

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 and what it would do (Attachment 1). The following six points were addressed in the bill: Housing

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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 White, 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 Wagon 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 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

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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.