A grant of up to 10% of qualifying investment made to rebuild or replace a business facility within the same community in one of the affected counties and the business machinery and equipment of a business that has been damaged or destroyed by the flood or other severe weather that began on June 26, 2007.
- **JOB RESTORATION ASSISTANCE**
A grant of up to \$3,500 per qualifying job to a business damaged by the flood and other severe weather that began on June 26, 2007 that restores an employment position within the same community in one of the affected counties.
- **RENTAL ASSISTANCE**
An assistance grant for the rent paid by a qualified business to lease a temporary business facility within the same community while the permanent facility is being rebuilt. Rental assistance will be granted for a period of up to six months and may not exceed a total of \$1,500.

To date the Kansas Department of Revenue has pre-approved assistance as follows for the Southeast Kansas Business Restoration Assistance Program:

69 applications have been pre-approved for assistance

Pre-approved assistance total-\$3,564,516

Investment assistance-\$1,647,516

Job restoration assistance-\$1,904,000 (544 jobs)

Rental assistance-\$13,000

To date the Kansas Department of Revenue has processed the following requests for payment of the restoration assistance:

21 requests for payments have been received and processed


Total assistance given to businesses-\$618,798


Investment assistance-\$48,028

Job restoration assistance-\$567,000 (162 jobs)

Rental assistance-\$3,770

Kathleen
Smith/Revenue/KDOR
01/24/2008 09:38 AM

To Richard Cram/Revenue/KDOR@KDOR
cc
bcc
Subject Re: HB 2640 

History:  This message has been replied to.

Kiowa County Business Restoration Assistance Program
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I have placed the spreadsheets in your box.