

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 1:40 p.m. on April 3, 2002, in Room 243-N of the Capitol.

All members were present except: Senator Haley

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: None

Others attending: See attached list.

Senator Corbin called the Committee's attention to copies of the "Report of the Senate Budget Solutions Working Group." (Attachment 1) He noted that the Budget Solutions Committee met during the past three weeks to address budget shortfall issues and recommend solutions, but it did not vote on any proposal. It was the consensus of the Budget Solutions group to offer the proposals outlined in the report as a starting place for further consideration. Senator Corbin gave a brief overview of the contents of the report, which includes an outline of proposals to the working group, an itemization of amended budget adjustments for Fiscal Year 2003, a list of State General Fund expenditures for state agencies, and a revenue proposal.

For the Committee's information, Senator Corbin turned the Committee's attention to a handout listing the Governor's new tax enhancement recommendations. (Attachment 2) In addition, he called attention to recommendations by a House Select Committee which met to discuss means to put money back into highway programs. (Attachment 3)

Senator Corbin explained that Senator Donovan presented a proposal to the working group which the group considers to be a starting point. Senator Donovan discussed his revenue enhancement plan with the aid of a handout. (Attachment 4) At the outset, he commented that his proposal is simple, fair and easy to understand, and it has a possibility of receiving enough votes. He discussed the following elements of his proposal: a sales and use tax increase, an expansion of the food sales tax refund program and a repeal of sales taxation on food in 2004, a tax increase on tobacco products, an increase in the cigarette tax, acceleration of the one cent motor fuels tax, and an increase in motor vehicle registration fees. He noted that, once the sales tax on food is repealed in 2004, the state will gain approximately \$25 million per year because the food sales tax rebate program will not longer be in place. He observed that most of the food sales tax is paid by Kansas residents, but a significant percentage of the sales, fuel, and cigarette taxes is paid by people who are just passing through the state. He pointed out that, under his plan, an additional \$321 million would be raised the first year. He commented that he has not favored raising taxes in the past, but he feels his plan is a fair and just way to get the state back into the same revenue stream in two years.

Senator Corbin commented that the working group was unable to find any more ways to cut the budget. In addition, he said the Committee may want to consider the issue of "decoupling" from the recent federal tax act which would result in a loss of \$25 million for Kansas. He went on to say that he does not feel that the Committee should pass a budget proposal in the next two to three days in view of the fact that the budget will not be debated until April 10 at which time it will be known where the "holes" are. He noted that his intent in calling the meeting was to allow time for discussion.

Senator Praeger began a discussion regarding proposals to increase the cigarette tax. Senator Donovan expressed his opinion that too great of an increase in the cigarette tax would result in the creation of black market for cigarettes, and revenue from cigarette sales in Kansas would be greatly reduced. Committee discussion followed regarding the effect that a tax increase has on consumption for both adults and youth. Senator Donovan commented that statistics show that cigarette consumption is not related to the amount taxation. Senator Praeger commented that smoking related health care costs in Kansas' Medicaid program were close to \$70 million last year and that a loss in cigarette tax revenue due to reduced consumption would

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be replaced by reduced health care costs.

Senator Lee expressed her concern that the state would not be able to maintain the repeal of the sales tax on food in 2004 as in Senator Donovan's proposal. She felt that perhaps it would be better to phase in the elimination of the sales tax on food over a period of four years.

The minutes of the March 27 and 28, 2002, meetings were approved.

The meeting was adjourned at 2:15 p.m.

The next meeting is scheduled for April 4, 2002.