

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 12, 2002, in Room 519-S of the Capitol.

All members were present except: Senators Jenkins, Lee, and Praeger

Committee staff present: Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator Barbara Allen
Larry R. Baer, League of Kansas Municipalities
Mike Taylor, City of Wichita
George Peterson, Kansas Taxpayers Network
Ed McKechnie, WATCO Companies

Others attending: See attached list.

The minutes of the February 7 and 11, 2002, meetings were approved.

SB 471—Sales taxation; local taxation of natural gas used for agricultural and residential purposes

Senator Allen testified in support of **SB 471**, which would impose a volumetric tax on the consumption of residential and agricultural natural gas in lieu of the local sales tax. She explained that the tax would be measured by the volume of natural gas consumed and would be imposed at a rate not to exceed ten cents per MCF. In this regard, she called attention to an attachment to her written testimony with data indicating that the tax rate by MCF needed to replace the current sales tax on residential natural gas varies from 5.6 cents per MCF to 7.6 cents per MCF. She also called attention to data in an attachment which attempts to project what tax rate a county would implement to receive the same revenue from a volumetric tax as it currently receives from the local sales tax. A final attachment contains data by city and determines what the MCF tax rate needs to be to generate an equivalent amount of revenue to what is currently raised by the local sales tax. In addition, Senator Allen pointed out that the bill is an initial step in bringing Kansas' state and local sales tax bases into conformity to allow Kansas to continue its participation in the multi-state Streamlined Sales Tax Project. In her opinion, cities and counties will not lose revenue if residential natural gas is taxed on volume rather than gross receipts. (Attachment 1)

Larry R. Baer, League of Kansas Municipalities, expressed his concerns regarding **SB 471**. He commented that the intent of the bill is to avoid the additional taxes generated (windfall) when there is a period of high consumption, particularly, when consumption is coupled with rates that are significantly above market averages. He feels that the reference to the additional revenue as a "windfall" for cities is not a fair description in light of the fact cities are also subject to the same weather and gas rate conditions as citizens. He noted that either consumer demand or market costs, or both, will cause regular and reoccurring fluctuations in the revenue raised by the taxing entity. When revenue decreases and needs remain, the revenue will be made up either by a rate increase or a property tax increase. He noted that the concept behind the bill is not bad; however, the results need to be revenue neutral to cities and counties. With 627 cities in the state, he feels it is likely that more than one city could be negatively impacted from such a change. He urged the Committee to proceed with caution as creating a revenue neutral tax policy that is subject to the whimses of the weather, the natural gas market, and consumer demand will not be easy. (Attachment 2)

Senator Corbin called attention to written testimony submitted by Randy Allen, Kansas Association of Counties, in which Mr. Allen urges the Committee to proceed with **SB 471** only if there are assurances that the impact of the tax policies are revenue neutral to counties and other units of local government on an ongoing basis. (Attachment 3)

Mike Taylor, City of Wichita, testified in opposition to **SB 471**. He commented that, while the idea of trying

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to help people weather the economic burden of high natural gas bills is worthwhile, the solution proposed in the bill creates much expense and work for the Department of Revenue and a great deal of uncertainty for local governments for a change that will be hardly noticed by consumers. He pointed out that local governments are also users of natural gas. He noted that the amount the City of Wichita pays for its natural gas is always more than it collects from the 1 percent sales tax. He questioned how much difference switching from a percentage based sales tax to a volume based fee would actually make to the average consumer. In his opinion, tinkering with the revenue stream could cost citizens a lot more later if there are problems with the conversion and local governments suddenly find an unexpected shortfall. (Attachment 4)

George Peterson, Kansas Taxpayers Network, testified in opposition to **SB 471** as another attempt to raise taxes. He commented that Kansas is in a recession, and raising taxes makes a bad economic situation worse. In his opinion, allowing an opportunity for a tax of up to ten cents per MCF might become “the straw that breaks the camel’s back” for people living on a fixed income. (Attachment 5)

There being no others wishing to testify, the hearing on **SB 471** was closed.

Senator Corbin turned the Committee’s attention to a previously heard bill, **HB 2586**, concerning income tax credits for payments to certain port authorities. He called upon Ed McKechnie, WATCO Companies, to discuss recommended changes to the bill. Mr. McKechnie briefly discussed six proposed amendments as outlined in his handout. (Attachment 6)

Don Hayward, Revisor of Statutes Office, recommended that subsection (b) be technically amended by inserting “to such taxpayers” after “issue” and “for such amount” after “warrant.”

Senator Clark moved to amend **HB 2586** as recommended by Mr. McKechnie and Mr. Hayward, seconded by Senator Haley. The motion carried.

Senator Clark moved to recommend **HB 2586** favorably for passage as amended, seconded by Senator Haley. The motion carried.

The meeting was adjourned at 11:25 a.m.

The next meeting is scheduled for February 13, 2002.

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