

Banks, credit unions face off before school board

By David Lias

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The Vermillion School Board found itself hearing arguments about an issue it has no control over at its Jan. 13 regular meeting.

At the heart of the matter — should credit unions be taxed in the same fashion as banks?

Representatives from the banking industry say they favor such a tax.

Credit union officials believe it's a bad idea.

Lynn Peterson, senior vice president of CorTrust Bank in Yankton, said he's been actively working on this taxation issue for the past 10 to 15 years. He appeared before the Vermillion School Board and requested they support a resolution that asks Congress to hold hearings to see if the tax exemption to credit unions should apply.

"It isn't taking a side on an issue, it isn't saying I'm for the credit unions or banks or farm credit services — it's to ask Congress if this issue still should continue on," he said. "This is a federal matter. It isn't a state matter. It isn't a county matter, but it does have huge implications here."

"We hear constantly over and over and over again about the lack of revenue coming into our cities, state, schools, counties, and so forth, and now is the time that we wanted to start presenting some information and get the feelings of not only school boards, but city councils, commissions, the general public and see where we want to go with this," Peterson said.

Peterson told board members that currently South Dakota community banks are paying between 35 and 39 percent effective tax rate on their income.

"Out of that, 6 percent goes to the South Dakota

general fund, and that's what we're keying on tonight — it's called the South Dakota bank franchise tax," he said. "It's something that every financial institution has to pay in South Dakota, and as far as I know, we're probably extremely unique in South Dakota. This is basically an income tax, if you will, on South Dakota banks."

Peterson said community banks are happy to pay the tax.

"We've been paying it now since 1936, and it started at 3.5 percent and it's been ramped up until we have what we have today at 6 percent. The issue is the source of potential revenue that we have for cities and schools and counties, and the disparity between credit unions, banks, and farm credit services," he said.

"Credit unions, at this point in time, pay zero federal income tax. They pay zero state bank franchise tax. They do pay real estate property taxes, and they do pay payroll taxes."

Peterson said farm credit services pay a range, on average over the last 20 years, of between 1 percent and 5 percent effective tax rate, while community banks are paying 35 to 39 percent.

"We're not complaining about paying taxes, we're not complaining about a competition issue, we're not complaining about a greed thing or anything of that nature," he said. "If you simply look at the numbers, and the facts are pretty undisputable, there is a difference between what banks pay and what credit unions and farm credit services pay."

Peterson said if credit unions and farm credit services were subject to taxation at 6 percent, it would generate about \$5.5 million in revenue annually for the state's general fund. He added that credit unions were created in the early part

of the 20th century by Congress "to serve blue collar workers, people of a common bond, people of lesser means. Those were the initial reasons that they were started, and they were given a tax exemption so that they could charge less in interest rates and pay higher interest to the depositors."

"Since the 1930s to today, they've been expanding. The credit union in Yankton went from just Avera Hospital to seven counties. I believe the local credit union here (in Vermillion) is in two or three counties, and so they are expanding, and that's great," he said. "They should be allowed to expand anywhere they want to expand. However, we aren't getting tax revenue for that. The issue here is there's a hole in the bucket. The larger that they expand, the less that taxing banks are going to have any business to create tax revenue, and there's less that goes to our state. The larger that they get, the less revenue that will be going to state funds."

Peterson said about \$91,000 generated from the bank franchise tax came back to the Clay County area in 2012.

"If farm credit services and credit unions were subject to the same rate of taxation (as banks), that number would be much larger. Your credit union here isn't a very large credit union; this isn't meant as a slam to the credit union industry or the folks that work at the credit union or who are members of them. It's about a source of revenue."

Jeff Olson, the vice president of advocacy with the Credit Union Association of the Dakotas, urged the Vermillion School Board to not fall for what amounts to "an old

campaign trick of smoke and mirrors and scare tactics."

Olson's organization represents the 45 federally-charted credit unions in South Dakota, and over 251,000 credit union members.

"What this proposal is doing for the resolution — it's clearly a special interest proposal, and it does clearly put you on one side of one business or the other," he said. "If we came here with Farm Credit Services with a resolution that said we do support credit unions because they provide a financial alternative to people of Vermillion and Yankton and Clay County, it clearly puts you in a position to make a choice."

Olson noted that calling for added taxes on credit unions is not new.

"They've (the banking industry) been attacking our tax exemption since its exemption 75 years plus. It's been ratified by Congress six times," he said.

Credit unions, Olson explained, are not for profit financial cooperatives.

"We have to make a profit, we take that profit and we turn it right back to our membership in the forms of dividends, in the form of loans. We do have lower rates and fees. So really, in essence, since we return our profits back to our members, there is nothing to tax," he said. "As a school board, as we pay property taxes, what is there for you to get? You are already getting money from us. On the state level, if we were included in the bank franchise fees, it would be about \$900,000 for the state of South Dakota. Your take on that would be not very much."

A tax on credit unions would be an additional tax on 251,000 South

Dakotans who are members of credit unions, Olson said.

"What we've learned with this whole awareness proposal is they (the banks) are telling you that we have budget problems, and we have future budget problems, and they're telling you who to blame for it — credit unions and farm credit services," he said.

Olson noted that there were no taxpayers at the school board meeting lobbying for a tax on credit unions.

"Where is all the support? I don't see any taxpayers here. All I see are bankers and shareholders that are screaming about the tax exemption. Where are the taxpayers standing up and saying we have to tax these people? I don't see it."

"Also, banks have a lot more power than credit unions. Since we're not-for-profit, we're volunteer-run. We can't do investments like they can, we have capital restrictions, and yes, we have limits on what we can do to member business lending. We are capped on what we can lend to business members," he said.

In 1998, Congress allowed credit unions to expand their memberships, but placed limits on loans to business members.

Credit unions, Olson said, are currently lobbying Congress to raise the percentage of loans that can be extended to businesses.

"You know what is the best part about that? It doesn't cost the taxpayers a dime. We're just raising the bar. You know what that means for South Dakota? Twenty-two million dollars in new loans, and 210 new jobs. There's some more tax revenue for you," he said.

Olson said thousands of people, including teachers, relied on credit unions as an alternative to get through tough times brought about by the 2008 financial crisis that led to the recession.

"I think clearly that this is something that the school board should not be involved in. They haven't won anywhere where they have presented this proposal. It's been turned down by the Yankton school board, Yankton city, Brookings school board, Brookings city, and Brookings county. It hasn't gotten anywhere."

Peterson made a similar appearance to the Vermillion City Council last month. The council decided to take no action on the resolution he proposed.

"This is a lot of information in a very short amount of time, and to fully understand it, as a lay person, it would take a lot more time to come up with an answer or opinion," school board vice president Dave Stammer said.

"Therefore, I can't give you an opinion, because I don't have enough time to digest it all."

"Would I be against having more money come into the school? Absolutely not. Am I against taking that money out and giving it to the state out of our own community? It's a school district, but we're also a community, so that money still is here, whether it's \$91,000 here in our district or in our community, of if it goes to the state. To me, the money is still there, just in different areas, whether it's taxed or not."

"The board is thankful for the information, but we are not in a position to take any kind of a stand," said school board president Chris Esping.

CITY

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the Vermillion Chamber of Commerce & Development Company (VCDC).

At a city council meeting that month, VCDC executive director Steve Howe said the committee realized it did not have the funding to start activities that could generate new visitor dollars.

"We just don't have a lot of money with which to grow some of these visitor stays in the community," Howe said.

Aberdeen, Brookings, Custer, Hot Springs, Mitchell, Rapid City, Sioux Falls, Spearfish, Watertown and Yankton are among the communities in the state that currently have a BID with the \$2 fee.

According to a memo provided to the city

council, the Vermillion board recommended an initial amount of \$1 per night.

In last September's meeting, Comfort Inn owner Joe Eckert also spoke about the BID, saying he was not opposed to it.

"In fact, I think there's potential for a great opportunity here if it's done right, but the area of concern is ... how those monies are spent," Eckert said.

By contract, Howe said other entities such as Super 8, West End were opposed to the fee at the time of September's meeting.

This Monday, Mayor Jack Powell said the BID could be a good thing for Vermillion.

"In other communities that have it, it's really been a big help for them, so I think it could be for us, as well," he said.

Luverne Renner

DODGE CITY, KS — Luverne L. Renner, 83, died Monday, Jan. 20, 2014 at Presbyterian Manor of the Plains, Dodge City, KS.

He was born July 17, 1930, at Gettysburg, the son of Ferdinand and Mabel Fuller Renner. A Dodge City resident since 2012, moving from Sioux Falls, he worked for the Farmers Home Administration for 27 years.



Renner

He attended Holy Cross Lutheran Church in Dodge City.

He served four years in the United States Army.

On May 19, 1957, he married Ardelle Fenner at Milbank.

Survivors include his wife, Dodge City; a son, Steve Renner and wife

OBITUARIES

Trudy, Dodge City; a daughter, Brenda Storm and husband Mike, Sioux City, IA; a sister, Violet Brogden, Dodge City; and five grandchildren.

He was preceded in death by his parents.

Funeral service was 10 a.m. Wednesday, Jan. 22, 2014, at Ziegler Funeral Chapel, Dodge City, with Rev. Randall Jahnke officiating. Viewing was from 9 a.m. to service time Wednesday at the funeral

chapel. Burial was at noon Thursday, Jan. 23, 2014, at the Gettysburg Cemetery, Gettysburg, with Pastor Ken Carlidge officiating and full military honors.

The family suggests memorials to Holy Cross Lutheran Church or Presbyterian Manor of the Plains both in care of Ziegler Funeral Chapel, 1901 N. 14th Ave., Dodge City, KS 67801. Condolences may be sent to www.zieglerfuneralchapel.co m.

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THE VCDC ANNUAL BANQUET & VERMILLION NOW2! Kickoff

Thurs., Feb. 6, 2014
Vermillion Event Center,
912 N Dakota St.

Featured Speaker:
Brendan Johnson - United States Attorney

Social 5:30 - 6:30 p.m.
Dinner, Program & Community Awards to Follow

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