

Approved On: _____

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 5, 1986 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Jarchow

Committee staff present:

Tom Severn, Legislative Research
Melinda Hanson, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Ben Barrett, representing Kansas Legislative Research Department, explained HB-2585, the proposed new school district finance act. (Attachment 1) He outlined the six different tax sources for school district aid and answered questions from committee members.

John W. Koepke, Executive Director Kansas Association of School Boards, expressed strong support for HB-2585 and urged the Committee to give favorable consideration to its passage. (Attachment 2)

Jim Yonally spoke in support of HB-2585, representing two organizations -- the Board of Education of Shawnee Mission School District and as Director of Governmental Relations for the Kansas Chapter of the National Federation of Independent Business. (Attachment 3)


Kay Coles, testifying for K-NEA, said their organization believes that HB-2585 is a significant attempt to have a fair tax that would provide adequate funding for the public schools. (Attachment 4)

Bill Fuller, Assistant Director of the Public Affairs Division for Kansas Farm Bureau, also spoke as a proponent for HB-2585. He outlined four goals for any new plan for school finance and the basic ingredients of the Ad Hoc Committee proposal. (Attachment 5)

David Litwin, representing Kansas Chamber of Commerce and Industry, said that his organization cannot support enactment of the bill at this time -- that this issue requires further study. (Attachment 6)

Ron E. Calbert, director of Kansas State Legislative Board, United Transportation union, also spoke in opposition to HB-2585. His organization believes this bill impacts too much on middle-income taxpayers and urged the committee to reject it. (Attachment 7)

There being no further business, the chairman adjourned the meeting.


Ed C. Rolfs, Chairman

MEMORANDUM

Kansas Legislative Research Department

July 25, 1985

H.B. 2585 — THE SCHOOL DISTRICT FINANCE ACT

H.B. 2585 proposes to replace the School District Equalization Act, passed in 1973, with the new School District Finance Act. Following is a summary of the main provisions of H.B. 2585, as introduced in the 1985 Session.

BUDGETARY CONTROLS

There appears to be some confusion regarding the policy on budget controls in H.B. 2585. On the one hand, it appears that an effort has been made to continue in effect the approach to budget controls contained in the School District Equalization Act. On the other hand, it would appear that some major new restraints are imposed.

In any event, financial restraints are imposed by law on expenditures from the general fund of school districts by budgetary controls and not by limitations on the property tax levy or tax rate for such fund.* The bill allows school boards to levy whatever amount may be required to finance the legally adopted budget, after taking into account anticipated receipts to the general fund from other sources.

For purposes of applying budget controls, school districts are placed in five enrollment categories. These categories, which are explained in the following discussion of the computation of the state-shared budget, are designed to give recognition to the fact that expenditures per pupil vary somewhat with enrollment. For example, per pupil expenditures tend to be substantially higher in the small enrollment districts than in other districts. Also, the largest enrollment districts (10,000 or more) tend to have higher per pupil expenditures than other districts in Kansas considered to be large due to their enrollments (e.g., 2,000 to 9,999).

Basic Budget Controls**

H.B. 2585 provides that a school district may increase its general fund budget per pupil to the lesser of the "determinable percentage" (10 percentage points above 105 percent, e.g., 115 percent) of the amount it budgeted per pupil for the preceding school year or 105 percent of the median budget per pupil in the previous year of all districts in its enrollment category. Any district, however, may budget up to 105 percent of its budget per pupil in the preceding year. In the third enrollment category, the median budget per pupil is an amount determined by a linear transition between the median budget per pupil of districts having enrollments of less than 400 and the median of districts in the fourth enrollment category.

* There are no statutory budget controls applicable to other funds of a district.

** H.B. 2585, Sec. 18 — Same as School District Ec

A school district also may increase its general fund budget by the amount of either or both the social security and utilities (water, heat, electricity) expenditures in the preceding year, less an amount equal to the budget per pupil percentage increase that year times the actual social security or utilities expenditures, as the case may be, in the second preceding year.

Election to Exceed Basic Budget Limitation*

Any school district, in any year, is allowed to exceed the basic statutory limitation on its legally adopted budget by any amount approved by the electors.

Enrollment Decline*

If the enrollment of a district in the current school year has declined by less than a specified percentage from the enrollment in the preceding school year, the amount which the district may budget and expend may be computed on the basis of the enrollment in the preceding year. If the enrollment of the district in the current year has declined more than the specified percentage from the enrollment in the preceding year, the amount which the district may budget and expend is computed on the basis of the enrollment in the preceding year, less the number of pupils by which the enrollment decrease in the current year exceeds the applicable specified percentage. The specified percentages are: 10 percent for districts in the two smallest enrollment categories (Under 200 and 200-399) and 4 percent for districts in the two largest enrollment categories. The percentage applicable to districts in the third enrollment category ranges between 4 percent and 10 percent, in accord with a linear transition schedule prepared annually by the State Board of Education.

(A district may appeal to the State Board of Tax Appeals to retain expenditure authority under its adopted budget if such budget was based on a decline in enrollment within the applicable percentage limitation, but, due to extraordinary circumstances, the actual decrease was more than anticipated. See No. 4 under "Appeals", below.)

Accumulation of Budget Authority*

If a district does not budget in any year or years the full amount allowable under the basic limitations, excluding the election provision, the accumulated difference may be added to its legal budget of operating expenses for a later year, provided the total increase does not exceed the "determinable percentage" of its budget per pupil in the preceding school year. That is, the budget per pupil increase in the current year over the preceding year may not exceed an amount equal to 10 percentage points above the budget "floor" for the current school year. This provision is intended to make it unnecessary for a district to budget the full amount allowable in each year, when such amount is not needed at the time, in order to protect the district's budget base for the future.

Appeals*

The present law with respect to appeals to the State Board of Tax Appeals is retained. The State Board of Tax Appeals may authorize a school district to increase

* H.B. 2585, Sec. 18 — Same as School District Equalization Act.

its legally adopted budget of operating expenses or its expenditures upon a finding by the Board that one or more of the following cause an increase in operating expenditures greater than the district is permitted to budget or expend under the budget controls:

1. Construction of new or additional school facilities.
2. Requirements of law to provide special education.
3. Requirements of law to provide transportation of students.
4. Unusual occurrences affecting enrollment. (Enrollment decreases must be the result of extraordinary circumstances.)
5. Increases in rates or charges for supplying water, heat, or electricity.
6. Payment of compensation to a certificated elementary guidance counselor, which compensation was not budgeted in the preceding year.
7. Establishment or enhancement of bilingual education programs.
8. Maintenance of a program established under federal law and financed in full or in part by federal funds.

All of the appeals except reason 4 must be approved by the Board of Tax Appeals prior to the adoption of the budget. Appeals resulting from unusual occurrences affecting enrollments are made after the budget has been adopted and school has begun; these appeals request authority to spend funds that have been budgeted in accord with budgetary constraints of the law.

Additional budget authority approved by the Board of Tax Appeals is for a district's general fund and becomes part of the budget base to which the allowable increases are applied in succeeding years. However, if an appeal is granted to finance program expenditures which must be made from a separate fund, such as the special education or transportation fund, an amount equal to the amount of such appeal must be transferred from the general fund to said separate fund. Amounts obtained by a district after an appeal must be budgeted and spent for the purpose for which the increase was granted.

Legally Adopted Budget of Operating Expenses*

The term is defined to mean the amount legally authorized for operating expenses in the general fund of a district and is an amount which is equal to the greater of (1) the amount legally budgeted in the general fund of the district in the preceding school year or (2) the amount of the state-shared budget of the district in the current school year.

It is not clear how this Section 2 of H.B. 2585 works in connection with Section 18 and related provisions of existing laws which are not changed. If Section 2 is

* H.B. 2585, Sec. 2. This approach is new.

controlling, then any district having a budget per pupil in the preceding school year greater than the state-shared budget would be frozen at the prior year's level and any district having budget per pupil computed to be less than the state-shared budget would be governed by the state-shared budget level. Further, it is not clear how school district budgets will increase from year to year. It appears that this provision is designed to rapidly force districts in the same enrollment category to have more nearly equal spending levels.

The provisions of Section 2 and Section 18 do not appear to be designed to accomplish quite the same purposes, yet both are a part of the bill.

DETERMINATION OF STATE-SHARED BUDGET

In addition to usage of the state-shared budget for budget control purposes (discussed above), the state-shared budget also is used in the computation of primary and supplemental state aid.

The state-shared budget of a district is the product of its per pupil guarantee and its September 15 enrollment in the current year. The per pupil guarantee of a district is the median budget per pupil in the district's enrollment category. There are five enrollment categories. Three of these are set forth specifically in H.B. 2585: under 200, 200-399, and 10,000 and over. The State Board of Education annually determines two enrollment categories applicable to districts having from 400 to 9,999 enrollment, based on an analysis of enrollments and budgets per pupil. The applicable medians are computed as follows:

<u>Enrollment Category</u>	<u>Applicable Median</u>
1. Under 200	The median budget per pupil of districts in the second enrollment category
2. 200-399	A linear transition that begins with the median budget per pupil of districts in the second enrollment category and ends with the median budget per pupil in the 400-499 enrollment interval.
3. 400 — Determined by State Board of Education	A linear transition that begins with the median budget per pupil in the 400-499 enrollment interval and ends with the median budget per pupil in the fourth enrollment category.
4. Determined by State Board of Education — 10,000	The median budget per pupil in the fourth enrollment category.
5. 10,000 and Over	The median budget per pupil in the fifth enrollment category.

GENERAL STATE AID

Prior to a discussion of the three types of general state aid contained in H.B. 2585, it is helpful to become familiar with two features of the plan — the composite wealth factor and local effort.

Composite Wealth Factor

An equalization feature of H.B. 2585 is the allocation of a portion of the state aid to school districts inversely to wealth by the use of a composite wealth factor. The composite wealth factor (CWF) uses the district's assessed valuation (supplemental) per pupil (DAVPP-S) and the district's taxable income per pupil (DTIPP) as the indicators of local wealth. These indexes are shown below:

<u>DAVPP-S</u>		<u>Index</u>	<u>DTIPP</u>		<u>Index</u>
Under	\$10,000	.80	Under	\$10,000	.80
\$ 10,000	to \$ 11,999	.78	\$10,000	to \$ 11,899	.78
12,000	to 13,399	.76	11,900	to 13,099	.76
13,400	to 14,299	.74	13,100	to 13,799	.74
14,300	to 15,799	.72	13,800	to 14,099	.72
15,800	to 17,499	.70	14,100	to 14,499	.70
17,500	to 17,999 ^a	.68	14,500	to 15,299	.68
18,000	to 18,999	.66	15,300	to 15,699	.66
19,000	to 19,999	.64	15,700	to 16,199	.64
20,000	to 20,999	.62	16,200	to 16,799	.62
21,000	to 23,499	.60	16,800	to 17,099	.60
23,500	to 25,249	.58	17,100	to 17,399	.58
25,250	to 26,799	.56	17,400	to 17,799	.56
26,800	to 28,999	.54	17,800	to 18,199	.54
29,000	to 29,999	.52	18,200	to 18,599	.52
30,000	to 31,999	.50	18,600	to 19,299	.50
32,000	to 33,999	.48	19,300	to 19,999	.48
34,000	to 35,999	.46	20,000	to 20,199 ^a	.46
36,000	to 37,999	.44	20,200	to 20,499	.44
38,000	to 40,999	.42	20,500	to 20,999	.42
41,000	to 44,999	.40	21,000	to 21,499	.40
45,000	to 47,999	.38	21,500	to 21,899	.38
48,000	to 53,999	.36	21,900	to 22,399	.36
54,000	to 60,999	.34	22,400	to 22,799	.34
61,000	to 67,999	.32	22,800	to 23,299	.32
68,000	to 81,999	.30	23,300	to 23,999	.30
82,000	to 92,999	.28	24,000	to 25,299	.28
93,000	to 111,999	.26	25,300	to 26,999	.26
112,000	to 135,999	.24	27,000	to 28,399	.24
136,000	to 199,999 ^b	.22	28,400	to 32,999 ^b	.22
200,000	and over	.20	33,000	and over	.20

- a. Smallest interval within the .20 to .80 index range contained in the schedule.
- b. Largest interval within the .20 to .80 index range contained in the schedule.

The CWF of a district is determined by dividing by two the sum of its DAVPP-S and DTIPP index factors. Three especially noteworthy features of the indexes are:

1. The DAVPP-S uses actual assessed valuation rather than adjusted valuation.* The advantages and disadvantages of either approach have been widely discussed.
2. Both the DAVPP-S and DTIPP intervals are irregular. Within the upper and lower limits of the scales, the DAVPP-S intervals range from \$499 DAVPP-S to \$63,999 DAVPP-S; the DTIPP intervals range from \$199 DTIPP to \$4,599 DTIPP. It has been explained by the proponents of H.B. 2585 that irregular intervals were selected in order to achieve the result of a somewhat more equal distribution of school districts in each interval.
3. The index factor on both the DAVPP-S and the DTIPP scale begins at .80 and ends at .20. These caps result in limitations on the percentage of aid that poorer districts can receive and insure that even the wealthiest districts will receive equalized aid.

Local Effort

A district's local effort is the sum of several revenue resources that are considered under the plan to be "local" resources available for the support of public schools. These local resources are taken into consideration in computing a portion of school district general state aid requirements, as described below under "General State Aid Computations." A district's local effort is the sum of:

1. amount produced by a 15 mill levy on the assessed valuation (basic) of a district (amount excludes state assessed property);
2. district income tax revenue from a 1.5 percent tax on the taxable income of resident individuals;
3. amount credited to the general fund from motor vehicle tax receipts in the prior year;
4. amount credited to the general fund from motor vehicle stamp tax receipts in the prior year;
5. amount credited to the general fund from mineral severance tax receipts in the prior year;

* Adjusted valuation, as used in the School District Equalization Act, is the sum of the assessed valuation of locally-assessed real estate adjusted to a 30 percent assessment level (the level required by Kansas law) and the actual assessed valuation of tangible personal property and state assessed public service companies. The adjustment of locally assessed real property is based upon the annual assessment-to-sales ratio study conducted by the Department of Revenue.

6. amount credited to the general fund from industrial and port authority revenue bond payments in lieu of taxes in the prior year; and
7. amount of the federally qualified percentage* of district receipts (if any) in the preceding school year** under P.L. 874 (Impact Aid), except amounts for assistance in cases of major disaster and amounts received under the low-rent housing program.

General State Aid Computations

A district's general state aid entitlement is computed in February of the current school year. It consists of the sum of: basic education state aid, primary state aid, and supplemental state aid.

Basic Education State Aid. This is the basic education grant to which all districts would be entitled, i.e., \$400 per pupil times the September 15 enrollment of the district.

Primary State Aid. This is computed by multiplying the state-shared budget of the district by its composite wealth factor. If the amount so produced is equal to or less than the difference between the state-shared budget of the district and the district's local effort plus its basic education state aid (assuming the state-shared budget is the larger figure), the amount of the district's state-shared budget times its composite wealth factor is the primary state aid entitlement. Conversely, if the state-shared budget times the composite wealth factor is more than the difference between the state-shared budget and the district's local effort plus its basic education state aid (assuming the state-shared budget is the larger figure), such difference becomes the primary state aid entitlement:

Example 1

State-Shared Budget	\$1,000,000
Local Effort Plus Basic Education State Aid	<u>-600,000</u>
Subtotal: Amount Unfunded	\$ 400,000
Composite Wealth Factor (.30)	
x State-Shared Budget	<u>300,000</u>
Total: Amount Unfunded	\$ 100,000

Primary State Aid is \$300,000

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- * The federally qualified percentage is an amount determined under federal law (Title I, P.L. 874) and rules and regulations. Basically, the percentage is the result of an annual computation of each school district's percentage of total operating revenues that are "equalized" in accord with federal criteria.
- ** An exception allows inclusion of federal aid to be received in the current school year if the State Board of Education determines that (1) a district will receive significantly less federal aid in the current year than in the preceding year and (2) inclusion in local effort of such aid received in the preceding year will result in a significant increase in the district's general fund tax levy.

Example 2

State-Shared Budget	\$1,000,000
Local Effort Plus Basic	
Education State Aid	-800,000
Subtotal: Amount Unfunded	\$ 200,000
Composite Wealth Factor (.30)	
x State-Shared Budget	300,000
Total Amount Unfunded	\$ (100,000)

Primary State Aid is \$200,000

Supplemental State Aid. A district qualifies for supplemental state aid if the sum of its local effort, basic education state aid, and primary state aid is less than its state-shared budget. The amount of the supplemental state aid entitlement is determined by multiplying the difference between the state-shared budget and the sum of local effort, basic education state aid and primary state aid by the composite wealth factor. Thus, in Example 1 (above), the supplemental state aid would be \$30,000. (\$100,000 — difference between the sum of the three items and the state-shared budget — times .30 composite wealth factor.) In Example 2 there would be no supplemental state aid because the state-shared budget already is funded at 100 percent.

(The philosophical basis for the supplemental state aid component is unclear. Remember that the composite wealth factor times the state-shared budget basically yields a percentage of the budget that will be funded in the form of primary state aid. Why then, after guaranteeing each district a certain percent of the state-shared budget on the basis of the composite wealth factor, is the composite wealth factor again applied to a portion of the same state-shared budget?)

Distribution of General State Aid

General state aid is distributed directly from the state school finance fund to school districts. School districts are entitled to receive in each of the months of September through January an amount equal to 10 percent of the district's general state aid entitlement in the preceding school year; in each of the months of February through April, 10 percent of the district's current school year's entitlement; in May, 12 percent of the current school year's entitlement; and in June, the full amount of the current year's entitlement less amounts paid in September through May. The September through May payments are made on or after the 20th of the month but not later than the last day of the month. The final payment is made on June 15.

Property Tax Levy

A school district board is authorized to levy an ad valorem tax on the taxable property (supplemental) of the district for financing the portion of the district's legally adopted budget of operating expenses which is not financed from other sources. (State-assessed property is included in the tax base for purposes of this levy.)

Penalty

If a district expends in any school year an amount for operating expenses which exceeds the budget limitations contained in the School District Finance Act, the excess shall be deducted from state aid payable to the district from the State School Finance Fund during the next school year. (This same penalty is contained in the School District Equalization Act.)

STATE REVENUE SOURCES FOR SCHOOL DISTRICT AID

H.B. 2585 creates a new State School Finance Fund. It is composed of moneys credited to it from a property tax levy on state assessed property; motor vehicle tax receipts; income taxes imposed on banks, savings and loans, trust companies, nonresident individuals, corporations, and fiduciaries; dedicated sales and compensating use tax receipts; and any other amounts appropriated or transferred to the fund by the Legislature.

1. Property Tax. A permanent state tax of 15 mills on all tangible property is imposed. The levy is dedicated to financing of school districts. The proceeds of this levy attributable to state assessed property are credited to the State School Finance Fund. The proceeds of the levy attributable to all other property are distributed to the school district of origin.
2. Motor Vehicle Taxes. Motor vehicle taxes produced as a result of the state-imposed 15 mill tax on tangible property would be deposited in the State School Finance Fund.
3. Financial Institutions. A school district finance tax of 1.5 percent is imposed on the net income of domestic insurance companies, national and state banks and trust companies located or doing business in Kansas, and savings and loan associations doing business in Kansas.
4. Individuals, Corporations, and Fiduciaries under the Kansas Income Tax Act. A school district finance tax of 1.5 percent on Kansas taxable income is imposed on nonresident individuals, corporations, and fiduciaries.
5. Sales and Compensating Use Taxes. The state sales and compensating use taxes are increased from 3 percent to 4 percent, with 25 percent of the revenue collected at the 4 percent rate being deposited to the State School Finance Fund.
6. Legislative Appropriation or Transfers to the State School Finance Fund. This includes any amounts appropriated by the Legislature for the State School Finance Fund or transferred thereto according to law.

In addition, a tax of 1.5 percent is imposed on the taxable income of resident individuals. This revenue is transferred from the State General Fund to the School District Income Tax Fund and is distributed to the school district in which the individual resides.

OTHER SCHOOL DISTRICT FUNDS — TRANSFERS

H.B. 2585 continues the policies of the School District Equalization Act with respect to transfers to and from various special funds of a school district.

The operating expenditures of a school district include the total expenditures and lawful transfers from a district's general fund in a school year (July 1 through June 30). A district may transfer money from its general fund to its transportation, special education, food service, driver training, adult education, adult supplementary education, vocational education, bilingual education, health care services reserve, risk management reserve, school workers' compensation reserve, and disability benefits reserve funds, and, under certain circumstances, to its capital outlay fund. To transfer from the general fund to the capital outlay fund, a district, in its adopted budget for such year, shall have budgeted a capital outlay levy of not less than 3.5 mills. The amounts of such transfers are limited to a maximum of 1 percent of the legally adopted general fund budget of operating expenses in districts having enrollments of 10,000 or more, and 2 percent of such budget in all other districts.* Also, no transfer from the general fund to the capital outlay fund may be made prior to June 1 of a school year. With the exceptions of the risk management and school workers' compensation reserve funds, the law requires that expenditures for the above purposes or programs be made from the respective special funds and not from the general fund. An additional exception is that any district may make capital outlay expenditures for acquisition of equipment and repair of a school building from the general fund.

The law permits a district to transfer back to the general fund from any of its funds, an amount not exceeding the amount transferred to such fund or funds in the current school year.

The law does not authorize transfers to the inservice education fund; it does authorize expenditures for this purpose from the school district general fund.

Several types of expenditures are excluded from the legal definition of "operating expenses," the most significant of which are expenditures: from any fund except the general fund; from fees or charges received as reimbursements to a district for providing clothing, equipment, materials, supplies, etc.; for maintenance of summer

* DeSoto (USD 232) is authorized to request the State Board of Education to waive the 2 percent limit when the Board finds that extraordinary circumstances have caused an enrollment increase which necessitates expenditures for capital outlay that exceed the amount available in the capital outlay fund. In order to qualify for the waiver, DeSoto must have budgeted a capital outlay levy of at least 3.5 mills.

school and student activities which are reimbursed; and from federal grants (except P.L. 874 receipts) which may be expended although not included in the district's budget.

STATE TRANSPORTATION AID

H.B. 2585 would not make any changes with regard to state aid for transportation.

Presently, state aid for transportation is paid to all districts which transport at district expense regularly enrolled pupils who live 2.5 miles or more from the school they attend. Such aid is distributed on the basis of a formula which takes into account per-pupil cost of transportation and the density of the district in terms of pupils transported and square miles of territory in the district, thus recognizing the higher transportation costs in low-density districts.

The aid of a district is 100 percent of actual cost per pupil or 100 percent of the amount per pupil computed under the cost-density formula, whichever is less, multiplied by the number of such regularly enrolled pupils (2.5 miles or more from school) transported or for whom transportation is made available as of September 15 of each year.

Transportation aid is distributed from the State General Fund in four payments: on September 25 and November 25, 25 percent of the amount paid as transportation aid in the preceding school year; on February 25, 25 percent of the amount of the entitlement for the current school year; and on April 25, the entire amount of the district's entitlement for the current school year less the amounts paid in September, November, and February.

APPENDIX I

DEFINITION OF SELECTED TERMS

Legally Adopted Budget of Operating Expenses. This is the amount legally authorized for operating expenses in the district's general fund. It is an amount equal to the greater of (1) the amount legally budgeted in the general fund in the preceding year, or (2) the amount of the state-shared budget of the district in the current year.

State-Shared Budget. This is the amount of the per pupil guarantee of the district times the September 15 enrollment.

Per Pupil Guarantee of a District. This is an amount equal to the median budget per pupil of all districts within the same enrollment category as the district as prescribed by the State Board of Education in accord with H.B. 2585.

Budget Per Pupil.* This is the legally adopted budget of operating expenses divided by the September 15 enrollment.

District Basic Education Grant. This is a state financial grant of \$400 per pupil enrolled in the district on September 15.

State Assessed Property.* This means all real and tangible personal property assessed by the Director of Property Valuation, the valuation of which is certified to or apportioned among taxing districts of the state.

Taxable Property (Basic) of a District. This means all real and tangible personal property, excluding state assessed property, in the district.

Taxable Property (Supplemental) of a District. This means all real and tangible personal property, including state assessed, in the district.

Assessed Valuation (Basic) of a District. This means the assessed valuation of taxable property (basic) of a district in the preceding school year.

Assessed Valuation (Supplemental) of a District. This means the assessed valuation of taxable property (supplemental) of a district in the preceding school year.

District Assessed Valuation (Supplemental) Per Pupil. This means the assessed valuation (supplemental) of a district divided by the September 15 enrollment.

Taxable Income.* This means Kansas taxable income of resident individuals as determined under the Kansas income tax act.

District Taxable Income.* This means the total taxable income of resident individuals of a district on the basis of tax returns filed in the preceding calendar year.

District Taxable Income Per Pupil. This means the district taxable income divided by the September 15 enrollment.

* No change from current law.

Resident Individual.* This has the same meaning as used in the Kansas income tax act.

Local Effort. This means the sum of: (1) an amount equal to the amount that would be produced by a 15 mill levy on assessed valuation (basic) of the district (which excludes state assessed property); (2) the district income tax revenue received in the current school year; (3) the amount credited to the general fund in the preceding school year from industrial and port authority revenue bond payments in lieu of taxes, the motor vehicle tax, the motor vehicle dealer stamp tax, and the mineral severance tax; and (4) the permissible amount of federal impact aid.

Federal Impact Aid.* This means the federally qualified percentage of the amount of such funds the district received (or was entitled to receive if no application was made) in the preceding school year (excluding amounts for assistance in cases of major disaster or amounts received under the low-rent housing program). However, when the State Board of Education determines that a district will receive significantly less impact aid in the current school year than in the preceding one and that this will have a significant impact on the district's general fund tax levy, the anticipated federally qualified amount of impact aid for the current year may be used in determining the local effort of a district.

Pupil.* A "pupil" is a person regularly enrolled in and attending any of grades K through 12 of a school district. A person not enrolled full time shall be counted as that portion of one pupil (to the nearest 1/10) that such pupil's enrollment bears to the minimum school term, which is defined by another law as, at the option of the school district, either (a) 180 six-hour days or 1,080 hours for grades 1-11, (b) 175 six-hour days or 1,050 hours for grade 12, or (c) 180 two and one-half hour days or 450 hours for kindergarten pupils. A kindergarten student is counted as one-half pupil.

A pupil enrolled in an area vocational school or an approved vocational education program or in a postsecondary institution authorized under Kansas law to award academic degrees shall be counted as one pupil (full-time) if the pupil's vocational or postsecondary enrollment and attendance and regular enrollment and attendance in any of grades 9-12 is at least 5/6 time. Otherwise, the pupil shall be counted as that portion of one pupil (to the nearest 1/10) that such pupil's combined vocational or postsecondary and regular enrollment bears to full-time enrollment.

Any pupil enrolled in and attending special education programs provided by a school district shall be counted as one pupil. But the word "pupil" does not include a person enrolled in the district who is provided housing, maintenance, and special education services at a state institution.

General Fund.* This term means the fund of a district from which operating expenses are paid and to which is deposited general state aid (i.e., basic education state aid, primary state aid, and supplemental state aid), revenue from the state and district property tax levy for the general fund, motor vehicle taxes, motor vehicle stamp tax receipts, payments from the school district income tax fund (i.e., income tax revenue), payments from the special county mineral severance tax fund, receipts from the federal government under P.L. 874 (except amounts for assistance in cases of major disaster and amounts received under the low-rent housing program),

* No change from current law.

industrial and port authority revenue bond payments, moneys received from a school district under K.S.A. 72-7105a (which relates to transfers of territory from one district to another district), and such other moneys which are required by law to be deposited in the general fund.

(School districts have a number of funds in addition to the general fund, i.e., bonds and interest, capital outlay, special education, vocational education, transportation, driver training, food service, bilingual education, adult education, adult supplementary education, inservice education, health care services reserve, risk management reserve, school workers' compensation reserve, disability benefits reserve, and others.)

APPENDIX II

1985 H.B. 2585 — SCHOOL DISTRICT FINANCE ACT FORMULA

STATE-SHARED BUDGET MINUS (LOCAL EFFORT PLUS GENERAL STATE AID) EQUALS LOCAL PROPERTY TAX REQUIREMENT

<u>State-Shared Budget</u>	<u>Local Effort</u>	<u>General State Aid</u>	<u>Local Property Tax Requirement</u>
	Sum of:	Sum of:	
1. Median Budget Per Pupil for district's enrollment category ^a times September 15 enrollment.	1. Amount produced by a 15 mill levy on assessed valuation (basic) of a district ^a	1. Basic state aid — \$400 times 9-15 enrollment	1. Amount necessary to fund the state-shared budget after taking local effort resources and general state aid entitlements into account, plus any amount necessary to fund the legally adopted budget of operating expenses of the district if the latter is a larger amount. Levy is applied to the assessed valuation (supplemental) of the district. (Additionally, there is a 15 mill state levy — see "Local Effort.")
	2. District income tax revenue ^b	2. Primary state aid — state-shared budget times composite wealth factor ^{a,b}	
	3. Motor vehicle tax ^c	3. Supplemental state aid — composite wealth factor times portion of state-shared budget remaining (if any) after subtracting local effort, basic state aid, and primary state aid from the state-shared budget.	
	4. Motor vehicle dealer stamp tax ^c		
	5. Mineral severance tax ^c		
	6. Revenue bond in-lieu payments ^c		
	7. Public Law 874 receipts ^d		

a) Five enrollment categories: Under 200, 200-399, two categories as determined by State Board of Education from 400 to 9,999, and 10,000 and over. Linear transition applies to 200-399 and the next largest enrollment category.

a) Amount excludes state assessed property. A statewide 15 mill levy is imposed on all tangible property in the state. The proceeds, except those applicable to state-assessed property, are returned to the district.

b) 1.5 percent tax on the taxable income of resident individuals is returned to the district.

c) Amount of prior year's receipts from this source credited to the general fund.

d) Applicable amount determined under federal rules and regulations based upon a ratio of USD revenues that are "equalized."

a) Sum of local effort, primary state aid, and basic state aid may not exceed state-shared budget.

b) Composite wealth factor is determined by dividing by two the sum of the index numbers derived from the district assessed valuation (supplemental) per pupil and the district taxable income per pupil schedules.

Note: H.B. 2585 provides that the legally adopted budget of operating expenses is the amount legally authorized for operating expenses in the general fund of the district and is an amount which is equal to the greater of (1) the amount legally budgeted in the district's general fund in the preceding school year, or (2) the amount of the shared budget of the district for the current school year. At the same time, the bill provides for 105 percent to 115 percent budget controls and states, among other things, that "... any district may budget and expend for operating expenses per pupil not more than 105 percent of its budget per pupil in the preceding school year." It would appear that additional clarification regarding budget controls is needed.

against Kansas tax liability, and some limits can be imposed on the degree of liability offset.

5. Allow local taxing jurisdictions to give property tax abatements for new and expanding manufacturing facilities, research and development facilities, equipment and machinery, and for a limited scope of non-manufacturing facilities having a potential for job creation. The authority to grant the abatement should be detached from the issuance of industrial revenue bonds.

There are at least thirty-two states now providing a tax exemption or moratorium on one or more of the above types of property. Iowa currently offers property tax abatement on new research facilities and Missouri provides a twenty-five year property tax incentive for redevelopment of urban areas. Neither state ties the abatement of property taxes to IRBs. Kansas allows a moratorium on land and capital improvements and equipment only if purchased with industrial revenue bonds. The federal income tax exclusion on interest earnings from industrial revenue bonds is being phased out. Thus, the total quantity of industrial revenue bonds issued in Kansas will decline, thereby limiting local jurisdictions opportunities to offer tax abatements. The detachment of tax abatements for the described properties from the issuance of industrial revenue bonds will provide local communities with a continuing capacity to compete on an equal footing with other communities.

6. Support the 1986 constitutional amendment that would phase out the property tax on inventories.

Kansas is one of only eight states which does not exempt inventories from property tax. The tax is anomalous overall, and as well is a disincentive for certain types of industries to develop in Kansas.

Education, Research, and Technology Transfer

Kansas has an excellent higher education system, particularly in relation to competing states. The system overall, and especially the major universities, provide a strong foundation on which to build future progress, and needs to be 'harnessed' to the state economic development effort in two senses:

1. maintain the existing quality differential relative to competing states; and
2. link university research expertise in many fields, but particularly in science and technology, to Kansas business sectors.

The following recommendations are designed to strengthen the education, research, and technology foundation of Kansas and to systematically link them to the business sector. They recognize that technological innovation is the sustaining force behind the development



Testimony on H.B. 2585
before the
House Assessment and Taxation Committee
by
John W. Koepke, Executive Director
Kansas Association of School Boards

Mr. Chairman and members of the Committee, we appreciate the opportunity to appear before you on behalf of the 303 unified district boards of education which are members of the Kansas Association of School Boards. We are delighted to appear to express our strong support for H.B. 2585, which represents a new approach to the funding of public education in Kansas.

The Delegate Assembly of KASB, meeting this past November, expressed overwhelming support for the idea of restructuring public education funding for elementary and secondary schools along the lines of H.B. 2585. Our members believe that now is the time to begin serious consideration of this new approach. Attached to my testimony you will find the explanation of the new finance plan on which our members based their endorsement.

The School District Equalization Act, which has been the basis for funding elementary and secondary education in Kansas since its adoption in 1973 has served our state well. It gave recognition for the first time to concept of equalization in education funding. That concept must remain an integral part of any plan which replaces the SDEA.

In recent years, it has become more difficult to convince legislators of the viability of the SDEA due to the number of school districts who feel disadvantaged by the distribution formula. At least partly for this reason, the proportion of state funding for elementary and secondary education has been declining.

We believe that H.B. 2585 would eliminate many of the objections which have arisen around the SDEA. While retaining many of the favorable features of the SDEA, H.B. 2585 would dramatically reduce the reliance on the property tax for funding public education and would provide sources of revenue which are more responsive to the economy and inflationary factors.

We believe that H.B. 2585 represents an approach to funding for public education which would carry this state into the 21st century. It would demonstrate the continued commitment which the Legislature has always shown toward quality public education in our state. We would urge the Committee to give favorable consideration to its passage.

THE AD HOC COMMITTEE ON SCHOOL FINANCE

PLAN SUMMARY

The Ad Hoc Committee on School Finance was created informally and grew to include lobbyists, legislators and administrators who had a vital interest in school finance. The plan developed by the group evolved over a five-year period from 1979 to 1984. From the start, the group established four basic goals for any plan they endorsed. Those goals were designed to meet political as well as philosophical concerns. As stated to the 1985 Legislature, those goals are:

1. A balance in revenue sources to fund education
2. A significant reduction in property taxes to fund education
3. Recognition of differing expenditure levels among school districts of various sizes
4. State assistance for support of a basic educational program for every district.

The Ad Hoc Committee, in seeking to reach its first goal, regarded three major sources of revenue as being involved in education funding: property taxes, income taxes and sales taxes. In the Committee's view each should bear approximately the same proportion of the burden for funding public education. Realization of this component also achieves the second goal of significantly reducing property taxes because that source now bears nearly half of the burden of education funding. To achieve the third goal would require a continuation of the enrollment category principle found in the existing School District Equalization Act.

It should also be recognized that the Ad Hoc Committee assumed continuation of state endorsement for the concept of equalization. Above the minimal level of state support called for in the Ad Hoc Committee plan, all state aid would be distributed to local school districts on an equalized basis using a district wealth computation.

The Ad Hoc Committee Plan endorses the concept that district wealth should only include those areas in which a district has taxation authority. For that reason, the plan calls for using assessed valuation rather than adjusted assessed valuation as the measure of property wealth and provides for discretionary use of the income tax at the local level.

Finally, the distribution formula for the Ad Hoc plan calls for a flat grant distribution to every school district in Kansas as evidence of the state's commitment to every child. It would be essential that this grant be funded from new revenue if the concept of equalization is not to be destroyed. The Committee chose the amount of \$400 per pupil because that would use the amount of money raised by a one-cent increase in the state sales tax.

In order to fund the tremendous changes this plan contemplates, in addition to the one-cent sales tax increase, the plan calls for a 1.5 percent levy on all taxable income in the state, both personal and corporate. In addition, a uniform levy of 15 mills would be levied against all state assessed property (power plants, pipelines, railroads, etc.) and remitted to the state for distribution through the formula.

While none of these figures or percentages are sacred, it is also true that the Committee would not endorse the distribution formula, particularly the flat grant portion, without significant new state revenue. Attempts to compare this distribution formula with the existing formula by using the same dollars ignores the major aspect of the Ad Hoc Committee proposal, which is the balancing of revenue sources. For that reason, many aspects of the Ad Hoc Committee plan cannot be considered in isolation or for grafting on the present formula.

The Ad Hoc Committee's proposal is being presented to the 1985 KASB Delegate Assembly as a separate policy statement. It is seen as an alternative to the existing Kansas school financing plan that must be considered in total and not on a piecemeal basis. If some form of it is to be adopted, it must meet the four goals established as well as meet the test of equalization.

A list of the people who were meeting with the Ad Hoc Committee when it concluded its deliberations is printed below for your information:

John Koepke, Kansas Association of School Boards

Jim Yonally, Shawnee Mission Schools

Craig Grant, Kansas-National Education Association

Jim Edwards, Kansas Chamber of Commerce and Industry

Dee Likes, Kansas Livestock Association

Jim Maag, Kansas Bankers Association

Onan Burnett, Topeka, USD 501

Rep. Don Crumbaker

Representative Denise Apt

Senator Joseph Harder

Representative Bill Reardon

Senator Nancy Parrish

Representative Max Moomaw

Bill Dirks, Wichita, USD 259

Mike Rooney, Superintendent, Copeland, representing Schools for
Quality Education

Chuck Stuart, Superintendent, Clay Center, representing United
School Administrators

Paul E. Fleener, Kansas Farm Bureau

TESTIMONY ON HB 2585 BEFORE THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION
FEBRUARY 5, 1986

Mister Chairman, and members of the committee, my name is Jim Yonally, and I am pleased to have this opportunity to speak to you today in support of HB 2585. I will be sharing with you the views of two organizations and close with some personal thoughts of my own.

The Board of Education of the Shawnee Mission School District has adopted the following position regarding school finance: "The board supports legislation which would provide for a new plan for school finance in the state of Kansas. The new plan must provide for a balance in revenue sources, a reduction in property taxes, a recognition of differing expenditure levels among school districts of various sizes, and state assistance for support of a basic educational program for every school district." The provisions of HB 2585 meet the qualifications outlined in that statement.

As you know, I also serve as the Director of Governmental Relations for the Kansas Chapter of the National Federation of Independent Business. This organization of nearly 8,000 small and independent businesses in Kansas develops its legislative program solely on the basis of a vote of the membership. On the 1986 ballot, members were asked, "Should the legislature increase state taxes as a means of increasing state funding for public education, thereby reducing the local property tax?" The vote was 51% "yes" and 41% "no", with 8% undecided.

Furthermore, on the 1984 NFIB/Kansas ballot, members were asked to name the most burdensome tax for their business operation. The tax most often chosen (by 28% of those voting) was the local property tax. The least chosen among a list of six taxes, was the state corporate income tax (8%). A complete table follows:

Local property tax	28%
State unemployment compensation tax	27
State workers compensation tax	12
State individual income tax	12
State sales and use taxes	10
State corporate income tax	8
Other	3

My remaining remarks should be interpreted as personal and not necessarily representing the views of either of the groups mentioned above.

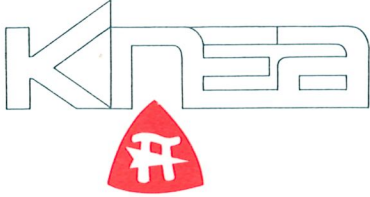
First of all, I hope that the committee will begin looking at HB 2585 as not just a proposal for a new system of distributing state aid to schools, or a proposal to increase the state's sales and income taxes, but look at it with equal interest as a proposal to reduce property taxes. It will, unquestionably, do that. Based on some information which I have sought from qualified people, I believe that the proposal which you have before you today will, when adopted, raise sufficient funds to provide 100 million dollars for the state general fund, allow school district budget limits of 5 and 15 percent and provide property tax relief in the neighborhood of 300 million dollars. Obviously, if budget limits were less than that, the property tax reduction would be even greater. It is apparent to me that if you want to do something that will really help the beleaguered farm economy in Kansas, and also be of help to small businesses, you should consider a plan that will reduce property taxes, and this is a bill to do just that.

The second point that I would like to make is that HB 2585 was patterned after a plan developed by an "Ad Hoc Committee on School Finance" with representation from a broad range of state interests. It is a plan developed not in a few hours, or even a few days, but over many days. We argued, debated, harangued, begged, pleaded, and perhaps, under our breath, even swore a little. But, most importantly, in the end we compromised. Parts of

the bill are somewhat objectionable to most of us who participated in the development of this proposal. But we all remember, in some cases all too vividly, the battles which have been waged in the past over the issue of dividing the state's "pie" in terms of school finance, and the bill you have before you represents our best effort to avoid returning to those times.

The third thing which I would like to say to you today, is that I regret Paul Fleener could not be here to testify on this bill. He has been a driving force in this effort to reach some compromise on this difficult issue. Many times in the past he and I have been on opposite sides of the school finance issue. For me, there is something missing in that he cannot be here to share support for this bill. I would ask that he be given an opportunity, at some later date, to share his views, assuming that there is support for serious consideration of HB 2585.

Again, I thank the committee for the opportunity to appear on this measure, and would be happy to try to answer any questions.



K-NEA Testimony Before The
House Assessment and Taxation Committee
February 5, 1986

Thank you, Mr. Chairman. Members of the Committee, my name is Kay Coles and I am here today representing the 22,000 members of Kansas-NEA. I appreciate this opportunity to speak with you about HB 2585.

Kansas-NEA was part of the ad hoc committee which put together this concept of changing the school finance formula. Craig Grant, our chief lobbyist, served on the committee during the second series of meetings in 1984.

We have long been a proponent of equity in school finance and have sought a fair tax mix that would provide adequate funding for our public schools. Kansas-NEA believes that HB 2585 is a significant attempt to accomplish these goals.

Increasingly school finance has been the target of volatile debates in this Legislature due to the distribution of funds and the concerns many share about the ever-increasing property tax burden in Kansas. HB 2585 is a proposal that could temper those debates, and provide a means toward a goal I believe we all share -- to provide the best possible education to the students of Kansas.

This concensus report is one which Kansas-NEA supports and we would ask you to give favorable consideration to HB 2585.

Thank you Mr. Chairman and members of the committee for listening to our concerns.

2-5-86 Hs. A&T

Attachment 4



PUBLIC POLICY STATEMENT

HOUSE ASSESSMENT and TAXATION COMMITTEE
Representative Edward C. Rolfs, Chairman
February 5, 1986

Re: HB 2585 Ad Hoc Committee School Finance Plan

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
KANSAS FARM BUREAU

Mr. Chairman and members of the Committee:

I am Bill Fuller, Assistant Director of the Public Affairs Division for Kansas Farm Bureau. I am speaking on behalf of the farmers and ranchers who are members of Kansas Farm Bureau. We are PROPONENTS of H.B. 2585...implements the Ad Hoc Committee school finance proposal.

We have watched the Legislature grapple with the topic of school finance each year. The Ad Hoc Committee on School Finance was developed when some of us began talking first in 1979. Our goal was to bring together the various interests and develop a plan acceptable to the diverse group.

The Ad Hoc Committee on School Finance is made up of legislators and other citizens who are willing to wrestle with the challenges of financing our public school system. Members of the Committee include:

John Koepke, Kansas Association of School Boards
Jim Yonally, Shawnee Mission Schools
Craig Grant, Kansas National Education Association
Jim Edwards, Kansas Chamber of Commerce and Industry
Dee Likes, Kansas Livestock Association
Jim Maag, Kansas Bankers Association
Onan Burnett, Topeka USD 501
Rep. Don Crumbaker
Rep. Denise Apt
Senator Joseph Harder
Representative Bill Reardon
Senator Nancy Parrish
Representative Max Moomaw
Bill Dirks, Wichita USD 259
Mike Rooney, Supt. Copeland, Representing Schools for Quality Education
Chuck Stuart, Superintendent, Clay Center representing United School Adm.
Paul E. Fleener, Kansas Farm Bureau

Discussion lead to the establishment of approximately four goals for any new plan for school finance in the State of Kansas. Those are as follows:

1. A balance in revenue sources (Sales tax, income tax and property tax),
2. A reduction in property taxes,
3. Recognition of differing expenditure levels among school districts of various sizes, and
4. State assistance for support of a "basic" educational program for each and every school district in the state.

The proposal we are putting before you today does not represent what any one individual on the Ad Hoc Committee might have developed for a school finance formula. Parts of the proposal are acceptable to all the individuals on the Ad Hoc Committee. Some parts of it, frankly, are not the ingredients that some individual members would have proposed. Rather, the plan is a consensus proposal developed after countless study, discussion, debate, and general agreement that a new direction for school finance is necessary.

The basic ingredients of the Ad Hoc Committee proposal are these:

1. A uniform property tax levy of 15 mills against urban and rural real and personal property at its assessed value.
2. A 1.5% tax on income on every resident individual in each school district. The tax would be against taxable income and would return to the district or origin.
3. Every school district would receive a flat grant initial state aid payment of \$400 per pupil.
4. For budget making purposes, there would be a per pupil guarantee, based on known expenditures per pupil by various enrollment categories, times district enrollment to provide a state-shared budget in each of the school districts.
5. Revenues to fund the state's portion of the Ad Hoc Committee proposal would come from:
 - A. The state aid appropriation,
 - B. A uniform 15 mill property tax levy against state assessed property,
 - C. A 1.5% tax on income of corporations, banks, savings and loans,

D. An increase in the sales and compensating use tax of 1%.

Even though the Ad Hoc Committee proposal is a consensus, most points are compatible to the policy adopted by the delegates representing 105 county Farm Bureaus at the 67th annual meeting of the Kansas Farm Bureau:

School Finance

We believe the Kansas Legislature should develop a school finance formula to assist in the delivery of and funding for a "basic education" for every child enrolled in public schools in each unified school district in the state.

We continue to believe that there should be minimal reliance on the property tax for support of our elementary and secondary schools. As long as property is used as a measure of wealth, then intangible property should be a part of such measurement of wealth.

We support legislation to create a school district income tax to be collected by the state from every resident individual and returned by the state to the school district of residence of the individual taxpayer.

We will support legislation to increase the state sales tax by one cent, PROVIDED the revenues from such increase are used for financing elementary and secondary schools and to reduce property taxes now levied for school finance.

State General Fund revenues should be enhanced for school finance purposes by increasing the rates of income and privilege taxes imposed on corporations, financial institutions, insurance companies, and non-resident individuals.

We believe that federally and state-mandated programs should be fully funded by the federal or state government, whichever mandates a given program.

We have opposed in the past, and we will continue to oppose efforts to establish a statewide property tax levy.

The future of this state is dependent upon an investment we cannot ignore...our educational system. The Governor has recommended a sales tax increase. The Legislature is scrutinizing budgets and is feeling the pressure of inadequate revenues. We believe that now is the time for leadership and statesmanship in implementing a bold plan which will:

1. Provide substantial property tax relief
2. Equalize property tax levies in all school districts
3. Balance revenue sources for school finance...sales, income and property taxes
4. Eliminate "no-aid" districts
5. "Free-Up" revenues to meet state budget needs.

Thank you for this opportunity to express the support of the farmers and ranchers of Kansas Farm Bureau. I will attempt to respond to any questions you may have.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

HB 2585

February 5, 1986

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Assessment & Taxation Committee

by

David S. Litwin
Director of Taxation

Mr. Chairman, members of the committee. I'm David Litwin, representing the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify today on House Bill 2585.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

We regret that we cannot support enactment of this bill at this time. There is no question but that reliance on property tax in the overall state-local tax mix in

Kansas is high, indeed too high. In supporting expanding school systems and other ever-increasing services of local government, the property tax is being called upon to do things that were not intended when this tax developed. Excessive reliance on this tax is unfair since such reliance magnifies the many inequities that are built into property tax and in effect has the potential to under-tax other, and often more dynamic, measures of ability to pay for services.

Viewed in that context, HB 2585 is an attempt to shift a significant part of the education burden off property tax and onto sales, income, privilege and other taxes. I am advised that at the present time, 45.6% of public school support comes from the State, and that this bill would have the effect of increasing the State share to over 60%.

However, we feel that precisely because the effects of this bill would be so profound, careful additional study of its many ramifications is needed. This bill, we suggest, would be an ideal subject for an interim study, during which all of the pertinent facts could be developed and examined. Moreover, at the present time KCCI has a formal policy advocating a state share not to exceed 50% of public school finance.

Two additional considerations also seem very pertinent. First, the proposed property tax classification amendment to the State constitution is pending. If it passes, then it will in any event be necessary to very closely examine the entire school finance structure and probably make significant changes. Thus the enactment of such a sweeping bill as this one at this point would appear improvident.

Second, recently we have all become acutely aware of the need to encourage economic development in our State. HB 2585 would create significant increases in a number of

sensitive taxes, particularly corporate and individual income tax. Our rates in these taxes are presently not low, so a proposal to increase them sharply must be viewed with great caution. It is possible that the positive effect of this bill on property taxes would be so great as to offset the negative aspects of the increases in income and other taxes, but we are not at all optimistic that this would be the case. In any event, this issue too is of the kind that requires further study.

If there are questions, I'll try to answer them. Thank you once again for the opportunity to testify.

R. E. (RON) CALBERT
DIRECTOR/CHAIRMAN

united
transportation
union



OAK STREET PLACE SUITE A
130 EAST FIFTH STREET
P.O. BOX 726
NEWTON, KANSAS 67114-0726
TELEPHONE (316) 283-8041

KANSAS STATE LEGISLATIVE BOARD

STATEMENT OF

RON E. CALBERT, DIRECTOR

KANSAS STATE LEGISLATIVE BOARD
UNITED TRANSPORTATION UNION

REGARDING HOUSE BILL NO. 2585

January 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY ON HOUSE BILL No. 2585. I AM RON E. CALBERT, DIRECTOR, KANSAS STATE LEGISLATIVE BOARD - UNITED TRANSPORTATION UNION. I AM AUTHORIZED TO SPEAK FOR OUR SOME SEVEN THOUSAND (7,000) ACTIVE AND RETIRED MEMBERS AND THEIR FAMILIES WHO RESIDE IN KANSAS.

IT IS A PRIVILEGE TO APPEAR BEFORE YOUR COMMITTEE RELATIVE TO THIS PROPOSED LEGISLATION.

FOR SEVERAL REASONS, MR. CHAIRMAN, WE RISE IN OPPOSITION TO H.B. 2585, ONE OF WHICH PROPOSES AUTHORIZATION FOR IMPOSING A SCHOOL DISTRICT FINANCE TAX UPON KANSAS TAXABLE INCOME OF INDIVIDUALS, SECTION 36, LINES 425 THROUGH 431.

THE FEDERAL TAX CODE HAS SQUEEZED OUT THE AVERAGE PAYDAY-TO-PAYDAY WAGE EARNER AND FORCED HIM TO STANDARD DEDUCTIONS AND SHORT FORM 1040. HE'S ALREADY LOST THE GASOLINE AND MEDICAL EXPENSE DEDUCTIONS AND INTEREST AND INSURANCE DEDUCTIONS ARE IN JEOPARDY. IN 1985 AND 1986 HE HAS HAD AN INCREASE IN HIS SOCIAL SECURITY AND RAILROAD RETIREMENT TAX. MEANWHILE, HE LOOKS AT ALL THE WONDERFUL TAX BENEFITS ENACTED BY THE 97TH CONGRESS SUCH AS THE \$2,000 EXEMPTION IF HE HAD \$16,000 TO INVEST IN AN ALL-SAVERS AND THE \$2,000 TO \$4,000 ADJUSTMENT IF HE COULD AFFORD TO INVEST IN AN INDIVIDUAL RETIREMENT ACCOUNT. FINALLY, HE LOOKS AT THE RECORD AND DISCOVERS THAT HE PAYS MORE FEDERAL AND STATE INCOME TAX THAN THE BOEING CORPORATION, DOW CHEMICAL COMPANY, AND WESTINGHOUSE ELECTRIC CORPORATION.

WE ARE ALSO OPPOSED TO THE FIFTEEN PERCENT (15%) TANGIBLES PERSONAL PROPERTY TAX. AS A REPRESENTATIVE OF EMPLOYEES IN ONE OF KANSAS' LARGEST INDUSTRIES, I HAVE LONG BEEN CONVINCED THAT THEIR AUTOMOBILES ARE NECESSITIES, NOT LUXURIES. THEREFORE, I HAVE ALWAYS BEEN AN OPPONENT OF OVER-TAXING THE AUTOMOBILE IN KANSAS AND I STRONGLY BELIEVE THAT THE WORKING MEN AND WOMEN IN OUR STATE, WHOSE JOB TRANSPORTATION NEEDS REQUIRE THEM TO HAVE ONE OR MORE AUTOMOBILES, ARE JUST AS ENTITLED TO TAX CREDITS AND TAX EXEMPTIONS AS THE FARMER'S MACHINERY AND THE PROFESSIONAL'S OFFICE EQUIPMENT.

WHY NOT REPEAL THE RETAIL SALES TAX ON FOOD FOR PEOPLE AND RAISE THE RATE STATEWIDE TO INCREASE GENERAL REVENUE? OUR SALES REVENUE ACT RESPONDS TO THE NEEDS OF LOW INCOME TAXPAYERS. CERTAINLY WE HAVE AN EXCELLENT HOMESTEAD TAX REFUND ACT TO BENEFIT THOSE TAXPAYERS WHO ARE TRULY HURT BY PROPERTY TAXES.

H.B. 2585 IMPACTS SQUARELY ON THE MIDDLE-INCOME TAXPAYER WHO PAYS THE HIGHEST RATIO OF TAXATION TO INCOME. I URGE YOU TO REJECT THE PROPOSITION OF H.B. 2585.

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO EXPRESS MY VIEWS ON THIS MOST IMPORTANT AND CONTROVERSIAL SUBJECT. I WOULD ATTEMPT TO RESPOND TO ANY QUESTIONS.