

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:50 a.m. on February 15, 2001, in Room 519-S of the Capitol.

All members were present except: Senators Jenkins and Goodwin – 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: Senator Anthony Hensley
Senator Barbara Allen
Don Moler, League of Kansas Municipalities
Dave Scott, City of Overland Park
Mike Taylor, City of Wichita
Don Siefert, City of Olathe

Others attending: See attached list.

SB 232–Income taxation; increasing the earned income tax credit.

Senator Anthony Hensley, sponsor of **SB 232**, explained that the bill increases the percentage on the earned income tax credit from 10 percent to 20 percent. He noted that Governor Graves supported the earned income tax credit in his State of the State message on January 8. The Governor noted that, six years ago, there was no program providing a tax credit to low income Kansans. Next year, 125,000 low income Kansans will receive earned income tax credits of \$21 million.

Senator Hensley noted that **SB 232** was introduced in order to revisit the issue of earned income tax credit because, despite legislative efforts, he is still concerned about the growing gap in income equality in Kansas. To illustrate, he referred to a chart showing the average income of Kansas families provided by Kansans Respond. (Attachment 1) In addition, he referred to a table from a booklet, “Kansas Action for Children–Struggle for Self-sufficiency,” regarding the gap between the cash and food stamp benefits needed by single female-headed households and what they need to sustain themselves. (Attachment 2) While he believes the earned income tax credit has reduced the gap somewhat, he feels the gap is not shrinking fast enough and there is still a long way to go to help all persons in need. He noted that Kansas is one of fifteen states whose poor have become poorer in the last decade while high income families have grown richer. Kansas currently ranks sixth worst in the growth of inequality between the richest and poorest families from the late 1980s to the late 1990s. KTECH, a state agency which monitors income information, has found that Kansas income disparity is higher than any of the surrounding states, including Iowa. Senator Hensley went on to cite a report from the Center on Budget and Policy Priorities, entitled “Pulling Apart a State by State Analysis of Income Trends.” The report indicates that it is not that the poor and middle class are simply getting a smaller share of the growth; it is virtually all of the growth going to the top end. The report indicates further that, “The growth of income inequality is primarily due to the growth in wage inequality. The wages at the bottom and middle of the wage scale have been stagnant or have declined over the last two decades. The wages of the very highest paid employees, however, have grown significantly.”

Senator Hensley further noted that emergency service providers throughout the state have reported a high volume of clients. The Kansas food bank warehouse, the food distributor to 450 state programs, increased their distributions

last year by 37 percent. The Topeka Rescue Mission completed a \$2 million expansion

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due to the dramatic increase in homeless families. Catholic Charities in Wichita served 5,500 clients for emergency services in the first ten months of last year and turned away 8,500 persons for the same time period due to lack of resources. In conclusion, Senator Hensley stated that the **SB 232** would provide even more needed benefits, particularly for households headed by single women.

Senator Lee commented that she believes that the earned income tax credit is the most effective way to reward the working poor. She observed that more and more people are working at minimum wage or \$7.00 per hour jobs, and their income does not meet the necessary costs of living. Persons at this income level are the “working poor,” who struggle for self-sufficiency and continue to get further and further behind. She believes that the earned income tax credit is one of the most effective ways to help those with a very low income. She emphasized that it is an area which legislators need to keep in mind.

There being no others wishing to testify, the hearing on **SB 232** was closed.

SB 233–Sales taxation; exempting certain sales of natural gas from local sales tax.

Senator Barbara Allen, sponsor of **SB 233**, explained that the bill would exempt the local sales tax on residential natural gas until July 1, 2002, and would provide replacement revenue to cities and counties only if tax receipts from the severance tax on natural gas wells continues to exceed estimates. She requested the introduction of the bill after learning that the state does not tax residential utilities, but cities and counties do. In her opinion, it is not fair that cities and counties experienced a windfall in their sales tax revenue as home heating bills soared the last few months. She noted that the average cost of natural gas increased by approximately 33 percent from 2000 to 2001, and cities and counties collected extra revenue simply due to the fact that the cost of natural gas went up. In her opinion, the extra revenue is being collected at the expense of homeowners who are struggling to pay their gas bills. Senator Allen also pointed out that the bill is an initial step to bring Kansas’ state and local sales tax bases into conformity as required for continued participation in the multi-state streamlined sales tax project. She explained that, in order to remain a member of the streamlined sales tax agreement, participating states will be required to either tax residential natural gas at the state level or stop taxing residential natural gas at the local level. She believes the state will choose to eliminate the local sales tax rather than imposing a new state sales tax. In conclusion, she noted that opponents of the bill will assert that cities and counties cannot afford this loss of revenue; however, she believes it is only fair that cities and counties use the windfall in sales tax revenue to increase assistance to those in need or give the revenue back to the taxpayers in the form of lower taxes. (Attachment 3)

Senator Allen offered two possible amendments to **SB 233**. The first would allow the local sales tax on residential natural gas to remain, but would require cities and counties to return the excess revenue collected as a result of rising natural gas prices to the community to help those in need of assistance in paying their gas bill. The second would suspend collection of the local sales tax on residential natural gas during those times when the cost per thousand cubic feet (MCF) rises above a certain price or increases by a certain percent in any one year.

Senator Clark suggested that the bill be amended on page 1, line 27, to include city and county sales tax on propane and LP.

Don Moler, League of Kansas Municipalities, testified in opposition to **SB 233**. He explained that the League opposes the bill because it constitutes a state mandate on local governments and because loss of income from this source would result in local governments being caught short this year because their budgets are based on projections which include revenues from the sales tax on natural gas sales. Mr. Moler also observed that the bill brings into sharp focus the ever increasing number of sales tax exemptions granted by the Legislature over the last three years. The League is becoming increasingly concerned with the impact of tax legislation on local sales tax collections. He suggested that the time has come for taking a very strong look at the granting of further sales tax exemptions, given the fact that revenue levels appear to have dropped significantly and may be falling in some areas. (Attachment 4)

David Scott testified in opposition to **SB 233** on behalf of the City of Overland Park. He recognized that the increase in natural gas prices caused real financial hardship to many Kansas residents; however, he feels that the bill is a short-term fix for a long-term problem. He noted that the City of Overland Park is committed to minimizing the local tax burden by maintaining low taxes, but exempting sales of natural gas from local

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taxation will not significantly impact a resident's gas bill. He contended that the increased cost of natural gas tax is what troubles a resident, not the tax portion of a gas utility bill. He itemized financial assistance programs available to residents who cannot afford to pay their gas bills, noting that Overland Park contributes annually to the Johnson County utility assistance program, which provides financial assistance to low income families. (Attachment 5)

Lori Knadle, Assistant City Manager for the City of Overland Park, stood to comment on the city's utility assistance program. She recently contacted the Johnson County Department of Human Services and Aging, which administers the fund, and she was informed that, currently, the funding is stable. The City of Overland Park has indicated to the Department that, if the funds are depleted, the city would be interested in re-evaluating the amount that is being provided in order to make the funding whole.

Mike Taylor testified in opposition to **SB 233** on behalf of the City of Wichita. He contended that the bill is flawed. He noted that it would result in reducing the usual base amount cities would collect regardless of the price or temperature. In addition, there may not be a windfall severance tax collections; therefore, local governments may not be reimbursed for the lost revenue. Furthermore, the amount saved for individual consumers would be so small that they would hardly notice it. In conclusion, he observed that the idea behind **SB 233** is similar to donating money to a charity by taking it out of someone else's wallet. (Attachment 6)

Don Siefert testified in opposition to **SB 233** on behalf of the City of Olathe. He commented that it is disturbing that a number of natural gas bills currently in the Legislature take aim at local government. In his opinion, the bill unfairly punishes local government for a problem not of its making, and it is an ineffective effort to help those most in need. He noted that, by the time the bill takes effect, the weather will be milder. Furthermore, the city, as a consumer of natural gas, is facing much higher natural gas bills for its buildings and utility operations. In conclusion, Mr. Siefert noted that the City of Olathe expects to significantly increase its contribution to the Johnson County utility assistance program targeted to needy families. (Attachment 7)

Chairman Corbin called attention to written testimony in opposition to **SB 233** submitted by Randy Allen, Kansas Association of Counties (Attachment 8); Ashley Sherard, Office of the Johnson County Administrator (Attachment 9); and Tom L. Kaleko, City of Lenexa (Attachment 10).

Lee Eisenhower, Propane Marketers Association of Kansas, stood in support of Senator Clark's suggestion that **SB 233** be amended to include propane gas in the exemption from sales tax.

The minutes of the February 8, 2001, meeting were approved.

Chairman Corbin turned the Committee's attention to a previously heard bill, **HB 2029**, concerning the exemption of Parkinson's disease support associations for sales taxation.

Senator Praeger moved to amend **HB 2029** by including the National Kidney Foundation of Kansas and Western Missouri as exempt from sales taxation, seconded by Senator Lee. The motion carried.

Senator Praeger moved to recommend **HB 2029** as favorable for passage as amended, seconded by Senator Donovan. The motion carried.

The meeting was adjourned at 11:35 a.m.

The next meeting is scheduled for February 19, 2001.