

March 18, 2015

The Honorable Les Donavon, Chairman
Senate Assessment and Taxation Committee

Reference: SB 261 – Imposing Sales Tax on Sales of Gas, Electricity, Heat, and Other Fuel Sources for Residential Premises.

Good morning Chairman Donavon and members of the Senate Assessment and Taxation Committee. My name is Gerald Schmitt and I am a Lead Volunteer for AARP Kansas. We represent the views of more than 320,000 members across the state of Kansas. Thank you for allowing us to present our written comments in strong opposition to SB 261.

AARP is a nonprofit, nonpartisan membership organization that advocates for people who are 50 years of age and older, seeking to promote their independence, choice and control in ways that are beneficial and affordable to them and to society as a whole. One way that AARP promotes the well-being of older persons is through its advocacy for reasonable utility rates and service.

Utilities—including telecommunications, electricity, natural gas, water, and sewer services—are all crucial to health and personal welfare. The ability to contact police, fire, medical, and other responders in times of emergency; to access readily affordable safe water; and to have air-conditioning during the summer and heat during the winter at an affordable rate are absolutely critical. For older Americans there is an added dimension of necessity for these services. And for many older people, meeting the cost of utility services requires a significant portion of total household spending.

Home energy costs make up a considerable portion of household budgets. Exceedingly volatile natural gas, electricity, propane and fuel oil prices in recent years have significantly increased the energy burden facing many consumers. Telephone, energy, water, and sewer services account for about 7 percent of an average household's expenses, according to the US Bureau of Labor Statistics' 2011 Consumer Expenditure Survey. On average, families spend a greater share of their income on utility costs than on other necessities such as health care or property taxes. This is the case for an increasing number of older people, as average utility expenditures for households headed by people age 65 and older increase at a rate faster than inflation.

Utility expenditures make up a higher percentage of average household spending for older adults and low-income populations. Older consumers are particularly vulnerable to rapid increases in energy prices. Although they consume approximately the same amount of energy as younger people do, older Americans devote a higher percentage of total spending to residential energy costs. This may be because older people spend a greater proportion of their income on home heating costs (even after adjusting for weather and home size). Low-income older households spend an average of 10 percent of their income on residential energy. However, about one of every four low-income older households spends 15 percent or more of their entire income on home energy bills. Adults age 65 and older with incomes below 200 percent of the federal poverty line spend 12 percent of their household budget on utility services. Too often, low-income older people risk their health or comfort by choosing between cutting back on energy expenditures and reducing spending for other necessities.

For too many older people who live in low- and moderate-income households, high and volatile home energy prices jeopardize the use of home heating and cooling and increase the prospect of exposure to temperatures that are too hot in summer and too cold in winter. The potential consequences of such exposure include a host of adverse health outcomes, ranging from chronic health conditions made worse and food spoilage to premature death. In fact the most recent reports indicate that exposure to heat and

cold kills thousands of people prematurely in the U.S. each year and causes many more adverse health outcomes that fall short of premature death.

SB 261 would impose sales tax on sales of gas, electricity, heat, and other fuel sources for residential premises. These types of charges should take into account the limited ability of low-income people to afford necessary services. The fees would fall disproportionately on the older population who are low-income, including minorities, women and older people who live alone. Many of these Kansans will not see an increase in their Society Security benefits this year, although their cost of living continues to rise.

AARP tax policy states:

- Taxes should be equitable and should distribute the burden according to people's ability to pay;
- Charges should take into account the limited ability of low-income people to afford necessary services;
- Taxation should be progressive and not regressive.

AARP supports income tax as a preferred method of raising revenue at the state levels because it is the most progressive. We understand that these are troubling budgetary times for Kansas; however, with continuing increases in utility costs, efforts should be made to protect the low-income and elderly and across the state. These types of energy tax have potential negative effects. All of these taxes are borne by consumers and may be regressive in nature.

If legislators are seeking ways to offset fiscal deficits in the state budget we encourage them to look at Medicaid savings made possible by passage of legislation such as SB 265 and/or HB 2058, the CARE Act. This legislation could reduce Medicaid hospital readmissions, a potential estimated reduction in Medicaid expenditures of approximately 40 million dollars per year according to Dr. Theresa Shireman of University of Kansas Medical Center, during a 2011 Kansas Department of Health and

Environment presentation, *The Medicaid Reform Public Input and Stakeholder Consultation Process*.

AARP Kansas respectfully requests that you oppose SB 261, which would eliminate the 0% sales tax applicable to all residential gas and electric and other fuel sources for production of heat and lighting for residential services.

Respectfully,
Gerald Schmitt