



Kansas Children's Service League

## Testimony to the House Taxation Committee Regarding HB 2763

March 15, 2012

### Chair Carlson and Members of the Study Group:

Thank you for the opportunity to provide written testimony in regard to House Bill 2763. The Kansas Children's Service League's mission is to protect and promote the well-being of children. KCSL has worked actively with state agencies and the Kansas legislature to support and advocate for the wellbeing of Kansas children and families for 119 years. Currently, we provide statewide child abuse and neglect prevention and family support services, early education and a range of other services that keep families strong and children healthy, safe, and in their own homes.

Our concern with HB 2763 regards its elimination of sales tax credits for nonprofit organizations that derive their funding primarily from public sources. KCSL currently has a named exemption in K.S.A. 79-3606 (uuu). The Department of Revenue values KCSL's sales tax exemption at \$80,000 in 2012 and \$160,000 in 2013. We would note that amount varies year by year, depending on the type and mix of services we are providing. We estimate our sales tax liability for 2011 was closer to \$270,000. The purchases we make are not just for office supplies, equipment, or printing as one might assume. About one-third of our work is operating Head Start and Early Head Start programs in western Kansas, which requires significant expenditures for food and educational materials.

Data shows the services we provide are both effective and cost-effective. We believe the increased cost of doing business that would result from losing our sales tax exemption would have negative consequences for Kansas children and families, as outlined in the box on page two. However, we would like to address concerns that have been raised about the increasing number of exemptions, equity, and accountability, first. On page two of the KACIR recommendations, the policy choice offered is to:

- *Repeal all exemptions granted "by name" to a specific organization. Either replace it with an exemption for all organizations similarly situated, or revoke the exemption.*

**Eliminating Named Exemptions.** We believe a strong case can be made for establishing a class exemption for organizations that derive most of their funding from public sources. In most cases, those organizations are public funded because they are performing work that would otherwise be the responsibility of the state.

Increasing the tax liability of those organizations presents some unique policy considerations and fiscal consequences. To use ourselves as an example, seventy-eight percent of KCSL's revenues come from public sources, including state and federal contracts, subcontracts, and purchase of service agreements. That high percentage of public funding would appear to

indicate that state and federal funding sources have decided the services we provide serve a public good that makes them worthy of expending taxpayer dollars. To turn around and then tax those taxpayer-derived dollars would seem counterintuitive. In addition, because 78% of KCSL's funding is derived from public sources, increasing KCSL's tax liability may not be a particularly effective way to increase state revenues over the long term. If sales tax expenditures are imposed, the increased cost of doing business will be reflected in future years' grant applications and contracts. This will either increase the cost to the funding entity or reduce the amount of services provided; in either event delivering reduced value to taxpayers.

**Reducing Number of Exemptions.** We believe that revoking the "by name" exemptions and establishing a class exemption for charitable and nonprofit organizations that are primarily funded through public sources would be a sound public policy that is both equitable and fiscally responsible. Applying this standard to organizations that currently hold exemptions might reduce their number, and applying the same standard going forward would clarify the expectations for organizations requesting sales tax relief in the future.

**Providing Accountability.** If a "public good" standard were to be applied, accountability would need to be addressed as well. The prescribed level of public funding would need to be maintained or organizations would lose their exemption. In addition, evidence would be needed that the public good is in fact being served. Organizations that receive a high percentage of public funding are typically held to reporting, outcome, and accountability standards. Reports

#### Cost Benefit of KCSL Services

- The vast majority of KCSL expenditures are required by grant or contract; they are not optional. This makes staff reductions our primary recourse if we must reduce costs. We would need to lay off seven to eight staff members in order to shift \$270,000 in revenues to payment of sales tax.
- Since the primary function of our staff is to provide prevention, early childhood, case management, and other services, we are concerned about the consequences this would have for the children and families we serve.
- Reducing services to families that have been proven effective in keeping children at home is both unfortunate for them and potentially costly for the state. For example, in 2011, the families we served through our Healthy Families program had an average of 5.2 "risk factors" such as poverty, or lack of pre-natal care. Research shows that families with four or more risk factors have a 50% risk of abusing and/or neglecting their child (DuMont et. al, 2010 & Murphy, Orkow, and Nicola, 1985; and Wiese and Daro, 1995).
- By providing intensive in-home services, Healthy Families is extremely successful in keeping children out of the child welfare system: 99 percent of the families we served in Healthy Families during 2011 did not experience child abuse or neglect.
- The KCSL Healthy Families America program has a \$3.07 benefit-to-cost ratio and a 7% rate of return on investment, compared to a negative return on investment for other family preservation and child welfare programs (Washington State Institute for Public Policy, 2011).

reflecting that information could be easily made available to the Legislature or the Department of Revenue on an annual basis. We would be glad to provide any additional information the Legislature deems necessary as evidence of continued worthiness.

If you would like us to provide additional information or address questions, please contact KCSL's Vice President of Operations, Trudy Racine at 785-215-6444.