

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Vice Chairperson Senator David Corbin at 11:10 a.m. on March 2, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Audrey Langworthy – Excused

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:    Jamie Clover Adams, Secretary of Agriculture  
  Representative Shari Weber  
  Doug Wareham, Kansas Grain and Feed Association  
  Jere White, Kansas Grain Sorghum Producers Association  
  Bob Alderson, Central Kansas Railway & Kansas  
  Southwestern Railway  
  Joe Lieber, Kansas Cooperative Council  
  Leslie Kaufman, Kansas Farm Bureau

Others attending:            See attached list.

**SB 605—relating to sales taxation on materials for construction of grain storage facilities**

Jamie Clover Adams, Secretary of the Department of Agriculture, testified in support of **SB 605**. She noted that successful grain harvests in recent years have presented a storage problem. Until world markets for grains improve, there will be an ongoing need for more storage. In addition, she noted that new construction is an important part of new trends for unit train loading facilities. She also noted that agriculture is changing, and more types of grain are being produced for specific markets. More storage space will be required to segregate these crops to preserve their identities. She informed the Committee that, at one time in 1998, there were 62 million bushels of corn and milo on the ground or in conditional storage. In 1999, new construction accounted for an increase of over 13 million bushels in state-licensed storage. A portion of the new construction in 1999 was fueled by tax incentives made available through previous legislation. In January of this year, state-licensed elevators had more than 14 million bushels of milo and corn stored conditionally or on the ground. She believes that continuation of sales tax exemptions for construction of grain storage facilities at commercial locations and on the farm is important to the state. In conclusion, Secretary Adams contended that the benefit of **SB 605** will outweigh the minimal fiscal impact it may have on the state. (Attachment 1)

Representative Shari Weber testified in strong support of **SB 605**. She noted that this legislation became law at the end of May 1999 and, therefore, was actually a retroactive action because it required that all the sales tax work done for the first five months of 1999 had to be recalculated with regard to the new exemption. She explained that a business owner in her district brought this to her attention. His employees spent about 260 hours in addition to their regular working hours checking invoices in job files for January through May for taxes paid on materials and subcontractors. Copies of the invoices were then used to enter data on a spreadsheet of information needed by the Department of Revenue in order to be able to audit and refund the tax. Two employees worked out a refund system with the Department of Revenue. The business then provided a breakdown of the tax refund by job and sent the refunds on to their customers. She commented that, obviously, making the exemption retroactive to January 1999 caused an arduous process for the business. Representative Weber asked the Committee to consider the time frame of the implementation date of **SB 605**, noting that, due to the retroactive component in the bill, businesses working with grain storage facility construction and expansion once again will have to go back through their January to May

## CONTINUATION SHEET

### MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

Room 519-S, Statehouse, at 11:10 a.m. on March 2, 2000.

invoices to calculate tax refunds. (Attachment 2)

Representative Weber commented that the situation she described was an unintended consequence of the 1999 legislation. Brief committee discussion followed regarding the effective date in **SB 605**, and Representative Weber suggested that the effective date be changed from publication in the Kansas Register to July 1. Senator Hardenburger suggested that the Committee look ahead and amend subsection (eee) to read “before January 1, 2002, to June 30, 2002,” even though that would result in a one-time six month period wherein the sales tax exemption would not apply and, consequently, new construction of grain storage facilities may be delayed during that six month period.

Doug Wareham, Kansas Grain and Feed Association, testified in support of **SB 605**. (Attachment 3) Before beginning his testimony, he expressed his support of Senator Hardenburger’s suggestion. He went on to explain that the bill would extend the calendar year 1999 grain storage construction/rehabilitation sales tax exemption through January 1, 2002. He called attention to copies of grain storage fact sheets attached to his written testimony which highlight the positive impact of the 1999 calendar year sales tax exemption as follows:

- Commercial Grain Storage Expansion During Calendar 1999 (increase of 39,365,000 bu.)
- Testimonials from Grain Industry Representatives
- Kansas Grain Carryover Stocks (791,678,000 bushels as of December 1, 1999)
- 1999 Emergency Grain Storage Requests (Grain on the Ground–Peaked at 55,980,000 bu.)
- Kansas Major Crop Production Statistics (Three-year average total--1,232,043,000 bushels)
- Grain Storage Shortfall Statistics.

In conclusion, Mr. Wareham emphasized that construction of new commercial grain storage facilities has a positive impact on the amount of property tax collected and that the tax exemption has encouraged new grain storage construction in 1999. In this regard, he discussed fact sheets entitled as follows:

- Property Tax Revenue Created by New Commercial Grain Storage Construction
- Department of Revenue Fiscal Note
- Sample of New Grain Storage Construction During Calendar Year 1999.

Jere White, Kansas Grain Sorghum Producers Association, testified in support of **SB 605**. He noted that bumper crops in many areas of the state combined with sagging exports have Kansas “busting at the bins,” and grain piled on the ground has been a common sight in many areas in Kansas. He also noted that the future of farming is somewhat tied to value added processing of Kansas agricultural commodities. Development in this area will require even more storage as production of different grain traits for different end uses increases. If current grain storage continues to fall short, these opportunities may be lost to producers in other areas. In conclusion, Mr. White pointed out that low commodity prices in 1999 severely impacted available funds available to farmers to make grain storage improvements. In addition, the need in 1999 was simply greater than the available materials and services. Providing an additional two years tax incentive will allow producers to fund their improvements over a longer time frame. (Attachment 4)

Bob Alderson, testified in support of **SB 605** on behalf of Central Kansas Railway (CKR) and Kansas Southwestern Railway (KSW), which are headquartered in Wichita. He explained that CKR and KSW are two of 17 Kansas shortline railroads operating on 2,032 miles of track. He noted that the Governor’s Grain Transportation and Storage Task Force, the Special Committee on Rail Transportation, and the Transportation 2000 Study Group studied rail transportation needs during the summer of 1998. All of the groups concluded that shortline railroads are an important part of the state’s transportation system and made various recommendations for strengthening the state’s shortline rail system. The Governor’s Grain Transportation and Storage Task Force suggested a number of tax incentives to address the state’s grain storage and transportation problems. The Special Committee on Rail Transportation recommended that the 1999 Legislature consider various proposals for providing financial assistance to shortlines, including the enactment of three tax incentives. The first of those incentives was a sales tax exemption for labor, materials, and equipment used in the construction, maintenance, repair, or rehabilitation of railroad infrastructure. The Transportation 2000 Study Group recognized the importance of shortline railroads in the

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

Room 519-S, Statehouse, at 11:10 a.m. on March 2, 2000.

transportation of agricultural products and the cost to highway maintenance by failing to support shortline railroads.

Mr. Alderson went on to say that CKR and KSW support **SB 605** as drafted to exempt grain storage facilities through calendar year 2001 as there is a close, interdependent relationship between shortline railroads and persons involved in the shipment and storage of grain. However, he requested that the bill be amended to afford the same treatment to the shortline infrastructure exemption in subsection (ddd) on pages 15 and 16 of the bill. It is Mr. Alderson's understanding that the fiscal note for the exemption of railroads projected by the Department of Revenue is \$250,000. He commented that \$250,000 would be of great assistance to small railroads although it is not a significant amount to the Department. (Attachment 5) Mr. Alderson noted that he had conferred with Mr. Wareham with regard to the suggested amendment, and Mr. Wareham had no objections.

Joe Lieber, Kansas Cooperative Council, testified in support of **SB 605**. He pointed out that, even with the 1999 legislation, approximately 55 million bushels of grain had to be placed on the ground last year. Many of his members used the sales tax exemption opportunity to expand their facilities in 1999, but many members did not get the opportunity because there were not enough grain elevator construction companies and materials to keep up with the demand. He urged support of the bill because there is still a shortage of storage space. (Attachment 6) In addition, Mr. Lieber noted that key factors to remember when considering the bill are property tax and employment. He also urged that the retroactive provision remain in the bill.

Leslie Kauffman, Kansas Farm Bureau, testified in support of **SB 605**. She emphasized that the Farm Bureau supported the 1999 legislation that initiated the sales tax exemption for grain storage facilities, particularly on-farm storage. She noted that grain storage options are vitally important to today's agriculture industry. She also noted that, during these times of low commodity prices, producers are often hard hit by the additional losses and costs of exposing grain to outdoor elements. (Attachment 7) Ms. Kauffman questioned if it is advisable to delay the implementation date to July 1, creating a six-month gap between the time the current program ends and the new one begins. She was in agreement with Senator Hardenburger's suggestion to tack the six months on the back end. She has no objection to the amendment offered by Mr. Alderson. With this, the hearing on **SB 605** was closed.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for March 7, 2000.