



Testimony to Senate Taxation Committee
SB 260
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Chairman and members of the committee it is a privilege to address you today in opposition to Senate Bill 260.

First I would caution the Legislature from sending mixed signals to businesses and individuals on whether Kansas has decided to start a new era of economic prosperity by departing from the high tax rate approach of the past. We have seen the results of this past policy as the state has shrunk in population relative to the other states of the union and the out migration of not only citizens and wealth. Every time a bill like this gets traction the media sends out a 'tax cuts aren't working' message that we would be naïve to believe is not heard by both existing businesses thinking of expanding in Kansas and those pondering a potential move to the state. Reversing a fifty year decline is not going to happen overnight even without the issues these mixed signals send.

Consider the two most obvious impacts of this bill. Those Kansas residents who have passive investment income will now pay more in state income taxes as will non-residents who have investments in Kansas where they are not active managers of that investment. Even the increased taxes on the non-residents will have a hidden cost to the citizens of Kansas. Consider members of the committee whether you are for lowering the price of real property in Kansas. Most if not all in this room know that the price of any investment is closely linked to the return on that investment. When you increase taxes you reduce the return on investment and lower the value of the underlying asset. Is increasing taxes and lowering the value of investment property and assets what we want to do to the citizens of this state? This cannot be emphasized enough---raise taxes, lower values and reduce the flow of capital to Kansas!

These sort of revenue raising bills to balance budgets have created their own issues in the past and in fact the current 'shortfall' can largely be traced to the 2013 calendar year session when over \$400 million in revenue was added to the Consensus Revenue Estimate by similar actions. These increases in the Consensus Revenue Estimate have been an accepted practice of the past but may violate the statute on how the process was designed to work. Even if it does not violate the statute is it fiscally prudent to spend revenue based on an estimate? I encourage this committee to consider at least limiting any revenue enhancing bill to no more than 50% of the revenue estimated being available for appropriations in the year it is initially estimated for.

There is an option and it is one that was not heeded when the tax cut first passed. Spending must be reduced to levels that are in line with the resources available. This state did not reduce or retarget

spending during the last recession while businesses and individuals were tightening their belts. Instead the state used federal funds and a huge ending balance to maintain state agencies while continuing to drain the private sector of capital. An ending balance in the state treasury in FY-2007 of nearly a billion dollars turned into a NEGATIVE \$27.4 million ending balance in just three years as the state refused to cut spending. Where were the media and the loyal opposition decrying this lack of fiscal responsibility then?

It is time that every program in the state be examined from top to bottom. Private business is forced by the market and economic circumstances to continually examine how they deliver services and the quality of those services. Kansas state government in general has not done that yet! Those who say that reducing spending means reduced services are merely protecting the status quo by attempting to scare citizens, especially those who are vulnerable and need the state's help. Better services at a better cost is not only a viable approach but the one citizens would have you make instead of tax increases to continue the big government approach of the past. Until every agency can bring to you their cost to deliver a unit of service including all direct and indirect overheads in a way that will let you see the layers of expenses incurred this Legislature cannot claim that a tax increase is needed based on facts. If your argument is that every dollar the state takes in is well spent I suggest you stop citizens on the street and ask them that question. I suspect you will find they side not with the opponents of reducing spending but with those who think government needs to be good stewards of every dollar they remove from the pockets of hard working Kansans.

In closing I ask you to consider carefully the message you send and the impact on the citizens of Kansas with Senate Bill 260.