

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:40 a.m. on February 1, 2001, in Room 519-S of the Capitol.

All members were present except: Senator Ed Pugh

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

Conferees appearing before the committee: Ned Webb, Department of Commerce and Housing
 Paul Davis, Gove County Healthcare Endowment Foundation
 Rod Bates, retired hospital executive
 Melinda Moeder, Logan County Healthcare Foundation
 Janette Bump, Graham County Economic Development
 Director

Others attending: See attached list.

Senator Corbin opened the continued discussion on a conceptual amendment proposed by Senator Clark at the hearing on **SB 69**, concerning the reauthorization of the exemption of residential property from school levies. He called the Committee's attention to copies of the amendment to be inserted on page 1, line 29, prepared by Don Hayward, Revisor of Statutes Office. (Attachment 1) He called upon Chris Courtwright, Legislative Research Department, for a commentary on the fiscal implications of the amendment.

Mr. Courtwright began by explaining that the amendment would provide that the Legislature pass a concurrent resolution in order to receive the growth from 20 mills in the second year of the biennium after the levy was set. He said, if the bill is passed with a mill levy set at 20 mills and the \$20,000 exemption and a resolution passes the second year, all of that amount of money is contemplated by the Governor's budget. Therefore, that particular of series of events would have a zero fiscal note. If, on the other hand, the mill levy is set at 20 mills and the \$20,000 exemption is passed with Senator Clark's proposed amendment and the Legislature fails next year to pass a resolution, the levy in the tax year 2002 would be reduced to 18.3 mills under the current set of assumptions relative to growth and property tax base. That would have a 2003 fiscal note of approximately \$21.1 million relative to the amount of local effort currently expected to be raised in fiscal 2003. If the Legislature would continue to authorize a mill levy for school finance but could never pass a resolution, the fiscal note would grow larger in future years. Mr. Courtwright noted that, if the Legislature does not renew a school finance levy at all, then the fiscal impact is reduction in local effort at \$235 million for fiscal 2002 and \$403 million for fiscal 2003.

Senator Clark commented that the Legislature basically discusses the general fund portion but never consciously discusses the increased amount of property tax raised. He noted that his suggested amendment will cause the Legislature to look at property tax as well as the general fund which is basically sales and income tax. Senator Clark commented that, by adopting the amendment to the reauthorization, the Legislature will look at the property tax portion annually.

On a call for a vote on the motion by Senator Clark to amend **SB 69**, which was carried over from the January 31 meeting, the motion failed.

Senator Lee moved to report **SB 68** and **SB 69** favorably for passage, seconded by Senator Jenkins. The motion carried.

CONTINUATION SHEET

SB 39–Income taxation; amending the Kansas Community Services Program Act.

Ned Webb, Community Development Division of the Kansas Department of Commerce and Housing (KDC&H), explained that community service tax credits (CSTC) are issued to businesses, banks, and insurance companies as an inducement to make contributions of cash or non-cash items to nonprofit agencies who provide children or family services, medical services, or non government crime prevention services. The Department of Commerce is responsible for allocating these credits. Mr. Webb explained that **SB 39** would allow individuals to make contributions as well as businesses.

Mr. Webb said he has two concerns with regard to passage of **SB 39**. First, he is concerned about KDC&H's ability to process a large number of small contributions in a timely manner. He noted that small contributions would overload the system. With this in mind, he asked that the Committee consider establishing a \$500 minimum contribution which would apply to individuals as well as businesses. Secondly, he is concerned about the possible fund raising abuses that could occur. He asked, "If individuals are allowed to contribute in exchange for a tax credit, what would prohibit nonprofits from turning to telemarketing providers to solicit contributions for credits?" In his opinion, business donors would not want to be associated with a program that allowed such fund raising activity.

In addition, Mr. Webb discussed another concern about the CSTC program dealing with a provision of the 1999 legislation that allows a one time transfer of credits from a business not subject to Kansas taxes to a taxable Kansas business. He noted that, under the definition of business, tax exempt foundations can make contributions and be issued credits. He believes that the intention of the legislation was to allow for-profit, out-of-state businesses to contribute and later transfer credits. He is concerned that abuses of the transfer provision could lead to transactions that give businesses a one-to-one tax credit, and some transactions could have the appearance of impropriety. In this regard, he suggested that the language that authorizes transfers be amended by inserting "nonprofit" before the word "business." The amendment would allow contributions by out-of-state businesses to be transferred, but would eliminate foundations. ([Attachment 2](#))

Senator Clark, sponsor of **SB 39**, commented that, as agriculture continues to industrialize, most persons who are in management in rural areas will be employees and, therefore, not eligible for the CSTC program. The intent of the bill is to increase the number of people in rural communities, such as the district he represents, who can participate in the program.

Paul Davis, Gove County Healthcare Endowment Foundation, testified in support of **SB 39**. He pointed out that the exclusion of W-2 wage earner income from consideration as qualified income for tax credit purposes does not allow all taxpayers the opportunity to take advantage of the CSTC program. To avoid slowing the system down, he recommended a minimum tax liability of \$250 or \$500 before a tax credit contribution could be made. Mr. Davis believes that passage of the bill is vital for the program to work in small communities. ([Attachment 3](#))

Rod Bates, Logan County Healthcare Foundation, testified in support of **SB 39**. He informed the Committee that the foundation has turned down offers for contributions because the contributors had income only from wages, and they wished to have the tax credits for their contributions. He believes that their inclusion would help bring more support in all the foundation's efforts to provide healthcare to his community. Mr. Bates supports a threshold contribution amount to ensure the paperwork required to administer the program would not be increased inordinately. ([Attachment 4](#))

Melinda Moeder, Logan County Healthcare Foundation, followed with further testimony in support of **SB 39**. In working with the tax credit program over the past three years, she has had to turn down contributions for the program because the contributor's type of income did not qualify as business income. Because her goal in administering the program is to get community support for health care issues, she strongly feels that all individuals, regardless of their type of income, should qualify for tax credits under the program. She emphasized that it is vital that rural communities unite to keep their health care strong. She had no opposition to setting a minimum contribution as suggested by other conferees. ([Attachment 5](#))

Janette Bump, Graham County Economic Development Director, gave final testimony in support of **SB 39**. She noted that, while the tax credit program is good, the fact that individuals with only wage earner, retirement, or interest only income are not eligible is discriminatory. She stated that she supports a minimum contributin limit of \$250, and

she felt that possibly the Committee should address the aspect of telemarketing of the tax credits. (Attachment 6)

CONTINUATION SHEET

There being no others wishing to testify, the hearing on **SB 39** was closed.

Senator Lee moved to amend **SB 39** by inserting “for profit” before “business” as suggested by Mr. Webb, seconded by Senator Clark. The motion carried.

Senator Donovan moved to amend **SB 39** by setting a \$250 minimum threshold for contributions, seconded by Senator Haley. The motion carried.

Senator Clark moved to recommend **SB 39** favorably for passage as amended, seconded by Senator Donovan. The motion carried.

The minutes of the January 31, 2001, were approved.

The meeting was adjourned at 11:40 a.m.

The next meeting is scheduled for February 5, 2001.