

MINUTES

SPECIAL COMMITTEE ON SCHOOL FINANCE

August 16 and 17, 1977

The Vice-chairman, Representative Reardon, presided. All members except Senators Angell and Harder were present. Representative Crumbaker also was absent on the second day.

Staff present included Richard Ryan, Ben Barrett, and Julie Mundy from the Kansas Legislative Research Department. Avis Badke from the Revisor of Statutes' Office, and Dale Dennis from the State Department of Education.

Carl Dodge, State Senator from Nevada, and L. T. Cave, Education Consultant to the Texas House of Representatives, also were present. These persons were acting as NCSL monitors of the NCSL-NIE grant to Kansas for the purpose of studying school finance. Mr. Cave attended at the request of Representative Tom Massey of Texas.

August 16

Morning Session

Minutes

A motion by Senator Warren, seconded by Representative Crumbaker, was adopted unanimously approving the minutes of the July 14 meeting.

Research Project No. 1 - District Wealth

The staff distributed copies of the Kansas Assessment Sales Ratio Study (1976), published annually by the Kansas Department of Revenue, and explained the concepts involved as well as the procedures which are utilized in preparation of the study.

The staff reviewed the following items, copies of which are included in the Committee files:

1. "Computation of District Wealth", August 16, 1977, Division of Financial Services and Legislative Research Department.
2. "Averaging District Wealth," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education.
3. "Relationship of District Wealth and State Aid Ratios," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education. (Memorandum and two computer applications.)

In addition, staff reviewed the historical reasons which were involved in the decision by the Legislature to include taxable income in district wealth. Much of the early impetus for an income measure of a district's ability to support public education in the years immediately preceding the School District Equalization Act (SDEA) came from organizations such as the Kansas Livestock Association and the Kansas Farm Bureau. Taxable income, averaged over a two-year period, was included in the county economic index which was a part of the 1965 School Foundation Program (repealed in 1973).

In the late 1960's the Department of Revenue began to collect income tax data on a school district basis.

The 1976 Kansas resident individual income tax form was reviewed by the Committee. The staff emphasized the portions of the form wherein the school district of residence is identified and the data for the taxable income component of district wealth (line 14), and the income tax rebate (line 15 minus line 14) are found.

#### Afternoon Session

##### Research Project 1 - District Wealth (Continued)

The Committee continued its review of staff memorandums and computer applications:

1. "Remittance of Excess Local Effort to the State," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education.
2. "Substitution of Assessed Valuation for Adjusted Valuation in District Wealth," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education. (Memorandum and computer application.)
3. "Comparison of the Taxable Income Deduction in Computing General State Aid and the Income Tax Rebate - 1976-77," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education. (Memorandum and computer application.)
4. "Income Tax Rebate - Before and After Credits," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education.

Concerning the issue in a school finance program of remittance of excess local effort to the state, Mr. Ryan noted that this principle has been subjected to litigation in three states - Maine, Montana and Wisconsin. The Montana Supreme Court approved such a provision while it was ruled invalid in a close decision by the Wisconsin Supreme Court. The final disposition of this issue in Maine is yet to be determined.

The staff demonstrated the effects, based upon a hypothetical income tax return of a resident individual, of providing an income tax rebate on tax liability either before or after credits for income taxes paid to another state. Staff was requested to prepare a memo on this illustration and send it to Committee members. (A copy of the memo is enclosed with the copy of the preliminary minutes.)

##### Proposed Work Schedule

A copy of a proposed Committee work schedule for September, October and November was considered. The consensus was to approve the schedule in principle. (A copy of the proposed schedule is included as Attachment I.)\*

#### August 17

##### Morning Session

##### Meeting Schedule

The following meeting schedule for the next three months was approved:

1. September 27 and 28 - September 27, meet at 9:00 a.m. in the Board Room of the State Department of Education for the HEW hearing on PL 874, and at 1:30 p.m. in Room 529 of the State House. September 28, meet at 9:00 a.m. in Room 529 of the State House.
2. October 27 and 28 - Meet in Room 529 of the State House - 9:30 a.m. on October 27 and 9:00 a.m. on October 28.
3. November 21 and 22 - Meet in Room 510 of the State House - 9:30 a.m. on November 21 and 9:00 a.m. on November 22.

\* The work schedule was modified somewhat by actions of the Committee on August 17. These changes are discussed subsequently in these minutes.

Enrollment Categories for Budget Control Purposes

Mr. Dennis reviewed the chart which is prepared annually for consideration by the State Board of Education for the purpose of establishing enrollment categories for the ensuing school year for budget control purposes.

Nonresident Income Tax Liability

In response to a question raised on the previous day, Mr. Ryan reported the nonresident individual income tax liability due to Kansas, based on 1975 returns filed in 1976, was \$12.1 million. This compares with a figure of about \$17.0 million for the same tax period which was the sum of the credits claimed by Kansas resident individuals for income taxes paid to another state.

Research Project No. 1 - District Wealth

The staff presented the following material, which is included in the Committee files:

1. "Effects of (A) Removing Taxable Income From District Wealth and Deducting Income Tax Rebate, and (B) Eliminating Income Tax Rebate and Correspondingly Increasing General State Aid," August 16, 1977, Kansas Legislative Research Department and Division of Financial Services of the Department of Education. (Memorandum and two computer applications.)

There was considerable Committee discussion about the effects of various alternative methods of modifying the district wealth component of local effort in the SDEA.

Afternoon Session

Research Project No. 1 - District Wealth (Continued)

As a result of the discussion during the morning session, Mr. Dennis distributed to the Committee copies of the publication 1976-77 Unified School District Wealth, March 1977, Kansas State Department of Education. Among other things, this publication contains a school district listing showing in ascending order the taxable income and the district wealth per pupil (four-year average).

In response to Committee discussion, Mr. Ryan explained two alternatives to the present income tax rebate provision which would distribute aid on different bases. One alternative was simply to distribute an amount equal to 20 percent of the individual income tax liability after credits on the basis of an equal amount per pupil. The other alternative was to utilize a formula involving a measure of income, such as:

$$\text{District Enrollment} \times \frac{\text{State Average Taxable Income Per Pupil}}{\text{District Taxable Income Per Pupil}} = \text{Adjusted District Enrollment}$$

Each district receives a share of total available aid in the same proportion as such district's adjusted enrollment is of the state total adjusted enrollment.

Instructions to Staff

The staff was directed to prepare computer applications for review at the September 27 meeting, demonstrating the effects in 1976-77 of the following assumptions, as compared with the actual 1976-77 distributions of general state aid (including the grandfather clause) and the income tax rebate:

1. Same as present law,\* except amount equal to the income tax rebate (\$38.1 million) distributed to district on the basis of an equal amount per pupil.
2. Same as present law,\* except amount equal to the income tax rebate (\$38.1 million) distributed on the basis of the following formula:

District Enrollment x  $\frac{\text{State Average Wealth Per Pupil}}{\text{District Wealth Per Pupil}}$  = Adjusted Enrollment, and

$\frac{\text{District Adjusted Enrollment}}{\text{State Adjusted Enrollment}}$  x \$38.1 million = Wealth Equalized Aid

- 3. Same as present law,\* except amount equal to the income tax rebate is distributed on the basis of the following formula:

District Taxable Income x LER x Fixed Percent\*\* = Additional Aid

- 4. Same as present law, except remove taxable income from district wealth and distribute amount equal to the income tax rebate (\$38.1 million) on the basis of the following formula. Adjust LER to keep general state aid at the 1976-77 level.

District Enrollment x  $\frac{\text{State Average Taxable Income Per Pupil}}{\text{District Taxable Income Per Pupil}}$  = Adjusted Enrollment, and

$\frac{\text{District Adjusted Enrollment}}{\text{State Adjusted Enrollment}}$  x \$38.1 million = Taxable Income Equalized Aid

Research Project No. 1 - District Wealth

Staff explained a memorandum filed in the Committee notebooks entitled:

- 1. "Income Tax Rebate: Before Credits vs. After Credits," August 16, 1977, Kansas Legislative Research Department and Financial Services Division of the Department of Education.

There was general discussion of other issues relating to district wealth including whether or not state-assessed property or oil and gas leaseholds should be removed from the tax base of school districts and be taxed by the state. Also discussed was whether the value of industrial revenue bond financed property should be included in the computation of district wealth. No decisions were reached on these matters.

Research Project No. 5 - P.L. 874

The staff began a review of a memorandum entitled "P.L. 874 - Federal Impact Aid, August 16, 1977, Kansas Legislative Research Department and Division of Financial Services of the State Department of Education. Due to time constraints, completion and consideration of this memorandum were deferred until the September 27 meeting.

Other Matters

The Committee deferred consideration of material pertaining to Research Project No. 6 - Transportation Aid until the September 27 meeting.

The meeting was adjourned.

Prepared by Ben F. Barrett

Approved by Committee on:

9-27-77  
(Date)

\* Minor adjustments in LER, as necessary.

\*\* Percent would be the rate required to distribute \$38.1 million statewide.

ATTACHMENT I

Kansas Legislative Research Department

August 17, 1977

SPECIAL COMMITTEE ON SCHOOL FINANCE

TENTATIVE PLANS FOR FUTURE MEETINGS

September

1. Staff report on appeals to Board of Tax Appeals
2. Hearings:
  - a) K-NEA
  - b) KASB
  - c) United School Administrators
  - d) League of Women Voters
  - e) Kansas Farm Bureau
  - f) Harold Hosey, Superintendent of Emporia USD 253,  
re transportation
  - g) Others?

(On September 27, from 9:00 a.m. to noon, the U.S. Office of Education will conduct a hearing in Topeka re the eligibility of Kansas to receive PL 874 funds under the new federal regulations.)

October (2 days?)

1. Unfinished business, if any, from previous meetings
2. Committee consideration of major policy issues, based on all staff reports made at previous meetings and on testimony presented on September 23
3. Instructions to staff re bill drafts and final report and recommendations of the Committee (subject to revision at the November meeting)

November (2 days?)

1. Review data from USD budgets for 1977-78 re general fund budgets, state aid, tax levies, transfers, etc.
2. Report on effects of use-value appraisal prepared for Special Committee on Use-Value Appraisal
3. Status of federal action re PL 874 funds
4. Final action on Committee's report and recommendations, including bill drafts

*Atch. I*