

MINUTES OF THE SENATE ASSESSMENT & TAXATION COMMITTEE

The meeting was called to order by Vice Chairman Pat Apple at 10:38 a.m. on February 15, 2011, in Room 152-S of the Capitol.

All members were present except:

Chairman Les Donovan – excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Michael Wales, Kansas Legislative Research Department
Mary Jane Brueck, Committee Assistant

Conferees appearing before the Committee:

Secretary Nick Jordan, Department of Revenue
Richard Cram, Director, Department of Revenue
Ron Seeber, Vice President of Government Affairs for Kansas Agribusiness Retailers Association;
also representing Kansas Grain & Feed Association and Kansas Co-operative Council
Chad Austin, Vice President of Government Relations, Kansas Hospital Association.

Others attending:

See attached list.

Vice-Chairman Pat Apple opened the meeting with the hearing on **SB 198 Creating rural opportunity zones**. He recognized Scott Wells, Office of the Revisor of Statutes, to explain the bill. He then introduced Secretary Nick Jordan, Department of Revenue. He told the committee it is important to repopulate the counties in western Kansas. There are forty counties with a double digit loss in census. He suggests an income tax credit from 2012 thru 2016 to businesses choosing to move to Kansas from out of state and establishing their business in any of these forty counties. There would also be an incentive from a student loan payment program that would be funded with half the funds coming from the county and half from the state, with a limit of \$15,000.00. (Attachment 1) Policy Director to the Governor, Landon Fulmer, said there is a need for a change in tax structure to draw business and people to Kansas. Also, the assistance in repaying school loans should attract people to the State. Individual counties can opt to sign up for this program. There would be a \$15,000.00 cap over five years. Also those who have not lived in Kansas for at least five years has the opportunity to return home to live.

Richard Cram, Director, Department of Revenue explained the criteria for persons or businesses to take part in this program. The person or business will have to have lived/ done business outside of Kansas for at least 5 years immediately before moving to Kansas in a “rural opportunity zone.” The person/business can have no source of income from a Kansas source for at least five years before moving to Kansas in a “rural opportunity zone.” And, the person/business must be in the “rural opportunity zone” for the entire tax year. (Attachment 2)

Written testimony in support of this bill was received from Ron Seeber, on behalf of the Kansas Agribusiness Retailers Association, Kansas Grain and feed Association, and Kansas Cooperative Council, (Attachment 3) and also from Chad Austin, Vice President, Government Relations for the Kansas Hospital Association. (Attachment 4) There was no testimony submitted from as neutral or in opposition to this bill. Vice-Chairman Apple closed the hearing on SB 198.

Vice-Chairman Apple moved to old business. First was a brief discussion on **SB 1 Concerning consumer transactions; relating to the Kansas retailers' sales tax act; requiring the cumulative rate to be printed on electronically printed sales receipts**. Discussion re posting tax rates on a sign by the cash register be accepted in those businesses that do not have the cash registers with the ability to electronically print that information on a paper receipt. The bill will be set aside for further discussion. **SB 59 Interest rate charged; delinquent or unpaid tax and overpayment of taxes**, has had a balloon added for a technicality, and also will be discussed at a later time. And **SB 61 Increasing income tax credit for contributions made by program contributors under the individual development account program** also will be discussed at a later date. The committee agreed **SB 108 Record of plats; payment**

CONTINUATION SHEET

The minutes of the Senate Assessment & Taxation Committee at 10:30 a.m. on February 15, 2011, in Room 152-S of the Capitol.

of estimated taxes. was ready for a vote. Sen. Holland moved that SB 108 be moved out of committee favorably. Sen. Marshall seconded the motion. The motion carried.

The next meeting will be tomorrow, February 16, 2011. The committee will discuss SB 196 – Authorizing expensing of investment expenditures as a deduction in calculating Kansas income tax liability and IMPACT program changes.

Having no more business to conduct at this time, Vice-Chairman Apple adjourned the meeting at 11:42 a.m.

SENATE

Assessment & Taxation Committee

GUEST LIST

DATE: 2-15-11

NAME	REPRESENTING
Chad Austin	Ks Hosp Assoc
Mike Beam	Ks Livestock Assn.
MIKE REECHT	GACHES BRADEN
Lydia Buster	Federico consulting
LARRY R BAER	LKM
Doug Smith	KLPG
Sta Ahlert	Kansas, Inc
Carole Jordan	KDO Commerce
Melissa Ward	Win Low Firm
Leslie Kaufman	Ks Corp Council
Samantha Foster	Kansas City Star
Michelle Butler	Capitol Strategies
Tom Bruno	Bruno + Assocs.
Jacob Creek	Pages
Brandon Broxterman	pages
Simon Harper	pages
Lucas Broxterman	Pages
Patrick Broxterman	Pages
Dakota McQueen	Pages

DATE: _____

[illegible]

TESTIMONY

Senate Assessment and Taxation Committee

February 15, 2011

Senate Bill 198

by

Secretary of Revenue Nick Jordan

Mr. Chairman and members of the committee, I appreciate the opportunity to present an important component of the Governor's economic growth strategy: Rural Opportunity Zones. With economic growth as the Governor's top priority, he is making a strong effort to create an environment for success in every part of Kansas, for every Kansan, and for every business.

Kansas is caught up in a century-old trend related to population shifts in the Great Plains. This transformation has had, and continues to have, a direct economic influence on the declining populations of rural counties. We must take a keen interest in promoting the prosperity of rural Kansas, and initiatives in this area complement broader economic initiatives.

Research on the economic growth of rural areas has produced some consistent findings:

- Income support payments to farmers do not spillover to the nonfarm sector. Counties that have a higher share of income from farm sources grow more slowly. Counties with a higher share of farm income derived from farm support payments also grow more slowly.
- Rural areas grow faster when they have a diversified economic base.
- Businesses formed in rural areas tend to have longer life spans than businesses that start in urban areas. However, entrepreneurs must perceive the potential for higher after-tax profits in rural areas to compensate for the additional risk of business failure in rural areas.
- Rural economic growth is best executed in the context of a region-specific focus – an execution that effectively leverages state and local resources in a manner that acknowledges the unique resources, opportunities, and market knowledge of each region.

One of the nation's true challenges is effectively enhancing prosperity in rural America, and the creation of Rural Opportunity Zones is an innovative way of doing so in Kansas.

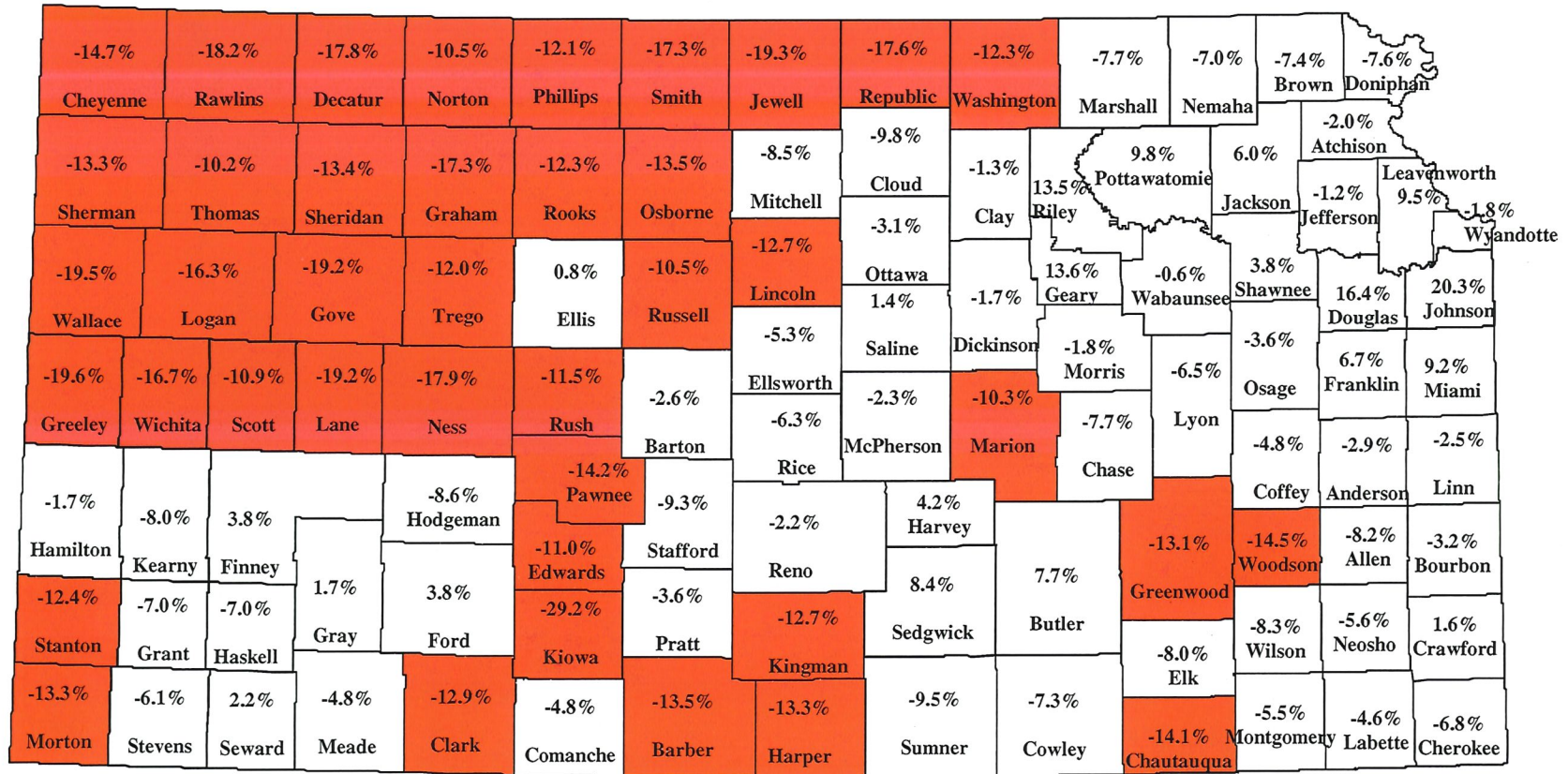
Rural Opportunity Zones

- Offer an income tax rebate for a period of five years to residents who move from out-of-state into a Kansas Rural Opportunity Zone, defined as counties that have suffered double-digit percentage population decline over the past decade.
- Offer state-county partnerships (50 percent state and 50 percent for counties who opt-in) for paying down student loans of residents who move to a participating Rural Opportunity Zone from out of state.
- The proposed Governor's Council of Economic Advisors will monitor the program's effectiveness through established return-on-investment metrics.
- It is anticipated that, because the incentives inherent in the Rural Opportunity Zones are targeted to new businesses and the migration into the state by persons previously living in other states, there will be minimal fiscal impact.
- Counties eligible for Rural Opportunity Zone designation must have experienced a population loss of 10 percent or more since the 2000 census. Eligible counties will be updated with the 2010 census.

The Department of Commerce also recognizes the importance of regionalization in rural success. The department will be reorganizing to better serve rural Kansas through regionalization.

Thank you, Mr. Chairman and committee members.

1-3



Policy & Research
915 SW Harrison St
Topeka KS 66612-1588
Nick Jordan, Secretary
Richard Cram, Director



Phone: 785-296-3081
FAX: 785-296-7928
www.ksrevenue.org
Sam Brownback, Governor

February 15, 2011

Senate Committee on Assessment and Taxation

Senate Bill 198 Rural Opportunity Zone Income Tax Exemption Explanation

Presented by Richard Cram

Senator Pat Apple and Members of the Committee:

Senate Bill 198 will provide a new individual income tax exemption, in the form of a nonrefundable income tax credit up to the amount of the individual's Kansas income tax liability, for a 5-year period, starting in Tax Year 2012, and ending after Tax Year 2016. This credit will be available to an individual who establishes domicile (residence) in one of the "rural opportunity zone" counties identified in Section 1(b) if the individual has met the following criteria:

- a. domiciled outside of Kansas for at least 5 years immediately prior to establishing domicile in a rural opportunity zone" county;
- b. no Kansas source income for at least 5 years immediately prior to establishing domicile in a rural opportunity zone county; and
- c. domicile in a rural opportunity zone county exists for the entire tax year.

These criteria are to ensure that the individual truly had a long-term domicile outside of Kansas before moving to a rural opportunity zone county, the individual did not already have income from a Kansas source (employment, business, etc.) prior to moving to a rural opportunity zone county, and the individual moved to the county and resided there the entire calendar year before the exemption can first be claimed for that tax year.

The credit is available for a maximum of 5 years, but is not available for any tax year after 2016.

In order to claim the exemption, the individual must timely file an income tax return, must not be delinquent in the filing or any return or payment of any state or local government tax, and domicile must have been established in a rural opportunity zone county prior to January 1, 2016.

Our fiscal note is attached.

Sn. Assmnt & Tax

2-15-11

Attachment # 2

MEMORANDUM

To: Mr. Steve Anderson, Director
Division of Budget

From: Kansas Department of Revenue

Date: 02/14/2011

Subject: Senate Bill 198
Introduced as a Senate Bill

Brief of Bill

Senate Bill 198, as introduced, creates a rural opportunity zone.

Section 1 defines certain terms used in the bill. A rural opportunity zone means Barber, Chautauqua, Cheyenne, Clark, Decatur, Edwards, Gove, Graham, Greeley, Greenwood, Harper, Jewell, Kingman, Kiowa, Lane, Lincoln, Logan, Marion, Morton, Ness, Norton, Osborne, Pawnee, Phillips, Rawlins, Republic, Rooks, Rush, Russell, Scott, Sheridan, Sherman, Smith, Stanton, Trego, Thomas, Wallace, Washington, Wichita or Woodson counties.

Student loan means a federal student loan and a nonfederal loan issued by a lender to help students and parents pay expenses for attendance at an institution of higher learning.

Section 2 provides for an income tax credit equal to the tax liability of resident individual taxpayer, when the resident individual was domiciled outside the state for five or more years immediately prior to establishing the domicile in a rural opportunity zone, had no Kansas source income for five or more years immediately prior to establishing their domicile in a rural opportunity zone, was domiciled in a rural opportunity zone during the entire tax year for which the credit is claimed. The credit may be claimed for no more than five consecutive years following establishment of the taxpayer's domicile in a rural opportunity zone.

No credit shall be allowed if the resident individual's income tax return is not timely filed, the resident individual is delinquent in filing any return, or paying any tax due to the state or any political subdivision, or the resident individual does not establish domicile in a rural opportunity zone prior to January 1, 2016.

This credit is for tax years beginning after December 31, 2011 and before January 1, 2017.

Section 3 provides that any county designated a rural opportunity zone may participate in a program, by resolution, to agree to pay in equal shares with the state of Kansas, the outstanding

student loan balance of any resident individual over a five year period up to a maximum of \$15,000. The amount of the repayment shall be equal to 20% of the outstanding student loan balance over the five year period.

A resident individual shall have their outstanding student loan balance paid for attendance at an institution of higher education where the resident individual earned an associate, bachelor or post-graduate degree when the resident individual was domiciled outside the state for three or more years and had no Kansas source income for two or more years or was a resident of Kansas prior to attending an out of state institution of higher education.

The provisions of this act shall be subject to appropriation acts. Nothing in this act guarantees a resident individual a right to the benefits provided in this section. The county may continue to participate even if the state does not participate.

The effective date of this bill is on publication in the statute book.

Fiscal Impact

Passage of this bill would reduce state general fund revenues in fiscal year 2012 by about \$1.1 million and by \$3.3 million in fiscal year 2013.

Based on the most recent information from the IRS and Census bureau, about 1,550 individual taxpayers from out-of-state moved to counties designated as a rural opportunity zone. Those taxpayers reported federal adjusted gross income of about \$48.3 million. Assuming an average tax rate of 4.5% and also assuming only 50% of these individuals would meet the requirement of residing in Kansas the entire year in order to qualify for the credit, the estimated fiscal impact in fiscal year 2012 would be about \$1.1 million ($\$48.3 \text{ million} \times 4.5\% \times 50\%$), and \$3.3 million in fiscal year 2013.

No information exists to accurately estimate the number and amount of student loans that would qualify for this bill. Assuming 50 taxpayers would qualify for the maximum amount, the state general fund would be reduced by about \$75,000 ($50 \times \$15,000 \times 50\% \times 20\%$) the first year.

Administrative Impact

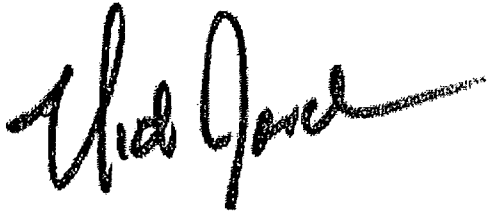
There will be administrative costs associated with this bill. When those costs have been estimated a revised fiscal note will be issued. Taxpayers qualifying for this credit will have to be tracked in order to verify whether or not they still qualify for the credit.

Administrative Problems and Comments

Taxpayer/Customer Impact

Legal Impact

Approved By:

A handwritten signature in black ink, appearing to read "Nick Jordan", with a long horizontal flourish extending to the right.

Nick Jordan
Secretary of Revenue



**Senate Taxation Committee
Written Testimony in Support of SB 198
Creating Rural Opportunity Zones
Submitted by Ron Seeber
on behalf of the
Kansas Agribusiness Retailers Association, Kansas Grain and Feed
Association, and Kansas Cooperative Council
February 15, 2011**

Thank you Chairman, members of the Senate Taxation Committee, I Ron Seeber, Vice President of Government Affairs of the Kansas Grain and Feed Association (KGFA) and the Kansas Agribusiness Retailers Association (KARA). The KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. KGFA's membership includes over 950 Kansas business locations and represents 99% of the commercially licensed grain storage in the state. KARA's membership includes over 700 agribusiness firms that are primarily retail facilities which supply fertilizers, crop protection chemicals, seed, petroleum products and agronomic expertise to Kansas farmers. KARA's membership base also includes ag-chemical and equipment manufacturing firms, distribution firms and various other businesses associated with the retail crop production industry. I am also representing Leslie Kaufman with the Kansas Cooperative Council. The KCC is a voluntary, statewide trade association representing all forms of cooperative businesses across the state -- agricultural, utility, credit, financial, refining and consumer cooperatives.

The Kansas Agribusiness Retailers Association, Kansas Cooperative Council, and Kansas Grain and Feed Association enthusiastically support SB 198, the Governor's forward thinking proposal to bring new residents to many Kansas counties with declining populations. By offering income tax rebates for a five year period and a state-county partnership to pay down students loans for relocating out of state residents, this legislation will inject a desperately needed economic boost for parts of our state. Population loss in rural Kansas has shown to be as costly as any drought or ice storm. While the weather can change, rural workforce decline has proven to be a consistent blight on our state. This pattern has resulted in loss of state revenue, loss of our best and brightest young adults, and loss of the livelihood of hard working citizens. Rural agribusiness greatly appreciates the vision of the Governor to focus on increasing the workforce in rural Kansas which will, in turn, benefit Kansas as a whole. We urge the committee to support SB 198, establishing Kansas Rural Opportunity Zones.

Sn. Assmnt & Tax

2-15-11

Attachment # 3



Tom Bell
President and CEO

TO: Senate Committee on Assessment and Taxation

FROM: Chad Austin
Vice President, Government Relations

DATE: February 15, 2011

SUBJECT: Senate Bill 198

The Kansas Hospital Association appreciates the opportunity to provide testimony in support of Senate Bill 198, which establishes the Governor's proposed rural opportunity zones. KHA believes this legislation would assist in the recruitment of health care providers to many of our rural communities.

Kansas is facing a shortage of the individuals most important to a strong healthcare system — physicians, nurses and other allied practitioners. As been reported by the U.S. Department of Health and Human Services, more than 80 Kansas counties are designated with some type of health professional shortage area. Kansas averages barely more than 200 physicians per 100,000 population compared to a national average of 245. Accordingly, hospitals from all parts of the state continually report difficulty in recruiting and retaining physicians and other health care professionals. Senate Bill 198 would complement the workforce recruitment efforts already underway in our state by providing additional incentives through income tax rebates and student loan forgiveness for those individuals relocating from out of state.

The success of the Kansas health care system in rural areas depends upon the availability of properly educated and trained health care professionals. The Kansas Hospital Association and its members request your support for Senate Bill 198. Thank you for your consideration of our comments.

Sn. Assmnt & Tax
2-15-11

Attachment # 4

Kansas Hospital Association • *celebrating 100 years of Kansas hospitals working together*

215 S.E. 8th Ave. • Topeka, KS 66603-3906 • Phone: (785) 233-7436 • Fax: (785) 233-6955 • Web Site: www.kha-net.org