Approved: _________
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on February 14, 2008 in Room 519-S of the Capitol.

All members were present except:
Nick Jordan- excused

Committee staff present:
Gordon Self, Office of Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Scott Wells, Office of Revisor of Statutes
Ryan Hoffman, Kansas Legislative Research Department
Judy Swanson, Committee Assistant

Conferees appearing before the committee:
Senator Carolyn McGinn
Patty Dengler, Inter Faith Development Corporation
Chris Wilson, Kansas Building Industry Association
Senator Jim Barnett
Jeff Morris, Coffeyville City Manager
Dennis Pruitt, Independence Economic Development Association
Judy Bringham, Iola City Administrator
Leslie Kaufman, Kansas Coop Council
Kayla Oney, Kansas Downtown Development Association, Emporia
Matt Zimmerman, Emporia City Manager
Ron Gruber, Southern Plains Coop (Written only)
Larry Baer, League of Kansas Municipalities (Written only)

Others attending:
See attached list.

Hearing on **SB 383, property tax exemption for certain housing for the elderly, persons with disabilities or persons with limited or low income owned by certain organizations**, was opened.

Senator Carolyn McGinn made opening comments in support of **SB 383.** There was a problem with the bill last year that the language was too broad. This bill would help with private-public partnerships to build facilities for people with low income status and help clean up blighted areas.

Gordon Self, Revisor of Statutes, reviewed **SB 383** and distributed a proposed amendment. (Attachment 1) The amendment would narrow the bill to be less encompassing.

Patricia Dengler, Counsel for Inter-Faith Development Corporation and Inter-Faith Ministries Wichita, testified the proposed amendment would do three things: 1) expand the types of legal entities allowed to benefit from the current property tax exemption to include limited partnerships, limited liability companies and corporations; 2) describe the type of financing that must be used by these entities to acquire tax-exempt status for the property, and 3) specify the sole limited partner or the sole managing member of the owner-operator or the entity itself must be a not-for-profit recognized as a 501(c)(3) tax exempt entity by the IRS.

During discussion with Ms. Dengler, it was clarified that the definition of area median income would be the same as defined by HUD and USDA. Mr. Self said the effective date of this bill is a policy decision of the Committee. Chairman Allen requested Ms. Dengler let the Committee know if she wants the bill to be retroactive which would require refunds be made. In response to Senator Apple, Mr. Self said he did not think this bill would raise constitutional issues because the key to this exemption is the purpose of use, not ownership. Senator Bruce questioned why Developmental Disabilities Organizations (DDOs) were excluded from the bill and suggested the Committee might want to consider including them.

Chris Wilson, Kansas Building Industry Association (KBIA), testified in support of **SB 383**.

(Attachment 3) KBIA feels it is important to support this type of housing.

Chairman Allen stated although there is a fiscal note for **SB 383,** there is no cost estimate provided.

The hearing closed.

Hearing on **SB 445, income tax credit for capital investments in businesses located in a city substantially damaged by disaster**, was opened. Chris Courtwright, Kansas Legislative Research Department (KLRD), gave an overview of the bill, and reviewed other disaster relief bills being considered by the Legislature this session. **HB 2640** is a companion bill to **SB 445** that is being worked in a sub-committee. It is expected the House bill, as amended, will have a revised $7-$8 million fiscal note, rather than the $22 million fiscal note currently attached to **SB 445.**

Senator Jim Barnett testified he would like **SB 445** conceptually amended to include economic disasters, as well as natural disasters. (Attachment 4) Last month Emporia received word from Tyson Fresh Meats Corporation it would cut 1800 jobs in Emporia, and that was certainly an economic disaster for the state. Senator Schmidt noted the fiscal note for a proposal Senator Barnett made several years ago for statewide tax incentives with no limit on investment, was approximately $20 million; therefore it seems excessive the fiscal note on **SB 445** would be $22 million, with limits on investments. Chairman Allen asked Senator Barnett to provide a balloon amendment for his proposal. He said he would work with the Revisor on getting it completed.

Senator Lee said Schultz Manufacturing recently cut 140 jobs in the City of Plainville, and she would like to see Plainville included in **SB 445**. Chairman Allen asked Senator Lee to put the request in writing working with the Revisor of Statutes.

Kayla Oney, Kansas Downtown Development Association, Emporia, testified that in the Emporia community of 26,000, the economic impact of losing 1,800 jobs at once is devastating. (Attachment 5) It is nearly 11% of the employment. Approximately 64% of Emporia businesses are considered small businesses with ten employees or less.

Matt Zimmerman, City Manager of Emporia, testified the preliminary estimate for the potential regional economic impact is $80-$100 million. (Attachment 6) **SB 445** would spur economic development in the County to replace the lost jobs and improve revenues for the affected governmental and social service agencies. In response to Senator Hensley, Mr. Zimmerman said Tyson Foods did not give the community or the state an opportunity to offer incentives to keep these jobs in Kansas. Tyson made the job cut announcement, after making the decision at corporate headquarters, with no prior discussion with community or state officials.

Jeff Morris, Coffeyville City Manager, gave a brief overview of the 2007 flood and oil release the City of Coffeyville experienced. (Attachment 7) To date, 39 businesses remain closed with only a few of those businesses working to reopen. FEMA does very little, if anything, in the form of cash assistance for business. The City of Coffeyville must fund its share of repairs to its own facilities and the levee, estimated to be $5.8 million. Therefore, Coffeyville will not be in a good financial position to offer economic incentives to help rebuild the business economy in the immediate future. Mr. Morris asked the Committee to consider making the tax credits refundable.

Dennis Pruitt, Director of Montgomery County Action Council, asked the Committee to consider in lieu of a tax credit, a “refundable tax credit” based on the amount of investment. (Attachment 8) Unless a tax credit can be sold or transferred, it is only of benefit to companies with a tax liability. A disaster of the magnitude experienced in Montgomery County limits the profitability of a company. He made the following suggestions:

- Do not limit the investment zone to city limits but extend the zone to include land within 3 miles.
- Instead of using tax credits, make the incentive a “refundable credit” tied to the level of investment.
- If tax credits are the preferred mechanism then these credits should be sellable, redeemable, or transferable.
- Provide additional incentives for “green industries” or “green buildings”.

MINUTES OF THE Senate Assessment and Taxation Committee at 10:40 A.M. on February 14, 2008 in Room 519-S of the Capitol.

Chairman Allen asked Mr. Pruitt to submit his suggested amendments to the Revisor of Statutes.

Judy Brigham, City Administrator of Iola, testified **SB 445** would provide advantages for taxpayers to make capital investments in local businesses. (Attachment 9) Since the floods of 2007, Iola has experienced a noticeable dip in sales tax revenues, and retailers attest to the drop in sales.

Leslie Kaufman, Kansas Cooperative Council (KCC), testified several KCC members were impacted by severe weather conditions in 2007. (Attachment 10) The tax credit proposed in **SB 445** is another mechanism to foster rebuilding efforts in hurting communities across the state.

Written testimony in support of **SB 445** was received from Ron Gruber, Southern Plains Coop, (Attachment 11) and Larry Baer, League of Kansas Municipalities. (Attachment 12)

Richard Cram, Kansas Department of Revenue (KDOR), expressed KDOR concerns with **SB 445.** (Attachment 13) There is no requirement the business must have sustained damage from a disaster, or that the investment repair or replace damaged property. The bill creates open-ended liability for the state for future disasters. "Capital investment" is a term that should be considered carefully. Mr. Cram included information on capital expenditures with his testimony. He suggested limiting this bill to exclude those who have already taken advantage of existing disaster relief programs. Mr. Cram reviewed the Kowa County and Southeast Kansas Business Restoration Assistance Programs which include investment assistance, job restoration assistance and sales tax exemptions. (Attachment 13) The State Finance Council approved $5 million for the Southeast Kansas program. Mr. Cram of KDOR suggests more definite criteria than currently used in the bill be considered for **SB 445**, and also suggested specific geographic areas be listed. Senator Allen asked Mr. Cram to work with the Revisor of Statutes to present suggested amendments in balloon form.

Discussion was held concerning the fiscal note for **SB 445.** Mr. Cram said the $22 million fiscal note would be doubled if extended to all presidentially- declared disaster areas in Kansas in 2007. Senator Schmidt expressed concern the fiscal note was not accurate, and said the numbers need to be carefully reviewed.

Being no further business, the meeting adjourned at 12:00 noon. The next meeting will be February 19.