Approved: February 25, 2008
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:30 A.M. on February 21, 2007 in Room 519-S of the Capitol.

All members were present except:
Derek Schmidt- 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:
Don McNeeley, Kansas Automobile Dealers Association
John Federico, General Motors

Others attending:
See attached list.

Chairman Allen welcomed Laurel Murdie, Legislative Division of Post Audit, to the Committee for the purpose of reviewing the Performance Audit Report on Community Colleges: Examining Whether There Are Ways To Share Resources To Reduce Costs. (A copy of the Post Audit Report is available at the Legislative Division of Post Audit.)

The question, "Have community colleges used a portion of increased state aid to reduce mill levies, and if not, why not?" was the purpose of the audit. The Post Audit concluded the Higher Education Coordination Act of 1999 was intended to increase state funding for community colleges, so that local property taxes could be reduced. Because the Act has not been fully funded, state operating grants generally have not become a larger share of colleges total funding sources–a key factor in allowing them to reduce their reliance on property taxes. There were three reasons why community colleges did not receive all the state aid they should have:

- In fiscal years 2001 and 2002 the board of Regents' request for state operating grants for community colleges somewhat underestimated the number of students who would enroll in the colleges those years.
- In subsequent years, the legislature did not fully fund the colleges' state aid because of budget shortfalls.
- Overall, funding the Act also turned out to be more costly than anticipated.

The Post Audit report recommended:

1. To ensure they are in compliance with the provision of the Higher Education Coordination Act, the Boards of Trustees for each of the state's 19 community colleges would take steps to ensure their colleges reduce the amount of local property tax revenues levied by 80% of the increase in state operating grants they receive each year.
2. To help ensure the provisions of the Act will produce local property tax relief, the House or Senate Education Committees should consider whether community college expenditures or mill levy rates should be capped, and also consider whether restrictions should be placed on the amount of cash balances community colleges are allowed to accumulate.

During discussion, Senator Donovan said he felt the ending balances were excessive in some instances at some of the community colleges.

Gerald Baird, Johnson County Community College (JCCC) commented on the Post Audit report. (Attachment 1) JCCC has been in full compliance regarding setting mill levies for all years noted in the report. New buildings, increased enrollment and building maintenance required budgeted funds to maintain JCCC each year. He stated JCCC has a high cash reserve, but part of the reason is the state fiscal year is January 1-December 31, and the community college fiscal year is July 1-June 30. The cash balances are at their lowest on December 31. He explained how the cash balances are handled over a twelve-month period. Certain cash balances must be maintained for JCCC to get AAA bond rates. He said one thing that would damage the state's ability to effectively compete in economic development would be to put a mill levy cap on community colleges. It would be extremely short-sighted to do that.

Hearing was opened on **SB 550–Permanent exclusion from sales taxation of cash rebates on sales or leases of new motor vehicles**.

Chris Courtwright, Kansas Legislative Research Department (KLRD), gave an overview of the bill.

Don McNeely, Kansas Automobile Dealers Association, testified in support of **SB 550.** (Attachment 2) The franchised new car dealers of Kansas generate $5.4 billion in annual sales and are responsible for approximately 20 cents of every dollar of sales tax collected in Kansas.

Senator Donovan clarified this bill does not apply to ALL manufacturer rebates. It applies only to "customer cash" rebates, not "dealer cash" rebates. It is important to understand this fact for fiscal note purposes. He feels the fiscal note is based on all manufacturer rebates. He will meet with KDOR concerning the fiscal note. Richard Cram, KDOR, said the fiscal note was based on 125,000 new car sales per year, with 60% of those sales receiving a manufacturer's rebate. Senator Donovan said the fiscal note is incorrect because of the 60% of rebates on which the note is figured, over 75% of those rebates were dealer cash. There is no tax consequence to the state on dealer cash as dealer rebates are not taxed. He said he has been in the auto business 47 years and feels confident he is correct the fiscal note is wrong.

Mr. McNeely clarified the 125,000 figure is wrong for new vehicle sales. In 2006, it was 114,000 and the 2007 number is expected to be lower.

John Federico, testifying for General Motors, said GM lost over $38 billion last year. GM sold more vehicles overseas last year for the first time than it sold domestically. The Fairfax plant hired 300 new employees, and he would appreciate keeping the good momentum going.

The hearing was closed.

Discussion was held on sales tax exemption bills. Senator Jordan said he will be making an amendment to one of the sales tax exemption bills to include Shawnee Community Services, requesting a construction sales tax exemption. Senator Apple updated the Committee on the Franklin County Fair Board, reporting it had remitted $2,140 in sales tax last year. He said the fiscal note for fair boards should be $10,000 instead of $100,000. Richard Cram, KDOR, said KDOR would report back on how they came up with the $100,000 fiscal note. In response to Chairman Allen, Mr. Cram said he would provide information on all fair boards to the Committee next week. Senator Donovan said he will make an amendment to the sales tax exemption bill to include the Midwest Wine Festival, a fund-raising event for the Guadalupe Clinic in Wichita.

Being no further business, the Committee adjourned at 11:32 a.m. The next meeting will be February 25.