

Approved February 19, 1986
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./~~XXX~~ on Monday, February 17, 19 86 in room 519-S of the Capitol.

All members were present except:
Senator Bill Mulich (Excused)

Committee staff present:
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:
Alden Shields, Secretary of the Department of Administration
Harley Duncan, Secretary of the Department of Revenue
John Kemp, Secretary of the Department of Transportation

S.B. 536 - Increase in sales and compensating use tax rates; increase in sales tax refunds on food

Alden Shields reviewed the "broad architecture" of the Governor's investment budget proposal (Attachment 1). Mr. Shields said the state will likely be in a certificate of indebtedness position in April. He estimates that \$190.7 million would be realized as a result of a one cent increase in the sales tax. (This does not take into consideration the costs of expanding the food sales rebate program.) The Governor proposes to spend \$144.6 million, with the remainder used to increase the ending balance of the state general fund. Mr. Shields noted that in only three of the last ten years has the rate of increase in state spending been less than 6.3%. He explained, in detail, the investment budget statistics. Answering a question from Chairman Kerr, Mr. Shields said that it appears the decrease in severance tax revenues probably will not cause a radical adjustment for '86 estimates but will require careful scrutiny for the '87 figures. Chairman Kerr asked whether a revenue increase would have been proposed this year if a half-cent sales tax increase had passed last year. Mr. Shields responded that he suspects that a revenue measure of some kind would be under consideration at the current time. Senator Burke asked about the impact of the Gramm-Rudman bill. Mr. Shields said he hopes to have some information in this regard for the Legislature by the end of the week.

Harley Duncan discussed reasons why increasing the sales tax is the preferable method for increasing revenues (Attachment 2). He stressed that there is an over-reliance on income tax revenues at the state level, and on property taxes at the local level. In response to a question, Secretary Duncan said the Administration's Tax Commission had finished its work in 1985 and that he did not know if its chairman, Lt. Governor Docking, has a position on this bill. Answering questions from Senator Parrish, Mr. Duncan said that Kansas' marginal income tax rates are at the higher end when compared with other states. He said that about 38% of the qualifying households applies for food sales tax refunds for 1980, the latest available data.

John Kemp urged that S.B. 563 be passed (Attachment 3). He talked about the need for expansion of the state's highway system. Mr. Kemp noted that four components make up the funding of his agency: federal aid, motor fuel taxes, registration fees and sales tax transfer funds. Only the sales tax transfer fund actually grows. Mr. Kemp explained charts illustrating the difference in funding from the sales tax in comparison to the gasoline tax.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/17/81	D. Ferrell	Topeka	Budget
	Deb Miller	Topeka	DOT
	Margaret Bearise	Lawrence	LWVK
	Ruth Wilkin	Topeka	AAUP
	Tom Whitaker	Topeka	Ks Motor Carriers Assn
	MARY E. TURKINGTON	Topeka	Kansas Motor Carriers Assn.
	Bruce Graham	Topeka	Ks Motor Carriers Assn
	Don Finner	"	KCCI
	Karen Keum	"	den Yungwilly
	Janet Stubbs	"	ABAK
	Joe Dwigan	Kansas City	KCP L
	Walter F. Tieszen	727 E. 87th South Wichita, KS. 67233	NEA - Wichita
	Barbara Freire	6706 E. 10th, Wichita, KS 67206	"
	Rosa S Anila	3942 N. St. Clair Wichita, KS 67204	NEA - Wichita
	Mary Robertson	918 N. Dale Wichita, KS 67208	NEA - Wichita
	RICK ENEWOLD	TOPEKA	AT&T
	Chip Wheelen	Topeka	Legis. Policy Group
	Virginia Suwaya	2653 Somerset Wichita, KS.	NEA - Wichita
	Jane Connert	9 Lakewood Goddard, KS 67052	NEA - Wichita
	Harold Pitta	Topeka	TARTIT
	Bob Wood	Topeka	Gov Off
	Lois McPherson	3944 Calvert Court Wichita 67217	NEA - Wichita
	Ben Bradley	LAURENCE, KS	KS. Assoc. of Counties
	Ray Petty	Topeka	KACEH/DHR
	Jim Murphy	Leavenworth	Gov. Office
	Bill Curtis	Topeka	KASB
	Ray Allen	Topeka	K-NEA
	Craig Grant	Lawrence	K-NEA
	Dan Ramlow	Topeka	Ks. Contractors Assn.
	Olem Coulter	Topeka	Ks. Contractors Assn.

APPENDIX A

INVESTMENT BUDGET PROPOSAL

The Governor's Investment Budget calls for an important set of targeted investments to be funded by a one cent increase in the sales and use tax. A one cent increase will provide additional revenues of \$190.7 million in FY 1987. Of that amount, \$46.1 million, or about one-fourth, will be allocated to increasing the State General Fund ending balance. As indicated in the following table, the ending FY 1987 balance would be increased from \$73.9 million in the basic budget to \$120.0 million in the investment budget.

The balance of the additional revenues (\$144.6 million) will be dedicated to important new investments to secure the state's future. When combined with expenditures recommended in the basic budget (expenditures that are \$34.9 million less than estimated expenditures for FY 1986), FY 1987 expenditures will exceed FY 1986 expenditures by only \$109.7 million, or 6.3 percent. This rate of increase is less than the estimated rate of increase for FY 1986 as compared to actual FY 1985 (\$112.0 million and 6.9 percent).

STATE GENERAL FUND
(Millions of Dollars)

	<u>FY 1986</u>	<u>FY 1987</u>
1. <u>Basic Budget</u>		
Beginning Balance	\$ 120.4	\$ 52.1
Receipts	<u>1,678.2</u>	<u>1,733.4</u>
Total Available	\$1,798.6	\$1,785.5
Less: Expenditures	<u>1,746.5</u>	<u>1,711.6</u>
Ending Balance	<u>\$ 52.1</u>	<u>\$ 73.9</u>
Expenditure Increase (Decrease)	\$ 112.0	(\$ 34.9)
% Increase (Decrease)	6.9	(2.0)
2. <u>Investment Budget</u>		
Beginning Balance	\$ 120.4	\$ 52.1
Receipts	1,678.2	1,733.4
One Cent Sales Tax Increase	<u>--</u>	<u>190.7</u>
Total Available	\$1,798.6	\$1,976.2
Less: Expenditures		
Basic Budget	1,746.5	1,711.6
Investment Budget ¹⁾	<u>--</u>	<u>144.6</u>
Subtotal	<u>\$1,746.5</u>	<u>\$1,856.2</u>

Ending Balance	\$ 52.1	\$ 120.0
Expenditure Increase	\$ 112.0	\$ 109.7
% Increase	6.9	6.3

1) Investment Budget:

Education	\$ 65.6
Economic Development--Highways	30.0
Compensation	17.2
Reappraisal	8.0
Capital Improvements	7.4
Water	5.3
Food Sales Tax Refund	4.8
Economic Development	3.5
State Aid to Local Units of Government	1.5
Children	1.3
	<u>\$ 144.6</u>

Education

The Investment Budget includes a total of \$46,564,500 for the Department of Education. An amount totalling \$24,700,000 is provided for additional state-financed local school employer contributions reflecting the Governor's recommendation to make KPERS non-contributory. Also recommended is \$10,000,000 in equalization aid to be distributed to local school districts within recommended budget limits of two percent and four percent. This recommendation provides the potential for an average teacher salary increase of 4.2 percent and would result in an estimated statewide property tax increase of \$34.2 million. Combined with the proposal to make KPERS non-contributory, the Governor's recommendations would result in a potential increase in teacher compensation in excess of eight percent.

Other recommendations in the investment budget for the Department of Education include:

- \$5.9 million for special education services to restore funding to 95 percent of excess costs, based upon budget limits of two percent and four percent.
- \$621,500 for local school employer contributions reflecting the additional costs incurred with budget limits of two percent and four percent.
- \$2,143,000 to increase funding for state school transportation aid to 95 percent of the formula amount.
- \$1 million for aid to AVT schools for the acquisition of instructional equipment.
- \$300,000 to establish and operate a pool of instructional

equipment for use by community colleges and AVT schools.

- \$250,000 for enhanced support of teacher inservice training programs.
- \$600,000 for increased aid to AVT schools--\$200,000 for program aid and \$400,000 for post-secondary aid.
- \$150,000 for establishment of a summer honors academy for high school honor students.
- \$900,000 for providing special education services to four-year old handicapped children.

The Investment Budget for institutions under the Board of Regents totals \$18,407,544 for FY 1987. Of the recommended amount, \$13,157,107 represents systemwide improvements and \$5,250,437 is recommended to finance specific program improvements at individual institutions.

The systemwide recommendations are aimed at improving the retirement program at the universities, providing additional funds for other operating expenditures, financing additional major maintenance and repair projects, and staffing and operating the telecommunications systems on each of the campuses.

A total of \$9.1 million is recommended for the state to pick up the five percent retirement contribution currently being paid by unclassified employees of the Regents' institutions. It is also recommended that \$1,647,436 be provided to increase other operating expenditures support by an additional two percent increase above the two percent currently included in the recommended FY 1987 budgets. An amount totalling \$410,000 is recommended to finance additional staff and operating costs associated with the establishment of new telecommunications systems on the Regents campuses and \$1.5 million is recommended for additional systemwide major maintenance and repair support.

In connection with the retirement program recommendation, the Governor recommends \$499,671 for a five percent salary increase for extension service employees at Kansas State University. These employees participate in the federal retirement program and thus would not benefit from the governor's retirement recommendation.

Individual program improvements are aimed at strengthening the economy of the state through improving programs in scientific, technical and professional education, and making the University of Kansas Medical Center and the Kansas State Veterinary Medical Center more viable teaching and treatment facilities.

Expenditures totaling \$851,156 are recommended for the University of Kansas. Recommended program improvements include: a Bachelor of Science Computer Engineering curriculum (\$157,346), econometric modeling capability

(\$180,262) and additional funding of the Instrumentation Laboratory (\$100,528). The Governor also recommends \$125,000 to increase the staff and support costs of the Anthropology/Natural History Museum and \$298,020 to provide additional base salary support for distinguished professors.

At Kansas State University, program improvements of \$707,667 are recommended. A total of \$205,000 is recommended for a program to assist farmers in restoring farm profitability, \$100,000 is recommended for farm management research and \$42,667 is recommended for full funding of the International Livestock Program. In addition, \$360,000 is provided to finance additional library acquisitions and the purchase of equipment for both the extension program and the instructional program of the university.

A total of \$594,208 is recommended for program improvements at Wichita State University. Program improvements recommended would strengthen the College of Business Administration (\$118,280), provide additional equipment and staff for research and graduate studies (\$175,000) and enhance the capabilities of the university in its Science, Mathematics, and Industrial Psychology Program (\$300,928). These investments will enrich the educational programs of the university and provide research and training resources to the Wichita business community.

Program improvements are also recommended at the three regional universities and Kansas Technical Institute. At Emporia State University \$93,188 is recommended to provide instruction to elementary and secondary education teachers desiring to enter a second field of teaching in either math, science or computer science. At Pittsburg State University \$130,000 is recommended to establish a Center of Excellence in Industrial Technology, and at Fort Hays State University, \$150,000 is recommended to enhance the academic computing capabilities of the university. At the Kansas Technical Institute, \$32,098 is recommended to finance an additional computer/electronics technician position to provide effective maintenance and repair services for the Institution's technical laboratory equipment.

The governor's recommendations provide for program improvements at the University of Kansas Medical Center totaling \$2,534,200. An amount totaling \$122,768 is recommended to finance the staffing and operation of a twenty four hour new born intensive care laboratory to provide immediate turn around in laboratory services. An amount totalling \$510,000 to provide a pool of funds to permit the institution to recruit well-qualified clinical faculty. Both of these improvements will not only improve the quality of instruction at the facility, but will also improve the quality of patient care.

In order to provide sufficient funding for necessary hospital operations, \$500,000 is recommended to finance overtime pay and \$655,432 is recommended to finance anticipated hospital liability insurance and malpractice insurance costs. Both of these costs are such that they cannot be absorbed within the current operating budget of the hospital.

Finally, \$746,000 is recommended to improve the quality of the hospital billing system.

The Governor's Investment Budget includes \$157,920 to provide additional faculty and staff for the Kansas State University Veterinary Medical Center. This is the second year of a program designed to upgrade the quality and quantity of faculty and technical staff at the Center.

The Governor's Investment Budget also includes \$600,000 for the Inter-Library Loan program operated by the State Library.

Economic Development--Highways

The Governor's Investment Budget includes \$30 million for creation of a Kansas Economic Development Highway Program. It is designed to assist cities and counties in funding special highway projects deemed important to the economic development of the area. The state would provide interest-free loans for qualifying projects to be repayed in ten equal payments beginning three years after the loan is made. In combination with annual subsequent investments of \$30 million indexed to inflation, less the loan repayments, a revolving loan fund will be created. The initial \$30 million investment for FY 1987 will permit the obligation of \$125 million in highway projects during the first year.

Compensation

The Governor's Investment Budget includes \$17.2 million for state employee compensation. The governor recommends that the Kansas Public Employees Retirement System, the Kansas Police and Firemen's Retirement System, and the Kansas Retirement System for Judges be made non-contributory and that the state pick up the contributions currently being paid by employees. An amount totalling \$12.5 million is included for this purpose.

The governor also recommends implementation of the recommendations contained in the Secretarial/Clerical Study prepared by the Division of Personnel Services of the Department of Administration, effective December 18, 1986. An amount totalling \$3.5 million is recommended for this purpose. Approximately 7,400 positions are covered by the study, representing approximately 28% of the classified workforce. Implementation of the recommendations will provide for an average salary increase for the affected positions of about 15%.

The governor also recommends \$1.2 million for certain classified civil service reclassifications.

The Education section of the Investment Budget includes \$24.7 million to pick up the 4.0 percent retirement contribution for members of the KPERS-School system and \$9.1 million to pick up the 5.0 percent retirement contribution for Regent's faculty.

Reappraisal

The Governor's Investment Budget provides \$8 million for county assistance for reappraisal. It is anticipated that additional annual appropriations of \$8 million will be provided in FY 1988 and FY 1989, providing financial assistance to the counties approximating 50% of the reappraisal cost over the three year period.

Capital Improvements

The Governor's Investment Budget includes \$7,386,227 dollars for capital improvement expenditures. A total of \$6,146,813 is provided for the Department of Corrections and its institutions. Two projects are provided for the Kansas Correctional Institution at Lansing, \$2,156,301 for construction of a 120-bed dormitory and \$1,926,512 for construction of the food service and program building. Also provided is \$1.5 million for the FY 1987 lease payment to the Ellsworth Public Building Commission for construction of the medium security correctional facility at Ellsworth. The funding proposal recommended by the governor assumes a 15 year bond issue, with the state to assume title to the property and facilities upon payment of the bonds. Also included is \$264,000 to equip the support services building at the Kansas State Penitentiary and \$300,000 in systemwide repair and maintenance funds.

A total of \$325,000 is provided for the Department of Administration including \$150,000 for special maintenance at the Statehouse and Judicial Center, \$150,000 for exterior stone repair at the Statehouse and \$25,000 for Cedar Crest. A total of \$234,263 is provided for the Adjutant General for armory roof repairs. A total of \$670,000 is provided for the Kansas State Fair: \$150,000 for special maintenance and \$520,000 for grandstand renovation. Finally, \$10,151 is provided to the State Board of Agriculture for the relocation of a solvent storage facility at the Board of Agriculture Laboratory.

In addition to the capital improvements enumerated above, the Education section of the investment budget also includes \$1.5 million for the Board of Regents for systemwide major maintenance and repair projects.

Water

The Governor's Investment Budget provides \$5,285,724 for implementation of the State Water Plan and related water protection activities. The governor recommends the establishment of an assurance program whereby the state will act as an agent for water right holders within a river basin to acquire, on their behalf, storage space within federal reservoirs to ensure that water will be made available to them during periods of low flow conditions. To begin implementation of the water assurance program, the Governor recommends that \$4.0 million be placed in escrow as "earnest money" to demonstrate the state's intent to purchase reservoir storage space upon enactment of necessary enabling legislation, establishment of assurance districts and completion of negotiations with the Corps of Engineers for specific sales.

The governor recommends that \$2,852,724 be transferred from the State General Fund to the Kansas Water Office's State Conservation Storage Water Supply Fund. The balances projected for this fund at the end of FY 1986 will supply the remaining funds to reach the \$4.0 million amount to be placed in escrow.

Other recommendations for the Kansas Water Office include: \$25,000 to finance one clerical position and other staff costs associated with work of the 12 basin advisory committees; \$100,000 for continuation of stream-aquifer interaction research on the Arkansas River; and \$43,000 for stream gauging stations to monitor stream flow in those rivers for which minimum desirable streamflow standards are being proposed for adoption by the 1986 Legislature. In addition to the items recommended above for State General Fund support, the governor also recommends that \$100,000 be transferred from the Kansas Corporation Commission's Conservation Fee Fund to the Kansas Water Office for continuation of the Dakota Aquifer Study authorized in FY 1986.

For the Division of Water Resources of the Board of Agriculture, the governor recommends seven new positions at a cost of \$250,000 to perform new and expanded duties related to water plan implementation. The recommendation includes one hydrologist to implement agency responsibilities in preparation for and during initial operation of the assurance program. Two engineering positions, and one clerical position, are recommended to implement the Water Conservation section of the State Water Plan, which includes initiatives in the agricultural, industrial and municipal sectors. Remaining positions recommended by the governor include a hydrologist, to improve the quality of water data collected and analyzed by the division; a hydrologist for the central office to perform technical and policy analyses related to minimum desirable streamflow standards; and a field office engineer, whose duties would be split between minimum desirable streamflow standard administration and responsibilities related to water structures review and regulation.

Recommendations for the State Conservation Commission include a major expansion, \$550,000, in the High Priority Water Resources Cost Share program, through which funds are directed to areas of the state having the greatest need for rural flood management, agricultural water conservation and control of agricultural runoff. The recommendation provides \$250,000 for watershed dam construction and also provides \$350,000 to begin implementation of the Multipurpose Small Lakes program authorized by the 1985 Legislature. Finally, the recommendation includes \$35,000 for one additional conservation coordinator position for the Commission to assist in meeting the increased workload of the agency.

The governor's recommendation for the Department of Health and Environment provides \$50,000 for contractual services from the U.S. Geological Survey for the second year of a three year chemigation study to determine if pesticides applied in irrigation systems cause groundwater contamination. One full-time programmer position at a cost of \$26,000 is recommended for conversion of existing programs to a format which can be used in the integrated water data base shared by several agencies. A half-time engineer position (\$14,000) is recommended for field monitoring associated with implementation

of minimum desirable streamflow standards. And finally, the governor recommends that an additional \$700,000 be transferred from the State General Fund to the Hazardous Waste Clean-Up Fund not only for design and implementation of clean-up plans at potential hazardous waste problem sites, but also for activities associated with the identification of sources and clean-up or treatment of volatile organic compound contamination of public water supplies where local resources are not available.

The investment budget also includes \$40,000 for one additional position and associated operating costs for the Cooperative Extension Service at Kansas State University to initiate a public education program on the importance and methods of conserving water resources.

Food Sales Tax Refund

The governor recommends expanding the eligibility criteria for the Food Sales Tax Refund Program to conform with that required for the Homestead Property Tax Refund Program. Qualifying household income will be increased from \$10,000 to \$12,800 and households with dependent children under age 18 will now be eligible in addition to those elderly, blind, and disabled individuals currently covered by the program. The changes proposed will make the Sales Tax Refund Program available to approximately 40,000 additional households and increase the benefits paid from \$1,200,000 dollars to \$6.0 million annually, an increase of \$4.8 million.

Economic Development

The Governor's Investment Budget provides \$3,240,000 for the Department of Economic Development to expand current activities and introduce initiatives in the areas of industrial development, high technology, and small business. Many of the initiatives for the Investment Budget implement recommendations of the Interim Report on the Kansas Economic Development Study which was funded by the 1985 Legislature. The Governor recommends \$350,000 for special consulting and research to further develop recommendations made in this study.

For industrial development, \$900,000 is recommended to implement an advertising program to market Kansas to targeted domestic and international industries. The purpose of this long-term marketing effort is to improve the image of Kansas and identify Kansas as having a good business climate. Two additional industrial development staff are recommended at a cost of \$80,000 to follow-up the additional prospects resulting from the advertising campaign. An important element of both domestic and international development efforts is the Kansas Industrial Training Program (KIT) which provides job training for Kansas industry. KIT is specifically designed as an incentive to new industry to locate in Kansas and to existing industry to expand in Kansas. The Investment Budget provides \$250,000 for this purpose. Finally, \$250,000 is recommended for a European office to market Kansas products internationally and provide assistance to Kansas firms wishing to expand efforts at exporting.

For high technology, the governor recommends \$800,000 for the Research Matching Grant program and the establishment of a state fund to match federal Small Business Innovation Research (SBIR) grants to Kansas small businesses. The Investment Budget also provides \$60,000 for the establishment of an Industry Liaison program at Kansas State University to develop and coordinate joint research programs between the university and industry in the area of high technology.

The governor recommends \$350,000 for the expansion of field offices for small business development. The funds would establish three new offices in areas of the state not currently served by field offices and expand the two existing field offices. Each office would be staffed with two professional and one clerical position. The purpose of these field offices is to provide technical assistance in development finance, to assist in the development of incubators for small businesses, and to work with the Small Business Development Centers at state universities and colleges. To further encourage the development of small businesses in the state, the Investment Budget contains \$200,000 for grants to Certified Development Companies (CDC). The purpose of the CDC is to create jobs and stimulate investment in the local area. Each grant would be matched on a dollar-for-dollar basis by these organizations.

Investment budget recommendations for the Board of Agriculture include \$75,000 for agricultural product promotion and market development activities in both domestic and international markets. An additional \$125,000 is recommended for the FACTS program to provide additional legal and financial advisory services for economically distressed Kansas farmers. Funding of \$35,000 is recommended for one position and support costs to perform economic surveys providing information on the condition of the agricultural economy in Kansas.

State Aid to Local Units of Government

The recommendation of the governor to increase the sales and use tax by one cent will provide for additional FY 1987 distributions from the Local Ad Valorem Tax Reduction Fund of \$1.5 million. Under present provisions of law, 4.5 percent of sales tax receipts are returned to local units of government through the local Ad Valorem Tax Reduction Fund and 3.5 percent of sales tax collections are returned to local units of government through the City and County Revenue Sharing Fund. The statutory distribution of these revenues lag the actual collection of the tax, such that the full distributions associated with the one cent increase will not be received until FY 1989 and thereafter. By FY 1989, the additional distributions associated with the increase of one cent will approximate \$18 to \$20 million.

Children

The governor's recommendation for the Department of Health and Environment includes \$923,000 as aid to local health departments for development of prenatal care collaborative projects in counties where Maternal and Infant projects are currently located (10 projects), to ensure that all pregnant women have access to comprehensive prenatal care. Enhanced prenatal services

include transportation, professional prenatal services and referral for post partum care for approximately 2,000 women. In addition, the project would address the issue of high black infant mortality in Wyandotte, Sedgwick, Geary and Shawnee counties. Two full time positions (Public Health Nurse III and Social Worker III) are recommended at a cost of \$65,000 to implement the prenatal care collaborative project.

The Investment Budget includes programs items which would enrich services provided to children and youth by the Department of Social and Rehabilitation Services. An amount totalling \$200,000 is provided to develop an additional 20-bed residential alcohol and drug abuse treatment facility for indigent youth. This treatment center would be in addition to the unit approved for FY 1986. The second program provides \$146,000 to finance a Therapeutic Family Foster Care program for the last three months of FY 1987. This program would serve 32 children who would be discharged from state institutions during FY 1987 and would provide an alternative to more expensive placement care.

APPENDIX B

INVESTMENT BUDGET STATISTICS
(State General Fund)

Education

Department of Education:

SDEA	10,000,000	
Special Education	5,900,000	
KPERS-School	621,500	
Transportation Aid	2,143,000	
Vocational Education Capital Outlay	1,000,000	
Mobile Training	300,000	
Inservice Training	250,000	
AVTS Program Aid	200,000	
AVTS Post-Secondary Aid	400,000	
Summer Honors Academy	150,000	
Special Education-4 year olds	<u>900,000</u>	\$ 21,864,500

KPERS:

KPERS-School made Non-Contributory		\$ 24,700,000
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Board of Regents:

Systemwide Improvements		
Additional 2% OOE	\$ 1,647,436	
Telecommunications	410,000	
Major Maintenance and Repair	1,500,000	
Retirement made Non-Contributory	9,100,000	
5% Salary Increase-KSU Extension Workers	499,671	

University of Kansas:

B.S. in Computing Engineering	\$ 157,346	
Base Support for Dist. Prof.	288,020	
Econometric Modeling Capability	180,262	
Instrumentation Laboratory	100,528	
Anthropology/Natural History Museum	<u>125,000</u>	851,156

University of Kansas Medical Center:

Newborn Intensive Care Lab.	\$ 122,768	
Overtime Pay	500,000	
Computer System Enhancement	746,000	
Faculty Recruitment	510,000	
Hospital Liability Insurance	494,263	
Malpractice Insurance for Undergraduate Students	<u>161,169</u>	2,534,200

Kansas State University:		
Restoring Farm Profitability	\$ 205,000	
Library Acquisitions	200,000	
Instruction/Extension Equipment	160,000	
Full Funding of International Livestock Program	42,667	
Farm Management Research	<u>100,000</u>	707,667
Kansas State University Veterinary Medical Center:		
Program Fulfillment		157,920
Wichita State University:		
Enhanced Capability in Science, Math and Indus. Psychology	\$ 300,928	
Research & Grad. Studies Admin.	175,000	
College of Business Admin.	<u>118,280</u>	594,208
Emporia State University:		
Second-field Teaching in Math, Science and Computer Science		93,188
Pittsburg State University:		
Center of Excellence-Ind. Tech.		130,000
Fort Hays State University:		
Academic Computing		150,000
Kansas Technical Institute:		
Computer Electronics Technician		<u>32,098</u>
		\$ 18,407,544
State Library:		
Inter-Library Loan Program		<u>600,000</u>
Total		<u>\$ 65,572,044</u>
<u>Economic Development--Highways</u>		
Department of Transportation:		
Economic Development Highway Program		<u>\$ 30,000,000</u>
Total		<u>\$ 30,000,000</u>
<u>Compensation</u>		
KPERS made Non-Contributory		\$ 12,500,000
Secretarial/Clerical Study		3,500,000
Reclassifications		<u>1,200,000</u>
Total		<u>\$ 17,200,000</u>

Reappraisal

Department of Revenue:

County Assistance for Reappraisal		\$ 8,000,000
Total		<u>\$ 8,000,000</u>

Capital Improvements

Department of Corrections:

120-Bed Dormitory KCIL	\$2,156,301	
Food Service and Program Building KCIL	1,926,512	
Ellsworth Medium Security Facility	1,500,000	
Equip Support Services Building KSP	264,000	
Systemwide Repair & Maintenance	<u>300,000</u>	\$ 6,146,813

Department of Administration:

Special Maintenance-Statehouse and Judicial Center	\$ 150,000	
Exterior Stone Repair-Statehouse	150,000	
Special Maintenance-Cedar Crest	<u>25,000</u>	325,000

State Fair:

Special Maintenance	\$ 150,000	
Renovate Grandstand	<u>520,000</u>	670,000

Adjutant General:

Roof Repair		234,263
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Board of Agriculture:

Relocate Solvent Storage Facility		10,151
Total		<u>\$ 7,386,227</u>

Water

Water Office:

Assurance Program	\$2,852,724	
Water Research	100,000	
Basin Advisory Committee Support	25,000	
Minimum Desirable Streamflow Standards	<u>43,000</u>	\$ 3,020,724

Board of Agriculture:		
Assurance Program	\$ 35,000	
Water Conservation Plans	105,000	
Water Data Base	35,000	
Minimum Desirable Streamflow Standards	<u>75,000</u>	\$ 250,000
Conservation Commission:		
High Priority Cost-Share	\$ 550,000	
Watershed Dam Construction	250,000	
Conservation Coordinator	35,000	
Small Lakes Program	<u>350,000</u>	\$ 1,185,000
Department of Health and Environment:		
Water Research-Chemigation	\$ 50,000	
Water Data Base	26,000	
Minimum Desirable Streamflow Standards	14,000	
Hazardous Waste-Volatile Organic Compound Clean-Up	<u>700,000</u>	\$ 790,000
Cooperative Extension-KSU:		
Conservation Education		\$ 40,000
Total		<u>\$ 5,285,724</u>
<u>Food Sales Tax Refund</u>		
		<u>\$ 4,800,000</u>
<u>Kansas Department of Economic Development:</u>		
Industrial Advertising	\$ 900,000	
Research Matching Grants & SBIR Matching	800,000	
Special Consulting & Research	350,000	
Field Office Expansion	350,000	
Kansas Industry Training	250,000	
European Office	250,000	
Certified Development Co. Grants	200,000	
Industrial Develop. Staff	80,000	
Industry Liaison Program	<u>60,000</u>	\$ 3,240,000
<u>Board of Agriculture:</u>		
FACTS Staff Enhancement and Support	\$ 125,000	
Market Promotion & Develop.	75,000	
Agriculture Economic Survey	<u>35,000</u>	235,000
Total		<u>\$ 3,475,000</u>

State Aid to Local Units of Government

State Treasurer:

Local Ad Valorem Tax Reduction
Fund

Total

\$ 1,500,000

\$ 1,500,000

Children

Department of Health and Environment:

Prenatal Collaborative Care
Project

\$ 988,000

Department of Social and Rehabilitation Services:

Therapeutic Foster Care
20-Bed ADAS Youth Treatment
Center

\$ 146,000

200,000

\$ 346,000

\$ 1,334,000


Total

Total Investment Budget

\$144,552,995

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan, Secretary
Kansas Department of Revenue 

RE: Governor Carlin's Sales Tax Proposal - SB 536

DATE: February 17, 1986

Thank you for the opportunity to appear before you today to discuss Governor Carlin's recommended sales tax increase as embodied in Senate Bill 536. I will present the rationale underlying the choice of increasing the state sales and use tax as the means of financing the Investment Budget.

The selection of the sales tax increase rests on three interrelated lines of reasoning. First, when one recognizes that the required expenditure increases approach \$200 million annually, one is necessarily required to enact substantial increases in either the sales and use taxes or the income taxes, including the individual, corporation and privilege taxes. Second, to focus the discussion on the necessity of the required investments, the Governor determined that a single revenue measure was preferable to a package of several tax changes. Third, a sales tax increase, unlike an increase in income taxes, restores a greater balance to the Kansas state and local tax structure and prevents the structure from becoming distorted such that it is an impediment to investment and economic activity. In short, it is desirable from a tax policy standpoint at the present time.

To expand on this last reason, the Committee's attention is directed to the following points, several of which are demonstrated in the accompanying tables.

1. Over the past 20 years, there has been a significant shift in the State General Fund from sales and use taxes to the individual, corporation and privilege taxes. (See Table I.) In FY 1965 sales taxes accounted for 53 percent of total SGF revenues and income taxes for 26 percent. In FY 1987 these two general sources still amount to approximately 80 percent of all estimated SGF receipts, but sales taxes account for 34 percent contrasted to 47 percent for income taxes.

2. If the state sales and use tax rate is increased to 4.0 percent, however, there is a more even balance between sales and income taxes. (See Table II.) Under these conditions, sales and use taxes account for 41 percent of SGF revenues, while the income taxes represent just over 42 percent.

3. A balanced revenue structure is desirable because it lends stability to the system and makes the State less subject to cyclical fluctuations. In addition, a balanced system keeps a state from becoming overly reliant on any one source and thereby causing distortions in the economy. With respect to income taxes, such over-reliance is often cited as an impediment to investment.

4. When the Kansas state and local tax structure is compared to other states, one finds that we rely on income and property taxes to a greater extent and on sales taxes to a lesser extent than is generally true elsewhere.

5. In FY 1984 (latest year available), income taxes accounted for 39 percent of Kansas state tax revenues compared to 38 percent for all states as a whole. Our 39 percent was generally higher than the six surrounding states and was approached only by Colorado and Iowa. (See Table III.) Sales taxes accounted for 29 percent of Kansas tax revenues, a figure that is generally lower than the surrounding states and the nation as a whole. In Missouri, they represented 43.5 percent of all taxes.

6. When one includes local taxes, sales taxes account for 20 percent of Kansas state and local taxes compared to 23 percent nationally. Property taxes, on the other hand, represent 43 percent of tax revenues in Kansas compared to 31 percent nationally. The property tax level is higher than all surrounding states except Nebraska, while the sales tax proportion is lower than all surrounding states except Iowa. (See Table IV.) These are based on 1982 data which are the latest available. If there had been no changes other than an increase in the 1982 sales tax rate to 4.0 percent in Kansas, sales taxes would still have accounted for only 24.7 percent of all state and local taxes which is roughly comparable to the surrounding states.

7. Kansas ranked 35th in terms of sales taxes as a proportion of total state tax collections (1984 data), but 22nd in terms of individual income taxes (1984 data) and 18th in terms of corporate income taxes (1983 data.)

8. When measured in terms of tax capacity and effort, Kansas underutilizes the sales tax more so than other tax sources. In 1981, our sales tax effort of 82 percent compared to an effort of 88 percent for individual income taxes, 94 percent for corporation income taxes and 87 percent overall. The Kansas sales tax effort was lower than most of the surrounding states. (See Table V.)

9. At a 4.0 percent rate, the Kansas sales tax rate will be equal to or less than 35 other states. Sixteen of these states extend local option sales tax authority. A state sales tax rate

of 4.0 percent would not be out-of-line with surrounding states. (See Table VI.)

10. Kansas should not be considered a high tax state. In FY 1984, Kansas ranked 38th when state and local taxes were measured as a percentage of personal income. The Kansas figure of 10.34 percent was 88 percent of the national average of 11.71 percent of personal income.

11. In order to alleviate the impact of this increase on low income persons, the Governor proposes a significant expansion in the Food Sales Tax refund program. Eligibility would be made coterminous with the Homestead Property Tax Refund program which increases the income limit from \$10,000 to \$13,000 and expands eligibility to those with a dependent child under 18. Currently one must be elderly, blind or disabled to qualify. Also the amount of the refund is increased substantially and varied according to income. It is estimated that the revised program would reach 90,000 households and cost \$6.0 million compared to levels of 52,000 household and \$1.2 million at present.

In closing, I would make one additional point. The Investment Budget includes \$8 million for reappraisal cost sharing with counties. I need not stress to this committee the importance of a successful reappraisal to eliminating many long-term inequities in our tax structure. It is my belief that without significant state cost sharing such as that represented by Governor Carlin's recommendation, the chances for a successful completion of the reappraisal are virtually nullified.

Thank you again for the opportunity to appear. I would be glad to attempt to answer any questions.

Table II:

Kansas Department Of Revenue
Kansas General Fund Collections
(In Millions)

	Fiscal Years							
	1965	1970	1975	1980	1984	1985	1986	1987
Sales	\$79.200	\$127.200	\$230.400	\$360.700	\$458.600	\$478.800	\$500.000	\$523.000
Use	\$11.100	\$18.200	\$33.100	\$57.700	\$60.400	\$68.200	\$71.000	\$74.000
Total	\$90.300	\$145.400	\$263.500	\$418.400	\$519.000	\$547.000	\$571.000	\$597.000
Individual Income	\$33.100	\$78.400	\$170.000	\$327.600	\$567.900	\$603.500	\$615.000	\$660.000
Corporate	\$10.000	\$16.600	\$77.200	\$141.700	\$121.000	\$142.000	\$132.000	\$127.000
Privilege	\$1.600	\$2.600	\$8.500	\$16.100	\$11.200	\$13.900	\$14.500	\$15.500
All Income	\$44.700	\$97.700	\$255.700	\$486.100	\$700.700	\$759.500	\$761.800	\$812.800
Severance	\$0.000	\$0.000	\$0.000	\$0.000	\$106.100	\$101.300	\$98.300	\$91.000
Other	\$35.600	\$58.000	\$108.400	\$193.300	\$221.100	\$250.700	\$239.800	\$232.900
Total Receipts	\$170.600	\$301.100	\$627.600	\$1,097.800	\$1,546.900	\$1,658.500	\$1,670.900	\$1,733.700

Kansas Department Of Revenue
Kansas General Fund Collections
Percent Of Total

	Fiscal Years							
	1965	1970	1975	1980	1984	1985	1986	1987
Sales	46.42%	42.25%	36.71%	32.86%	29.65%	28.87%	29.92%	30.17%
Use	6.51%	6.04%	5.27%	5.26%	3.90%	4.11%	4.25%	4.27%
Total	52.93%	48.29%	41.99%	38.11%	33.55%	32.98%	34.17%	34.44%
Individual Income	19.40%	26.04%	27.09%	29.84%	36.71%	36.39%	36.81%	38.00%
Corporate	5.86%	5.51%	12.30%	12.91%	7.82%	8.56%	7.90%	7.90%
Privilege	0.94%	0.86%	1.35%	1.47%	0.72%	0.84%	0.87%	0.99%
All Income	26.20%	32.45%	40.74%	44.28%	45.30%	45.79%	45.59%	46.88%
Severance	0.00%	0.00%	0.00%	0.00%	6.86%	6.11%	5.88%	5.25%
Other	20.87%	19.26%	17.27%	17.61%	14.29%	15.12%	14.35%	13.43%
Total Receipts	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Kansas Department Of Revenue

Table II

Kansas Department Of Revenue

Kansas General Fund Collections

Sales And Use Tax Collections At 4% In Fiscal Year 1987

(In Millions)

	Fiscal Years							
	1965	1970	1975	1980	1984	1985	1986	1987
Sales	\$79.200	\$127.200	\$230.400	\$360.700	\$458.600	\$478.800	\$500.000	\$585.400
Use	\$11.100	\$18.200	\$33.100	\$57.700	\$60.400	\$68.200	\$71.000	\$97.100
Total	\$90.300	\$145.400	\$263.500	\$418.400	\$519.000	\$547.000	\$571.000	\$783.500
Individual Income	\$33.100	\$78.400	\$170.000	\$327.600	\$567.900	\$603.500	\$615.000	\$660.000
Corporate	\$10.000	\$16.600	\$77.200	\$141.700	\$121.000	\$142.000	\$132.000	\$137.000
Privilege	\$1.600	\$2.600	\$8.500	\$16.100	\$11.200	\$13.900	\$14.500	\$15.500
All Income	\$44.700	\$97.700	\$255.700	\$486.100	\$700.700	\$759.500	\$761.800	\$812.800
Severance	\$0.000	\$0.000	\$0.000	\$0.000	\$106.100	\$101.300	\$98.300	\$91.000
Other	\$35.600	\$58.000	\$108.400	\$193.300	\$221.100	\$250.700	\$239.800	\$232.900
Total Receipts	\$170.600	\$301.100	\$627.600	\$1,097.800	\$1,546.900	\$1,658.500	\$1,670.900	\$1,920.200

Kansas Department Of Revenue

Kansas General Fund Collections With A Sales And Use Tax Rate Of 4%

Percent Of Total

	Fiscal Years							
	1965	1970	1975	1980	1984	1985	1986	1987
Sales	46.42%	42.25%	36.71%	32.86%	29.65%	28.87%	29.92%	35.75%
Use	6.51%	6.04%	5.27%	5.26%	3.90%	4.11%	4.25%	5.06%
Total	52.93%	48.29%	41.99%	38.11%	33.55%	32.98%	34.17%	40.80%
Individual Income	19.40%	26.04%	27.09%	29.84%	36.71%	36.39%	36.81%	34.37%
Corporate	5.86%	5.51%	12.30%	12.91%	7.82%	8.56%	7.90%	7.13%
Privilege	0.94%	0.86%	1.35%	1.47%	0.72%	0.84%	0.87%	0.81%
All Income	26.20%	32.45%	40.74%	44.28%	45.30%	45.79%	45.59%	42.33%
Severance	0.00%	0.00%	0.00%	0.00%	6.86%	6.11%	5.88%	4.74%
Other	20.87%	19.26%	17.27%	17.61%	14.29%	15.12%	14.35%	12.13%
Total Receipts	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Kansas Department Of Revenue

Table III
 Kansas Department Of Revenue
 Comparison Of State Tax Revenue By Type
 (In Millions)

Tax	Fiscal Year 1984							U. S. Average
	Kansas	Missouri	Nebraska	Colorado	Oklahoma	Iowa	Arkansas	
Sales And Use	\$518.900	\$1,328.500	\$374.500	\$791.400	\$456.700	\$736.300	\$562.700	\$62,563.600
Individual Income	\$567.900	\$903.600	\$304.300	\$763.600	\$657.800	\$788.000	\$434.000	\$58,942.200
Corporate Income	\$132.800	\$165.700	\$66.900	\$87.700	\$97.200	\$132.100	\$106.200	\$15,511.400
All Income	\$700.700	\$1,069.300	\$371.200	\$851.300	\$755.000	\$920.100	\$540.200	\$74,453.600
Severance	\$106.100	\$0.000	\$4.500	\$30.000	\$703.700	\$0.000	\$27.100	\$7,266.400
Other	\$463.900	\$655.200	\$318.500	\$460.100	\$746.600	\$585.100	\$411.400	\$52,511.400
Total Taxes	\$1,789.600	\$3,053.000	\$1,068.700	\$2,132.800	\$2,662.000	\$2,241.500	\$1,541.400	\$196,795.000

Kansas Department Of Revenue
 Comparison Of State Tax Revenue By Type
 Percent Of Total

Tax	Fiscal Year 1984							U.S. Average
	Kansas	Missouri	Nebraska	Colorado	Oklahoma	Iowa	Arkansas	
Sales And Use	29.00%	43.51%	35.04%	37.11%	17.16%	32.85%	36.51%	31.79%
Individual Income	31.73%	29.60%	28.47%	35.80%	24.71%	35.16%	28.16%	29.95%
Corporate Income	7.42%	5.43%	6.26%	4.11%	3.65%	5.89%	6.29%	7.88%
All Income	39.15%	35.02%	34.73%	39.91%	28.36%	41.05%	35.05%	37.83%
Severance	5.93%	0.00%	0.42%	1.41%	26.44%	0.00%	1.76%	3.69%
Other	25.92%	21.46%	29.80%	21.57%	28.05%	25.10%	26.69%	26.68%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: U. S. Dept. of Commerce, Bureau of Census, State Government Finances in 1984: Table 6

Table IV
 Kansas Department Of Revenue
 Comparison Of State And Local Tax Revenue By Type
 (In Millions)
 Fiscal Year 1982

Tax	Kansas	Missouri	Nebraska	Colorado	Oklahoma	Iowa	Arkansas	U. S. Average
Sales And Use	\$519.000	\$1,141.300	\$336.700	\$1,043.200	\$845.200	\$523.400	\$423.700	\$60,582.600
Individual Income	\$441.100	\$886.000	\$226.600	\$548.900	\$641.400	\$720.900	\$353.700	N/A
Corporate Income	\$162.900	\$123.100	\$48.500	\$91.400	\$139.000	\$147.100	\$91.700	N/A
All Income	\$604.000	\$1,009.100	\$275.100	\$640.300	\$780.500	\$868.000	\$445.400	\$65,819.600
Severance	\$1.000	\$0.000	\$6.000	\$49.200	\$742.700	\$0.000	\$29.800	\$7,829.700
Property	\$1,124.300	\$1,126.800	\$704.800	\$1,201.800	\$525.100	\$1,272.500	\$357.300	\$81,917.700
Other	\$375.900	\$866.800	\$322.600	\$499.200	\$765.500	\$628.700	\$410.000	\$50,150.700
Total Taxes	\$2,624.200	\$4,144.000	\$1,645.200	\$3,433.700	\$3,659.000	\$3,292.600	\$1,666.200	\$266,300.300

Kansas Department Of Revenue
 Comparison Of State And Local Tax Revenue By Type
 Percent Of Total

Tax	Kansas	Missouri	Nebraska	Colorado	Oklahoma	Iowa	Arkansas	U. S. Average
Sales And Use	19.78%	27.54%	20.47%	30.38%	23.10%	15.90%	25.43%	22.75%
Individual Income	16.81%	21.38%	13.77%	15.99%	17.53%	21.89%	21.23%	0.00%
Corporate Income	6.21%	2.97%	2.95%	2.66%	3.80%	4.47%	5.50%	0.00%
All Income	23.02%	24.35%	16.72%	18.65%	21.33%	26.36%	26.73%	24.72%
Severance	0.04%	0.00%	0.36%	1.43%	20.30%	0.00%	1.79%	2.94%
Property	42.84%	27.19%	42.84%	35.00%	14.35%	38.65%	21.44%	30.76%
Other	14.32%	20.92%	19.61%	14.54%	20.92%	19.09%	24.61%	18.83%
Total Taxes	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: U.S. Dept. of Commerce, Bureau of Census, Governmental Finances in 1981-1982 Table 5

Table V
 Kansas Department Of Revenue
 Comparison Of Tax Capacity And Tax Effort By State
 Fiscal Year 1981

Tax	Kansas		Missouri		Nebraska		Colorado		Oklahoma		Iowa		Arkansas	
	Capacity	Effort	Capacity	Effort	Capacity	Effort	Capacity	Effort	Capacity	Effort	Capacity	Effort	Capacity	Effort
General Sales	102.0	82.0	100.1	88.1	103.1	82.6	113.2	110.7	102.6	86.3	105.0	69.9	89.8	80.3
Personal Income	99.9	88.1	95.1	85.2	86.2	74.8	115.4	64.7	101.5	79.4	88.1	133.4	60.4	113.7
Corporate Income	106.8	94.4	85.8	48.3	81.9	67.0	117.3	47.5	167.7	39.5	89.5	83.6	76.5	73.3
Severance	218.0	.6	6.6	.0	27.6	29.9	105.6	35.5	524.4	114.6	2.6	0	63.2	52.7
Total	109.3	87.0	92.1	81.2	96.8	94.8	112.8	83.6	127.3	72.6	102.3	98.2	81.6	78.9

Notes:

1. The base excludes food and drugs and includes gasoline sales.
2. Per Capita Tax Capacity is the population divided into revenue that could be collected when an average tax rate is applied
3. Tax Capacity is equal to revenue generated if a national average rate is applied to a states base.
4. Tax Capacity Index is equal to Per Capita Tax Capacity with the national index at 100.
An index of 110 means a state has 10% more capacity than an average state.
5. Tax Effort is tax collections divided by Tax Capacity. A Tax Effort of 87 means a state is utilizing 87% of its capacity,
or collections a 87% of what the state could collect if the national rate was applied. The national average is equal to 100.

Source: Advisory Commission on Intergovernmental Relation, 1981 Tax Capacity of the Fifty States, Washington D.C.,
 September, 1983.

Table VI

**Kansas Department Of Revenue
Comparison Of State And Local Sales Tax Rates
In Surrounding States**

<u>State</u>	<u>State Rate</u>	<u>Local Rate</u>	<u>Total</u>
Kansas	3%	1% Counties 1% Cities	5%
Missouri	4 1/8%	1/2% Counties 1% County 1% Cities	5 5/8%
Nebraska	3 1/2%	1% Cities	4 1/2%
Colorado	3%	4% County and City Maximum	7%
Oklahoma	3 1/4%	1% Counties 4% Cities	8 1/4%
Iowa	4%	1% County and City Maximum	5%
Arkansas	4%	1% Counties 1% Cities	6%

Notes:

Missouri: 1/2% County Tax must be in conjunction with a property tax reduction.

1% County Tax is allowed in St. Louis County only.

1% City Tax is allowed in cities with a population greater than 500.

Nebraska: Voters may approve a 1/2% increase in the rate to a maximum of 1 1/2%.

The state sales tax rate of 3 1/2% is scheduled to increase to 4 1/2% on January 1, 1987.

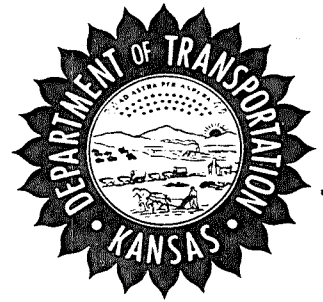
Colorado: The State, County, and City sales tax rates may not exceed 7%.

Oklahoma: Local sales tax rates are unlimited. The current rates listed are the highest to date.

Iowa: Combined County and City local sales tax rate cannot exceed 1%.

Source: Prentice-Hall, All State Tax Guide, continuous.

KANSAS DEPARTMENT OF TRANSPORTATION



JOHN B. KEMP, Secretary of Transportation

JOHN CARLIN, Governor

MEMORANDUM TO: The Senate Assessment and Taxation Committee

FROM: John B. Kemp, P.E.
Secretary of Transportation

REGARDING: Kansas Economic Development Highway Program

DATE: February 17, 1986

Mr. Chairman and members of the Committee:

It is a pleasure to be here today and to have a chance to talk about one of my favorite subjects, the Kansas Economic Development Highway Program. Because our time is short I will give you a brief description of the program, and then I would like to explain why we believe the sales tax would be an appropriate method of funding this program.

As Secretary of Transportation, I visit with community leaders all across this state and what I hear over and over again from these community leaders is their need for a highway project which will enhance their economic development activities. In some cases, the requests are for a bypass, in others for an interchange, and in still others for a four-lane facility. In each case though, the news that I have to deliver to these communities is bad. Our highway program is one which is based on preservation and modernization of the existing system. Our funds are

Attachment 3
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not sufficient to do more than that. The only current system expansion projects the Department is undertaking are the last of the freeway projects and interstate completion. The new construction requests we receive from cities cannot even be seriously considered by the Department. Yet the message is clear, our communities need and want new construction.

As a consequence of this recognition, the Governor agreed to establish a cabinet subcommittee comprised of the Secretaries of Economic Development and Revenue and chaired by me. Our recommendation to the Governor, which he adopted, was to establish the Kansas Economic Development Highway Program which will assist local communities in pursuing highway construction for the purpose of enhancing and supporting the economic development of those communities through interest-free loans from the state.

One of the real pluses of the program is that it requires a locally directed effort but with a state incentive. This program is truly a local/state partnership.

The Governor's proposal allows for an initial investment of \$30 million in FY 1987 with subsequent investments each year. The combination of the annual investments plus repayment of the loans will create a revolving fund. The initial investment will allow the state to obligate almost \$125 million in highway projects the first year.

Senate Bill 653 which was introduced Friday contains a provision that 10% of the funds will be set-aside for cities with populations under 10,000. I believe that this program will truly be a statewide program.

There has been a great deal of discussion this Session as to whether it is appropriate to fund a highway program out of general revenues as the Governor has recommended or whether road improvements should only be funded from traditional user fee sources. To that question I say this is an economic development program not a highway program.

It is important to note that in most cases, the existing highway facilities in Kansas are sufficient to carry current and projected traffic. The Economic Development Highway Program is targeted at the expansion of highway facilities which are beyond the current traffic needs, and where there is strong reason to believe that construction of such facilities will lead to economic growth and development. Under this program Kansas cities will determine their own needs. Their decision to build a project will be made on the basis of sound business judgment that the project will pay for itself.

When economic development occurs, the results are felt in sales tax, income tax and property tax receipts, and to a much lesser extent in fuel tax receipts. In other words, the entire community benefits, not just the driving public. Promotion of economic development is not an isolated

transportation function, rather, it is in the general interest, and because of that general interest, a general revenue source is appropriate. This concept calls for a different funding approach than the one dictated by the traditional user fee philosophy.

Additionally, Mr. Chairman and members of the Committee, I would note that according to a professional poll commissioned by the Kansas State Network and WDAF-TV of Kansas City, 42% of the people support a 1-cent increase in the sales tax, but if asked if they would favor the 1¢ increase if the money were used to fund roads and education; the figure shoots up to 61%. So there is public support for this funding approach.

The problem of a continued reliance on a motor fuel tax is that its growth trend is flat. That is, receipts from motor fuel taxes do not grow. This is in spite of the fact that travel is growing. Consumption is declining as a greater percentage of the vehicle fleet is replaced by more fuel efficient vehicles. Any given fuel tax rate will produce a decreasing level of project value each year.

Mr. Chairman, while we are on the subject of the gas tax, let me emphasize the importance of the sales tax transfer which we received in the 1983 highway funding compromise bill. It is the only component of our funding which grows. We are receiving no growth from the motor fuels tax, no growth from registrations and certainly no growth in federal funds.

I have with me two charts which demonstrate the difference to the Department in funding from the sales tax versus the gasoline tax, both for the economic development highway program and for the sales tax transfer.

Thank you for this time Mr. Chairman, and I will be happy to answer any questions.