

## **MINUTES**

### **SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION**

November 12, 2010  
Room 548-S—Statehouse

#### **Members Present**

Representative Richard Carlson, Chairperson  
Senator Les Donovan, Vice-chairperson  
Senator Terrie Huntington  
Senator Dick Kelsey  
Senator Janis Lee  
Senator Bob Marshall  
Representative Dolores Furtado  
Representative Stan Frownfelter  
Representative Jeff King  
Representative Marvin Kleeb  
Representative Julie Menghini  
Representative Don Schroeder  
Representative Sharon Schwartz

#### **Staff Present**

Chris Courtwright, Kansas Legislative Research Department  
Reed Holwegner, Kansas Legislative Research Department  
Gordon Self, Office of the Revisor of Statutes  
Scott Wells, Office of the Revisor of Statutes  
Marla Morris, Committee Assistant

#### **Conferees**

Alan Conroy, Director, Kansas Legislative Research Department  
Katrin Osterhaus, Legislative Post Auditor, Legislative Division of Post Audit

#### **Others Present**

See attached list.

## Morning Session

The meeting was called to order by Chairperson Carlson at 10:05 a.m.

Chairperson Carlson welcomed the members of the Committee and others in attendance. Representative Furtado was appointed to the Committee by the House Minority Leader to replace Representative Lisa Benlon.

Chris Courtwright, Kansas Legislative Research Department (KLRD), briefed the Committee on the estimates for the State General Fund (SGF) for FY 2011 and FY 2012. The estimates were developed using a consensus process involving the Legislative Research Department, the Department of Revenue, and three consulting economists from state universities (Attachment 1).

Results from the consensus revenue estimates included:

- Economic Forecast for Kansas;
- Kansas Personal Income;
- Employment;
- Agriculture;
- Oil and Gas;
- Inflation Rate;
- Interest Rates;
- State General Fund Receipts Estimates; and
- Accuracy of Consensus Revenue Estimates.

Mr. Courtwright discussed unofficial summary reports for the SGF and State Highway Fund (SHF) projected receipts through FY 2020 (Attachment 2). He stood for questions.

Alan Conroy, Director, Kansas Legislative Research Department, presented a SGF profile based on the November 2010 consensus revenue estimates (Attachment 3), based on actual, approved, and estimates for FY 2010, FY 2011, and FY 2012 respectively.

Katrin Osterhaus, Legislative Division of Post Audit, presented a summary of the results from three tax audits conducted by the Post Audit Division last year (Attachment 4). She highlighted the following results:

- Kansas has increased the number and scope of available tax credits and tax exemptions over the last quarter century;
- A number of legitimate reasons exist for allowing entities or transactions not to be taxed;
- With regard to the state's forty-seven tax credits, the Post Audit Division found eight credits that could be repealed as they appear not to be achieving their purpose;
- With regard to the state's ninety-nine sales tax exemptions, the main finding was that similar types of taxpayers receive unequal treatment;

- With regard to the state's one hundred property tax exemptions, the biggest problem found is that Kansas lacks good information on how much the State is losing from those exemptions; and
- Recommendations to the Legislature for improving the Kansas tax preference structure.

The following Post Audit reports on Kansas tax credits and exemptions were discussed:

- Reviewing Tax Credits (10PA03.1 February 2010);
- Reviewing Sales Tax Exemptions (10PA03.2 February 2010); and
- Reviewing Property Tax Exemptions (10PA03.3 March 2010).

Ms. Osterhaus stood for questions.

Following a discussion pertaining to the states without an income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming), Chairperson Carlson asked Ms. Osterhaus if a comparative analysis of those seven states could be conducted by the Division of Post Audit. The results of such a study would be beneficial, should Kansas look at a broad sales tax policy in the future. She stated such an analysis could be accomplished.

*Representative Frownfelter moved, seconded by Representative Kleeb, that the Committee direct Chairperson Carlson to write a letter to the Legislative Post Audit Committee, requesting a comparison study of the tax structure of those states without an income tax as compared to the State of Kansas. The motion carried.*

Chairperson Carlson called a recess at 11:40 a.m.

### **Afternoon Session**

Chairperson Carlson called the meeting back to order at 1:15 p.m.

Chris Courtwright presented a policy option checklist for state and local tax structure optimization (Attachment 5). The checklist included the fifty-four suggestions presented by conferees during the September 12, 2010, meeting of the Special Committee. These suggestions also were categorized by the topic areas of property, sales, and income taxes and other suggestions. Mr. Courtwright also distributed a handout from FairTaxKC.org that was presented at the September meeting (Attachment 6).

Senator Kelsey presented a recap of his proposal for a comprehensive tax equity plan presented in September. He concentrated on specific changes made as a result of a meeting with legislative staff and the Department of Revenue (Attachment 7). He asked that attention be given to item 6 of the proposal, which would apply the sales tax to services. He answered questions from the Committee.

In his closing summary, Chairperson Carlson stressed the complexity of tax codes and the ramifications of what happens when changes are made to such codes. He stated the original bill that passed in the House called for a two-year commission to study tax codes. Discussing significant changes to the business and individual tax policies will be stressful to the people of Kansas. Future meetings about significant changes should be held in an open and transparent manner. He recommended the policy suggestions presented to the Special Committee be forwarded to the Legislature and the Governor-Elect's transition team. He suggested beginning a dialogue that would discuss the long-term tax policies of the State, which would meet the goals of growing the private sector and creating capital investment in Kansas.

*Representative Kleeb moved, seconded by Senator Huntington, to forward the policy suggestions received by the Special Committee to the Legislature and the Governor-Elect. The motion carried.*

*Representative Menghini moved, seconded by Senator Marshall, to approve the minutes of the September 16-17, 2010, meeting.*

The meeting adjourned at 2:02 p.m.

Prepared by Marla Morris  
Edited by Reed Holwegner

Approved by the Committee on:

December 10, 2010  
(Date)