

Approved

March 12, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagnon, Chairperson, at 9:10 a.m. on Tuesday, March 3, 1992 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn & Chris Courtwright, Legislative Research; Bill Edds and Don Hayward, Revisors; Linda Frey, Committee Secretary; Douglas E. Johnston, Committee Assistant.

Conferees appearing before the committee:

Susan Seltsam, Secretary of Administration
Mark Beshears, Secretary of Revenue
Representative Gary Blumenthal
Kay Coles, Kansas National Education Association
Dr. Philip Knight, Superintendent of Ulysses USD #214
Vernon Sergent, Lebo Coffee County Coalition
Connie Ford, Eudora resident
John McDonough, Lenexa resident

The public hearing on HB 2891, Financing for Public Schools, was opened.

Susan Seltsam, Secretary of Administration, testified in favor of HB 2891 (Attachment 1).

Rep. Smith asked what was considered average income for Kansans by the Governor. Seltsam said it was approximately \$35,000 annual income.

Rep. Glasscock asked why the Governor had included sales tax exemptions for residential utilities, gasoline, textbooks and museums as suggestions for repeal and if the Governor would consider the repeal of those exemptions as a burden on low income taxpayers. Seltsam said there would be a shift of tax burden with property tax relief and that the goal of the Governor's plan was to broaden the tax base.

Rep. Shore said the Governor's plan for a statewide mill levy and education fund distribution would lead to the closing of small schools. He asked Seltsam if that meant the Governor was willing to close small schools. Seltsam replied that the Governor was not advocating closing small schools.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Tuesday, March 3, 1992.

Rep. Wiard stated that the Governor's video lottery proposal would take money out of the pockets of low income Kansans. Seltsam replied that it is not a tax.

Mark Beshears, Secretary of Revenue, testified in favor of HB 2891 (Attachment 2).

The Chair said if the committee decided to repeal the exemption on residential utilities it could counteract the regressivity of the tax by increasing the rebate program.

Beshears said increasing the rebate eligibility level to \$25,000 annual income would cost approximately \$2 million. He noted that the rebate for food is \$7 million at \$20,000 income eligibility level.

Rep. Vancrum said the Governor had promised the committee the assistance of Beshears in the choosing of which exemptions for repeal. Beshears declined to assist in the making of choices. He stated it was the responsibility of the committee to make such decisions.

Beshears also stated in response to a question that the concept embodied in the Governor's plan is to stop the reliance on property taxes that go up each year and to broaden property tax base.

Rep. Harder asked if the Governor would approve increasing the progressivity of the income tax as a way of financing public education. Beshears said the Governor will look at it.

Rep. Larkin asked if income tax revenues would keep up with government costs. Beshears said they usually keep up with inflation.

Rep. Smith requested a fiscal note on repealing the exemption on residential utilities and raising the utilities rebate to \$27.5 million.

The Chair stated the committee's appreciation for all the good work done by the Department of Revenue staff.

Rep. Ensminger requested information on the rate of increase in income tax collections over the past 10 years.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Tuesday, March 3, 1992.

The Chair requested information on the elasticity of the income tax structure from Legislative Research.

Representative Gary Blumenthal testified in regard to the uniform mill levy. He favors a minimum mill levy with options for local districts for budget increases. He proposed that in HB 2891 local districts be able to recapture property tax revenues raised in the district at the budget level determined by the school finance formula. He said there was a consensus in his county that a uniform mill levy is not acceptable, but that a minimum levy is okay. He said HB 2892 mandates such a minimum mill levy.

Kay Coles, Kansas National Education Association, testified in regard to HB 2891 (Attachment 3).

In response to a question, Coles said Kentucky uses a uniform mill levy and Texas tried to establish one that was ruled unconstitutional by the Texas Supreme Court.

Rep. Shore asked Coles if KNEA favored a minimum mill levy or a maximum mill levy. Coles said her association favored a minimum, or "floor" mill levy.

In response to questions, Coles said state aid to local school districts would have to be used to hold down property taxes.

Dr. Philip Knight, Superintendent of Ulysses USD #214, testified against HB 2891 (Attachment 4).

Dr. Knight suggested utilizing the School District Equalization Act and including determinations of income and sales revenues as a basis of establishing a fair tax system for the financing of public schools.

In response to a question from Rep. Shore, Dr. Knight said rural students lack many advantages of students in larger school districts and cities. He said a lack of access to cultural opportunities is one example.

Dr. Knight said southwest Kansas had significant wealth in oil & gas production, but that the economy was very fragile. The Chair said the committee would move to consider elements of the severance tax if the statewide mill levy passed.

Rep. Larkin said southwest Kansas would see school

CONTINUATION SHEET

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district mill levies increase, but that county levies remain low. He said the Legislature cannot ignore Judge Bullock's order because to do so will cause a lengthy, expensive legal battle.

Dr. Knight said there will be a legal battle if the statewide mill levy is passed. He said leveling up of educational opportunity was desired; not leveling down.

Vernon Sergent, Lebo Coffee County Coalition, (Attachment 5).

Connie Ford, Eudora resident, testified in favor of HB 2891 (Attachment 6).

John McDonough, Lenexa resident, testified in favor of HB 2891 (Attachment 7).

The Chair continued the public hearing on HB 2891 until Wednesday.

The meeting adjourned at 10:35 a.m. The next meeting will be March 4.

GUEST LIST

COMMITTEE: House Delegation

DATE: 3/3/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Alan Steppat	Topeka	Pete McBill & Associates
Peggy Horton	Elkhart	USD 218 Bld. / Farmwife
Phil Johnston	Elkhart	USD 218, Supt. of Schools
Lucas J. Hornsey	Topeka	KS Collectors Assoc Inc.
HAROLD PITTS	TOPEKA	AARP-CETF
Bernie Koch	Wichita	Wichita Chamber
Karen Robert	Topeka	Barber Assoc.
KAREN FRANCE	TOPEKA	KAR
Jay Coles	Topeka	KNEA
Mark Tallman	Topeka	KASB
Bill Grimes	Moscow	USD 209
Stanley McGill	Moscow	USD 209
MIKE GASKILL	MOSCOW	USD 209
SHELBY SMITH	wichita	KASEA
Gerald W. Henderson	TOPEKA	USA of KS
John Peterson	Topeka	Beech
Frances Kastner	Topeka	KS Food Dealers Assn
Comie Thacker	Topeka	State Bd of Education
Jay Marshall	Sublette	USD 374
ROBIN MORGAN	Wichita	USD 259
Philip Knight	Ulysses	USD 214
Nelson Bryant	Hugoton	USD 270
Tom Whitaker	Topeka	KS Motor Vehicle Assn.
JERRY CLINGMAN	TOPEKA	SANTA FE RY

STATE OF KANSAS



OFFICE OF THE GOVERNOR

JOAN FINNEY, Governor
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TO: House Committee on Taxation
FROM: Susan Seltsam, Secretary of Administration
DATE: March 3, 1992
RE: House Bill 2891

Good morning, I am Susan Seltsam representing the Governor on the provisions contained in HB 2891. The Governor strongly supports the concept of a statewide mill levy to support local school districts and a lid of 45.0 mills on this levy to deliver necessary property tax relief to a majority of Kansans. This property tax levy contained in HB 2891, as well as the levy proposed by the Governor in HB 3075, would reduce mill levies in 253 of the 304 school districts in the state. A 45.0 mill statewide property tax levy represents over a 23 percent decrease from the current average levy of 58.7. I am also here today to once again emphasize that the replacement revenue necessary to fund the remainder of any school finance distribution package must come from sources that do not increase the tax burden on lower and middle income Kansans.

House Taxation
Attachment 1
03-03-92

As you are well aware, Governor Finney's number one priority for the 1992 Legislative Session remains as significant, meaningful property tax relief. This relief needs to be accomplished in a structural, fundamental manner in order to control the property tax burden on the citizens and small businesses of the state in the foreseeable future. Kansas ranks 14ths nationally in its reliance on the property tax to finance state and local government. Among the states in the region only Nebraska depends more heavily than Kansas on the property tax as a revenue source. School funding is recommended as a vehicle to reduce this reliance as education is, by far, the largest consumer of tax revenues. In FY 1991, just over 53 percent of the \$1.7 billion of property taxes levied were used to fund local schools.

In addition to the reduction in the overall amount of government services financed by property tax relief, a uniform statewide levy also addresses the fairness of the property tax burden for citizens across the state. Current judicial interpretations of school financing, as well as common sense judgment, maintain that access to education opportunity should be equal for all students in Kansas. If taxpayers and parents are, then, to expect equal services, should they not expect to pay equally for these services? The current system, creating property tax levy disparities between 9.12 and 97.69 mills for

essentially the same services, cannot be maintained. More dramatically, the above levies create property taxes of \$273.60 and \$2,930.70 on comparable pieces of commercial property appraised at \$100,000 each; based solely on business location.

Regardless of the final school finance formula enacted, it is clear that additional state resources will be necessary to adequately fund local schools. These resources are necessary to supplement the revenues generated from the statewide property tax. Even maintaining current spending levels for local schools will require in excess of \$200 million in additional State General Fund support. These resources must be from sources that do not add to the tax burden of average or low income Kansans. I need to strongly emphasize that expansion of the sales tax base remains the most acceptable way to generate these resources. Elimination of all the sales tax exemptions, would generate just over \$350 million in FY 1993 and almost \$500 million annually. This source is more than sufficient to provide resources which would lower the statewide mill levy well below 45. The Legislature has significant flexibility in the determination of the exact exemptions to be repealed.

The Governor has also proposed revenue accelerators to partially offset the lag in collection of revenue from the elimination of sales tax exemptions. In addition, reduction in

the ending balance requirement to \$100.0 million and implementation of video lottery are presented as revenue options that will probably be addressed in different committees. It must be made clear that any proposal to raise the necessary replacement revenue will be acceptable only if the burden on lower income and middle income taxpayers is not increased.

Another major benefit of the statewide mill levy is the increased stability in property taxes that will result. Attached to my testimony, is a table demonstrating out-year effects of the proposed system. Clearly, this level of stability would be a major improvement over recent years. Such a stable tax environment will encourage business investment in Kansas to further strengthen our economy. As is apparent from the table, with some control of expenditure growth, the mill levy will remain at the reduced level assuming moderate growth in tax receipts. This demonstrates that movement to a statewide levy does indeed provide structural and long-term property tax reductions.

Kansans cannot continue to accept the property tax burden, instability and inequities that occur under the current system. The Governor implores you to recommend the statewide

levy at no more than 45.0 mills favorably for passage. Additionally, the resources necessary to achieve this level of property tax relief must not come from the pockets of below average or average income Kansans. We appreciate the opportunity to testify on this bill and stand ready to work with you for the benefit of all of the people in the state.

Attachment

1491

Mill Levy Determination

	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Local School Operating Budgets	\$2,073,304	\$2,156,236	\$2,242,486	\$2,332,185	\$2,425,472	\$2,522,491	\$2,623,391	\$2,728,327
Cash on Hand	\$212,000	\$150,369	\$72,951	\$23,169	\$5,580	\$1,710	\$579	\$0
Property Tax in Process	255,000	237,415	246,912	273,337	293,766	308,171	320,626	333,704
Motor Vehicle Property Tax Receipts	125,000	130,000	135,200	140,608	146,232	152,082	158,165	164,491
Local Option Levy (1.54 Average)	23,214	24,143	25,108	26,113	27,157	28,243	29,373	30,548
Public Law 874 Federal Fund Receipts	12,000	12,480	12,979	13,498	14,038	14,600	15,184	15,791
Mineral Production/IRB Payments	6,000	6,240	6,490	6,749	7,019	7,300	7,592	7,896
Subtotal	\$633,214	\$560,647	\$499,640	\$483,475	\$493,793	\$512,106	\$531,519	\$552,430
Current General State Aid	899,187	935,154	972,561	1,011,463	1,051,922	1,093,998	1,137,758	1,183,269
Additional Revenue	250,357	274,835	285,828	297,261	309,152	321,518	334,378	347,753
Total - Non Property Revenue	\$1,782,758	\$1,770,636	\$1,758,029	\$1,792,199	\$1,854,866	\$1,927,622	\$2,003,655	\$2,083,452
Property Tax Revenue Necessary	290,546	385,600	484,457	539,986	570,607	594,869	619,736	644,874
Amount of Property Tax Levy	678,330	705,463	780,963	839,332	880,488	916,074	953,439	992,114
Amount per Mill	15,074	15,677	16,304	16,956	17,634	18,340	19,073	19,836
Total Levy Necessary	45.00	45.00	47.90	49.50	49.93	49.95	49.99	50.01

Note: Assumes a four percent growth in school expenditures and all revenue sources



KANSAS DEPARTMENT OF REVENUE

Office of the Secretary

Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

TO: Joan Wagnon, Chair
House Tax Committee

FROM: Mark Beshears
Secretary of Revenue

DATE: March 3, 1992

RE: Sales Tax Exemptions

Background

In the 1990 states are looking for new revenues and new sources of revenue. Federal grants to state and local governments have decreased substantially. Kansas, like most state governments, must balance their budgets each year. Consequently, 20 to 30 states are considering major tax increases in the new fiscal year.

Kansas, like many states, has structural deficits with tax revenues falling persistently short of what is needed to maintain existing services and comply with federal mandates. The recession has made the fiscal situation worse, but states including Kansas, would be in bad shape even if the economy were growing because of federal mandates, increase in the cost of doing business and the courts.

The legal challenges and the impact on state budgets is growing and Kansas has not been spared. The big unknown facing this legislature is the extent to which the court will force Kansas to revamp its spending on schools. More than 20 states currently have challenges to their school finance systems.

When these suits are upheld - as they recently have been in Kentucky, Montana, New Jersey and Texas, the court usually forces the state to make sweeping changes in its tax system to equalize resources. To enhance equity,

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House Taxation
Attachment 2
03-03-92

other states faced with this school finance challenge raised spending in poor districts and lowered outlays in the affluent areas.

If states want to improve the quality of schools, there will be a tremendous pressure to spend more money and to increase taxes.

To be politically acceptable, general tax increases must be preceded by major efforts to make programs more efficient and taxpayers must be educated on why tax increases are needed and why the alternatives are worse than a tax increase.

With the ongoing budget pressures and the legal challenge to the existing school finance system, it is unrealistic to expect these demands to be met by spending reductions or revenue increases.

Tax increases can be used to meet some of the demand on the State Treasury but even this is limited. Kansas, like most states, has a structural deficit which simply means, the spending needed to maintain existing services and comply with legal challenges keeps exceeding the revenue from the tax system.

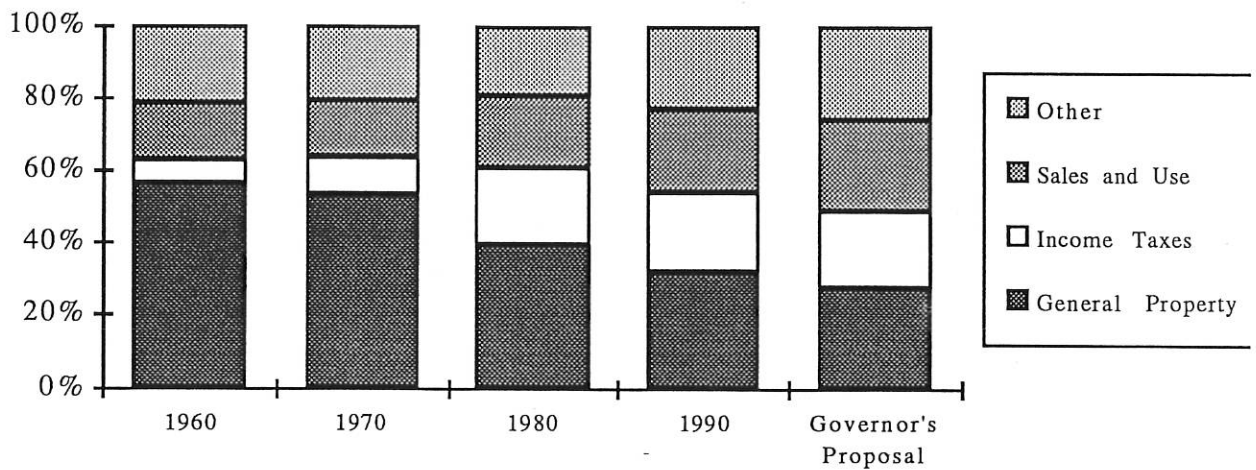
We must reform our Kansas tax system. A major part of tax reform is to make tax revenue more responsive to economic growth. Two methods are to 1) increase reliance on the personal income tax because its revenue needs to grow faster than that of other taxes and 2) expand the tax base.

Governor's Proposal

The Governor's proposal to broaden the sales tax base by removing sales tax exemptions would allow Kansas to reduce its dependence on the property tax and allow the state to impose a statewide mill levy to finance public education. When fully phased in, this proposal would reduce the reliance on general property taxes for financing public schools by approximately 25%.

The chart below shows the change in tax mix if the Governor's tax proposal is adopted. The general property tax component is reduced from 33% to 28% of total state and local revenues, while total sales and use tax collections are increased from 23% to 25% of total state and local tax revenue.

**Kansas Department of Revenue
Governor's Proposal
State and Local Taxes as a Percent of Total**



The Governor's proposal retains the current system of a retailers sales tax. Sales at the wholesale level, sales for ingredient, component parts and property consumed in production are not taxed. Also excluded are sales to governmental units.

The current exemptions which are retail-level exemptions, total about \$481.8 million. If the philosophy of a retail sales tax is retained, the \$481.8 million is the maximum amount of revenue that could be generated if all retail exemptions were repealed.

Significant property tax reduction is the Governor's goal, therefore, very few exemptions can be retained. The Governor's proposal retains 12 of the retail exemptions, which total \$34.9 million; and removes 35 retail exemptions which generate \$446.9 million. Of the 35 exemptions proposed to be repealed, \$408.5 million of the \$446.9 million is contained in only 10 exemptions.

Sales Tax Exemptions

The sales tax is considered to be a regressive form of taxation. Low-income citizens pay a larger proportion of their income in sales taxes than upper-income citizens. The repeal of the residential utility exemption and the motor fuel exemption increases the regressivity of the sales tax base. Many of the remaining exemptions are not as regressive and probably, in many cases, could make the sales tax system more progressive. Those exemptions which increase the progressivity of the sales tax include: original construction; purchases of new manufacturing machinery and equipment; gas, electricity, and water consumed in production; and purchases of trucks and railroad rolling stock used in interstate commerce. Some of these exemptions are now enjoyed by industries which received the greatest benefits from reappraisal and classification.

Most exemptions are for specific types of industries and are not targeted to the whole population. Exemptions for farm machinery, manufacturing machinery and equipment, and enterprise zones are for specific industries. The utilities' exemptions and sales tax on motor fuels are targeted to the population as a whole.

While most studies and reports concentrate on the regressiveness of the sales tax, if taxpayers are asked which tax they perceive as being the most fair, a large percentage believe the sales tax. The rationale is because the sales tax is paid on a daily basis and at the taxpayers discretion; in addition, at the end of the year no forms are required and no remittances are made so the taxpayer can see the amount of sales taxes they have paid. However, if taxpayers were required to pay sales taxes at the end of the year, similar to the way income taxes are paid, those taxpayers would view the sales tax differently.

By capping the basic local property tax contribution at 45 mills, taxpayers in 253 school districts would realize measurable real property tax relief and taxpayers in 92 counties would also enjoy significant personal property tax relief on vehicles.

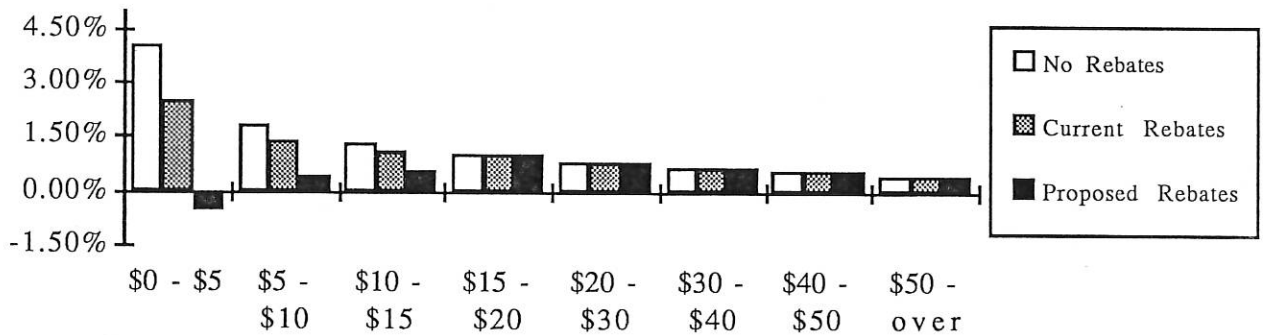
To offset the regressive feature of taxing utilities the committee might consider a utility rebate of \$70 per household. The utility rebate could be offered in conjunction with an enhanced food sales tax rebate. This rebate

could be as much as \$120 for an individual with household income under \$5,000. It would make the sales tax less regressive for those taxpayers with household incomes under \$15,000. For taxpayers with household incomes over \$15,000 the regressivity returns, but at a reduced rate of increase.

The chart below illustrates the change in regressivity for household incomes below \$15,000 under this rebate proposal. The proposed rebate makes the sales tax on food and utilities progressive through household incomes of up to \$20,000. Without the proposed rebate the sales tax on these items is very regressive even with the current food sales rebate.

The chart below also takes into account expenditures for motor fuel and oil. The \$70 utility rebate was recommended by the previous revenue transition team and is the estimated amount of sales tax that would be paid by the average household in Kansas. Information from consumer expenditure statistics indicate that the \$70 rebate amount will also cover the amount paid by consumers with household incomes under \$15,000.

Kansas Department of Revenue
Sales Taxes as a Percent of Household Income
Spent on Purchases of Food, Utilities and Motor Fuel



Compliance

A very important issue which goes with the removal of the sales tax exemptions is an increase in taxpayer compliance. The removal of exemptions will make the sales tax system more equitable and understandable. The fewer gray areas in the tax law will mean easier reporting and greater confidence in the system.

Revenue Accelerators

The governor also proposes to accelerate certain State General Fund taxes which should generate one-time revenues in Fiscal Year 1993 of about \$22.0 million.

- Withholding tax receipts would be increased by \$8.5 million if semi-monthly withholding taxpayers were required to file in the same manner as they do with the federal government.
- Mineral tax receipts would be increased by \$6.0 million if the due date was the first month after removal instead of the second month.
- Financial Institutions would be required to make quarterly estimate payments similar to corporations, which will generate \$6.5 million.
- Liquor Enforcement and Liquor Excise taxes would be due on the 25th rather than the end of the month generating \$1.0 million.

Sales Tax Exemptions - Fiscal Impacts
"Fiscal Impacts below are calculated at a 4.25% rate"
(Dollars are in Millions)

Sales Tax Exemptions	Description	Fiscal Year 1993	
		Annual Fiscal Impact	First Year Fiscal Impact
3602 m(B)	Electricity, gas, and water consumed in production	\$30.900	\$25.750
3603 b -	Interstate Telephone	\$13.300	\$11.638
3603 e -	Participation in recreation sponsored by Pol. Sub.	\$1.000	\$0.667
3603 f -	Coin-OP Laundry	\$0.726	\$0.635
3603 g -	Hotel-Motel Rooms	\$1.136	\$0.994
3603 h -	Machinery IRB	\$0.092	\$0.000
3603 o -	Vehicles for Stock	\$0.017	\$0.013
3603 p -	Original Construction Services	\$74.000	\$61.667
3606 a -	Tangible personal property taxed by another Excise Tax	\$81.700	\$71,488
3606 f -	Property purchased by an interstate carrier	\$22.215	\$14.810
3606 g -	Sales, repair, or modification of aircraft used in interstate commerce	\$32.346	\$18.869
3606 h -	Textbooks	\$0.892	\$0.669
3606 i -	Lease or rental of films, record, or tapes	\$1.905	\$1.429
3606 k -	Sale of motor vehicles, trailers, or aircraft to a non-resident	\$32.410	\$24.308
3606 l -	Occasional Sales (Only planes, boats, etc. are taxable)	\$0.400	\$0.300
3606 p -	Trade fixtures and equipment already installed	\$0.975	\$0.731
3606 t -	Groundwater management districts	\$0.013	\$0.010
3606 u -	Farm Machinery	\$31.606	\$21.071
3606 x -	Gas, Elec. Water - Res. Use	\$55.900	\$48.913
3606 y -	Propane - L-P - Res. Use	\$3.314	\$2.900
3606 z -	Intrastate Tel. - Res. Use	\$5.419	\$4.742
3606 aa-	Railroad rolling stock	\$5.254	\$3.941
3606 bb-	Port authority	\$0.000	\$0.000
3606 cc-	Repair of equipment used for the transmission of gas	\$0.297	\$0.223
3606 dd-	Used Mobile Homes	\$2.265	\$1.982
3606 ee-	Enterprise Zones (Mach. & Equip. is included in 3606mm)	\$8.751	\$4.376
3606 gg-	Lottery Tickets	\$3.188	\$2.790
3606 hh-	New Mobile Homes	\$0.563	\$0.493
3606 kk-	Youth Devel. Programs	\$0.214	\$0.161
3606 mm-	Manf. Mach. & Equip.	\$34.142	\$25.607
3606 nn-	Educational materials purchased by a non-profit corporation	\$0.041	\$0.036
3606 oo-	Seed & Trees	\$1.255	\$0.941
3606 rr-	Drill Bits	\$0.339	\$0.254
3606 ss-	Museums & Hist. Society	\$0.210	\$0.158
3606 tt-	Annual Events Non Profit Org.	\$0.100	\$0.075
	State Total	\$446.9	\$352.6

Sales Tax Exemptions - Fiscal Impacts
"Fiscal Impacts below are calculated at a 4.25% rate"
(Dollars are in Millions)

		<u>Fiscal Year 1993</u>	
Sales Tax Exemptions	Description	<u>Annual Fiscal Impact</u>	<u>First Year Fiscal Impact</u>
"The Following Exemptions are Proposed to Remain Exempt From Sales Tax"			
3606 j -	Free meals to restaurant employees	\$1.247	\$0.935
3606 q -	Prescription drugs	\$19.500	\$17.063
3606 r -	Insulin	\$0.099	\$0.087
3606 s -	Prosthetic devises	\$5.521	\$4.831
3606 v -	Lease or rental of mobile homes more than 28 days	\$1.112	\$0.834
3606 w -	Food served to homebound elderly	\$0.596	\$0.447
3606 ff -	USDA Food Stamps	\$6.441	\$4.831
3606 ii -	Federal WIC Program	\$0.787	\$0.590
3606 jj -	Medical services purchased by nursing homes	\$0.110	\$0.083
3606 ll -	Property sold, rented or leased by a mental retardation facility	\$0.527	\$0.395
3606 pp-	Services rendered by an advertising agency or licensed broadcast station	\$3.156	\$2.367
3606 qq-	Property purchased to weatherize low income housing	\$0.100	\$0.075
	State Total	\$34.928	\$29.336



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Testimony before the House Taxation Committee
Kay Coles, Kansas NEA
HB 2891
March 3, 1992

Thank you, Madame Chair. Members of the Committee, I am Kay Coles here today representing the 24,000 members of Kansas NEA. We appreciate the opportunity to speak to you about HB 2891 and other methods of financing our public schools.

Kansas NEA believes we now stand at an historic crossroads in school finance. We have a unique opportunity to make fundamental changes in the way we fund our public schools. Creating a school finance system that provides equity in funding, and reduces the over reliance on property tax, is a challenge we should not avoid.

Kansas NEA supports a statewide mill levy as proposed in HB 2891. We also offer you the following suggestions to fund our schools (a complete outline is attached):

- * An increase in the state income tax, primarily through creation of an upper bracket.
- * A 1/4 cent increase in the state sales tax.
- * Elimination of some sales tax exemptions, including those on original construction, residential utilities, and intra and interstate telephone.
- * Maintenance of a general fund ending balance at \$145 million.
- * Imposition of a statewide intangibles tax. (HB 2741)

We also would support allocating \$10 million of our suggested \$354.8 million tax package for rebates on utility sales tax paid by low income individuals.

The \$344.8 million we propose raising would require the establishment of the statewide mill levy at 45 mills. If there is a desire to reduce the statewide mill rate, KNEA believes additional revenue beyond the \$344.8 million must be raised. We would work with you to examine additional income or sales tax increases, or elimination of more exemptions. We would not, and could not, support reduction of the statewide mill by reducing the base expenditure per pupil envisioned in HB 2892, the school finance bill.

Kansas NEA would support a change in the collection of the statewide mill levy. We would suggest you consider allowing county treasurers to keep the revenue from the mill rate necessary to fund local schools. Any overage would then be sent to the state. We believe it may be advantageous to allow counties to keep the funds at home for use by school districts.

Thank you for this opportunity to share our ideas on HB 2891 and methods of raising revenue to support a new school finance system. We urge you to seize this moment to ensure an equitable funding system that will provide opportunities for all Kansas school children. I would be glad to answer any questions.

House Taxation
Attachment 3
03-03-92

School funding package Proposed by the Kansas National Education Association

Income tax	\$ 112 million
Sales tax rate increase 1/4 cent	\$ 54 million
Maintain ending balances at \$145 million	\$ 24 million
Eliminate sales tax exemptions	
- Original construction	\$ 61.6 million (first year)
- Gas, electricity, water for residential use	\$ 48.9 million (first year)
- Intra and interstate telephone	\$ 38 million (first year)
Statewide intangibles tax (HB 2741, amended)	\$ 38 million
TOTAL	\$ 354.8 million
Rebate to low income for utilities	-\$10 million
TOTAL	\$ 344.8 million
Statewide mill levy (at 45 mills)	\$ 675 million
TOTAL	\$ 1,019.8 million

** Revenue generated by tax increases and elimination of exemptions is estimated.

Need for revenue beyond statewide mill (estimated)	
Property tax relief to set statewide mill at 45	\$ 217 million
Revenue to fund Tier 2 of HB 2892 (assumption of 50% use)	\$ 36 million
Revenue to fund special education excess costs at 90% to 95%	\$ 36 million
Revenue to fund low enrollment adjustment in HB 2892	\$ 23 million
Revenue to fund equalization of bonded indebtedness as proposed in HB 2835	\$ 31 million
TOTAL	\$ 343 million

**TESTIMONY
OF DR. PHILIP H. KNIGHT
SUPERINTENDENT USD #214
TO THE HOUSE TAXATION COMMITTEE
MARCH 3, 1992**

Madam Chair, and members of the Committee, thank you for the opportunity to address you on House Bill 2891.

My name is Philip Knight. I serve as Superintendent of USD #214 Ulysses. USD 214 is a school district of approximately seventeen hundred (1,700) students located in Grant County. In addition to USD #214, Grant County serves as a minor tax subdivision for three additional USD's; they include USD #507 (Santanta), USD 209 (Moscow), and USD #452 (Stanton County). My remarks will be reflective of both USD #214 and Grant County.

USD #214 is a 517 square mile rural school district located in the southwest corner of the state. Approximately thirty (30) percent of the student body is on free or reduced lunches. Ethnically, the district is seventy (70) percent Anglo and thirty (30) percent Hispanic. Unlike Garrison Keeler's Lake Wobegon students, Ulysses students are not all "above average".

The economy of Grant County is comprised of agriculture and related agribusiness, small manufacturing operations, retail sales, service providers, and oil and gas production. For calendar year 1991, the assessed valuation for Grant County was \$256 million dollars; of this, \$230 million dollars was USD #214's valuation. Of the total taxes paid on this county wide valuation, seventy-four (74) percent came from oil and gas production, fifteen (15) percent from real estate, nine (9) percent from state assessed properties and two percent from personal property. In calendar 1990 Grant County paid \$11 million dollars in state severance tax. Like its

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neighboring counties, Grant County continues to provide an unprecedented state source of revenue. The County does not, at present, provide tax exemptions for prospective businesses.

Taxpayers of Grant County view education as an investment in human capital and not merely as another unwelcomed cost. The American humorist Will Rogers best summed up how, I believe, Grant County residents view taxes when he wrote

People want just taxes more than they want lower taxes. They want to know that every man is paying his proportionate share according to wealth.

Based on this view of taxation, Grant County residents are opposed to any legislation that promotes the inequity I.E., unfairness, of one group of citizens paying local taxes to support another group's activities. Under House Bill 2891 Grant County would be required to raise its current mill rate an additional 13.8 mills and export approximately \$3.8 million dollars of local tax money to the State Treasurer. This 'What was yours is now ours' attitude is contrary to the concept that every man must pay his fair share. If such a direction were taken the economies and school districts of many Kansas communities including USD #214 and Grant County would be left in shambles. A tax shifting of this proportion would be unconscionable!

Prudent judgment dictates that a solution to the state school finance "crisis" be found. The following elements are suggested as being a part of a viable solution.

1. Tax shifting only serves as a short term solution by creating an illusion of new money. Void the unsound practice of tax shifts.
2. Define a broad based source of taxes that generate enough revenue to adequately fund education. Include such taxes as:

- a) sales tax
- b) income tax and
- c) property tax (both tangible and intangible).
- d) explore new tax sources e.g. a value added tax (VAT) and a net worth tax

3. Control the give aways in the name of economic development.

A community should be responsible for its own tax base and not expect the rest of Kansas to subsidize its educational system. If tax abatements are used then the tax base for operating the school system should be protected.

4. Revamp the existing state finance formula (SDEA). It has served the state well when it was adequately funded. Resist a philosophical shift from local taxation to a statewide taxation.

5. Provide a funding mechanism to assist those school districts that cannot afford to make capital improvements because of low district valuations.

6. Develop a weighted pupil approach. Such an addition to the present formula would add objectivity and equity.

7. Ignore Judge Bullock's legal "sword of Damocles". The "phantom" pre-trial opinion merely fuels the political climate and pits community against community. Litigation will be inevitable.

Kansas children deserve the best education that we, as taxpayers, can provide. We must not level down our state's quality educational system but level up those districts that are truly in need.

In the words of that great philosopher Pogo, "We are now faced with an insurmountable opportunity."

TESTIMONY
OF
VERNON SERGEANT
CHAIRMAN, COFFEY COUNTY BOARD OF COMMISSIONERS
BEFORE THE HOUSE TAX COMMITTEE
MARCH 3, 1992

Madam Chair, members of the Committee, my name is Vernon Sergeant, Chairman of the Coffey County Board of Commissioners.

The Wolf Creek Generating Plant is located in Coffey County for three primary reasons, adequate supply of water from Redmond Reservoir, adequate geological structure at the site, and the encouragement and interest shown by the Board of County Commissioners and interested citizens. Construction of John Redmond Reservoir removed 32,000 acres of prime agricultural land in the Neosho River Valley and also displaced several farmsteads. Two railroads abandoned branch lines operated in Coffey County. Coffey County suffered substantial reduction in valuation due to the reservoir construction and railroad abandonment. Construction of the Wolf Creek Power Plant enhanced the tax base therefore enabling the County to promote growth in employment, improve the infrastructure and improve the quality of life which not only benefits Coffey County, but adjoining counties as well. Along with these improvements the County assumed the responsibility for total emergency preparedness in the case of a nuclear disaster. Expenses to continually provide this program include additional facilities, additional personnel, training, communications equipment, evacuation planning, and infrastructure improvements. Due to these extra expenses, the enhanced tax base is not the total windfall to Coffey County perceived by Kansans not familiar with a Nuclear Power Plant operation. The enclosed tables show how the proposed mill levy will impact agricultural, residential and commercial property owners in Coffey County.

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The Coffey County Commission on behalf of its taxpayers wish to protest House Bill 2891. We appeal to the members of the committee to consider the ramifications this bill would have on the individual taxpayers and local units of government in the county. This increase comes at a time when other adverse factors are present in Coffey County. These factors include but are not limited to the following:

- * 18 percent of the county population is 65 or older. This is five percent over the state average and ranks Coffey County 48th out of 105 counties.
- * From 1984 to 1989 the number of businesses declined 16.1 percent in the County. That is 13.7 percent higher than the state average and ranks Coffey County 87th out of 105 counties.
- * Employment in Coffey County dropped 46.2 percent between 1984 and 1989. This ranked Coffey County 105th out of 105 counties.
- * Real total wages declined 64.4 percent between 1984 and 1989. This ranked Coffey County 105 out of 105 counties.

The above information was taken from the January 1991 booklet called Situation and Trends for County Program Planning, which was developed by the Cooperative Extension Service, Kansas State University, Manhattan. The above information also points out that even though Coffey County has a significant amount of assessed value the majority of our taxpayers are not wealthy people.

The Coffey County Commission with the cooperation of other local units of government is developing an economic development program that could greatly improve on some of the adverse factors mentioned above. A 45 mill minimum mill levy on USD #244's general fund could stifle this economic development program. As you are all aware, a 36 mill increase in any levy will have a dramatic effect on the taxpayers in that area. Local units of government will find it very difficult to fund economic development or other needed improvements in Coffey

County. Furthermore, taxpayers in Coffey County fail to understand why their money should go to other counties which have chosen to remove property from their tax rolls for economic development. This has decreased their own support of their local schools. Also, reappraisal and classification has compounded the tax problem because it has not accomplished fair and equal appraisal across the State.

May we encourage the Legislature to look at the intangible tax as additional revenue. An increase in sales tax should also receive serious consideration as several states surrounding Kansas collect a higher rate than Kansas.

In conclusion, we would like to say a 45 mill minimum mill levy as outlined, would have a significant impact on those counties with school districts targeted by this bill. A minimum mill levy will not promote efficiency in local school boards and the incentive to hold down costs each year will be gone. But what concerns us most is once this tax is in place, where will it stop? The present proposal apparently only affects 51 school districts, as the need for school funding continues to increase and as the beneficiaries become more dependent on it, the minimum levy will escalate over time and will become another revenue source for the State of Kansas.

Coffey County thanks the committee for allowing the time to express its concerns and hopes it will consider them in its deliberations.

*My name is Connie F. of my bus. of
from Ludora District #491
wherefrom?*

I would like to speak in favor of the 45 mill proposal. While this bill would only reduce my property taxes by 2 mills. I believe it is a necessary 1st step to increase school accountability.

In 1988, our G.E. mill levy was 48.67 this produced roughly ~~300,000. dollars~~ (3 hundred thousand). *dollars*

In 1989, after reappraisal our mill levy jumped to 58.23. This produced ~~550,000 dollars~~ (5 hundred 50 thousand) *dollars.* in local effort from property taxes alone. Currently our mill levy is approximately 47 mills, which should generate in excess of ~~600,000 dollars~~ (6 hundred thousand). *dollars*

These ⁱincreases may seem small to some. But for the 13th poorest district in the State of Kansas, which is made up for the most part by retired senior citizens and low income wage earners. These ^stax levels are a shock! A shock made ^eworst by the fact, that instead of going towards student education as intended. This money is going into savings accounts. While attempts were made to cut all field trips and raise school lunch prices to \$1.50 for elementary lunches and \$1.75 for H.S., our district had in excess of ~~\$2,000,000~~ (3 million) cash carry over in combined funds.

The 1st two years of vocational education was available, no students were sent. Even now our VoTech participation is only around 4%.

It seems to me that current equalization aid and 45 mills is enough to give each student a decent education in a school

district that is not in business to make money, but rather there to educate students. Let's stop the creative budget business man and start the business of education.

I would like to say in closing that I and others collected over 500 signatures of voting age adults in an attempt to force a state audit of our district by the Legislature Post Audit Committee, ~~but~~ it was denied. We believe that it is time for legislators to start listening to the people, they are elected to serve.

Thank God for Governor Finney and Judge Bullock!

As soon as we started looking into the situation of how the money was being spent on Education the doors to public records began to close. We now have to pay for all public records. It is time now that the State steps in and over see the Education of the children of the State of Kansas.

Superintendents are ^{Blackmailing} ~~exploiting~~ the people and the Law makers of the state ^{Kanso} for more money. Our District is sitting ~~off~~ ^{on} 3 million dollars and has taken part with Whittha to ⁶⁻² see the state for more money.

John McDonough 8530 Bradshaw, Lenexa, Ks. 66215 (913) 888 4455

Presentation To Committee On Taxation, Re: HB 2891, March 4, 1992.
House Of Representatives, Topeka, Kansas. State Capital Building.

I'm John McDonough Of Lenexa, here to support the concept of HB. 2891---the 45 mil statewide school levy Equalization proposal; and to offer 10 revenue sources to end the unnecessary Santa Claus State Spending & Taxing Syndrome which brings us together today. To hold my verbal presentation to 3 minutes, I'll cover only the bold print on the passouts I've provided to you.

1st Category: Users' Charges:

A. "School Connection Charges." On April 7th Johnson Countians will vote on a sewer plan that includes a \$1,500 sewer connection fee for those beginning use of the system. I'll be voting for it, so that we will no longer be so heavily subsidizing new arrivals' sewers..

Similarly, instead of routinely building 10 & 20 million dollar schools to accommodate moves to undeveloped areas, why should'nt the same logic apply to those beginning use of the school system? --- Connection charges, then, as a school revenue source for your deliberations. Sure, we'd like to be Santa Claus, but...

B. "Tuition For Public Schools." We hear that under the 45 mil levy, the Shawnee Mission-Blue Valley-Olathe schools want an additional \$38 million ---"excellence" will suffer unless local taxes are increased, they insist. That only more taxes can cover the \$38 million is a given, they would have us assume.

No! One of the other ways is to have the beneficiary public school family pay \$600 to \$700 tuition per child, per year. That would provide the \$38 million wanted. (From those who can afford to pay --- after all, their subsidy being \$5,000 per child, per year, \$600 is only about 12% of the subsidy amount.) They'll pay some tuition at public colleges. Why not some at grade & high, now that budgets, deficits, and debt are so astronomical, & no end in sight for our local/state/national financial shortfalls? Sure, we'd like to be Santa Claus, but....

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Note that the 2 child public school family pays school taxes of about \$2,500 yearly, like other households --- that each child's share of all school costs (grade & high) is about \$5,000 yearly --- \$60,000 for 12 school years each --- \$120,000 for that one family --- add another \$40,000 if they go on through public colleges, \$160,000 subsidy for just one family --- & there are hundreds of thousands of them, of course.

By the time, then, that the kids have both completed high --- that one family has paid about \$38,000 in school taxes, but benefitted from \$120,000 in subsidy. Is not some amount of tuition, then, a logical revenue source for your deliberation?

C. Tax The Subsidies Received By School Families. It's done with Social Security benefits, which until several years ago were untouchable. The Feds hate to do it, but they're driven to the wall by budget needs, as you are now, and will continue to be forever. So, another logical revenue source.

D. And Also, Tax College & Jr. College Subsidies Received. Payments to begin about 5 years after receipt. On ability to pay. And again, because we can't afford to give it away without repayment. So, another logical revenue source.

Second Category: Privatize & Downsize Public School Enrollments.

E. Introduce \$1,000 School Vouchers. If 25% of pupils transfer to private schools, save \$360 millions, a logical source of revenue for your considerations.

We don't need tax increases. What we need is honesty from the legislature. Don't let these massive savings opportunities be covered up, cheated on, any longer.

It's too much like Eastern Europe before the wall came down. And don't allow their secret agenda to continue any longer --- where the school lobby uses its voting muscle to monopolize our school kids, and to monopolize our state & local budgets.

F. And Also, Introduce College Vouchers. Again, so as to obtain massive budget savings by utilizing the private sector. A logical source of revenue for your considerations.

Witness the waste of closing Dodge City's private college, St. Mary's, recently scheduled. Another 500 to 1,000 students likely financially forced onto near full subsidy at state colleges, to join thousands more already forced there & onto near full subsidy in the state budget --- and surely you'll hear insistence from that branch of the school lobby for more funding, for only themselves, to monopolize the teaching/handling of that new college "load."

G. Private Fund Raising In The Community, If The District Needs More "Excellence" Than The 45 mils Provide. Again, the assumption that only tax money can pay public school expenses stands in the way of local effort. No doubt, too, the legislators have been easy marks --- so why go to extra effort otherwise? **Like foundations, fund drives, etc.** Santa Claus needs their help.

H. Allow Those Educating Their Own Children Exemption From "Paying Double". Consider that their payment to private schools is indeed carrying their share of the public education financial burden. That to, then, make them pay another \$2,500 a year (property-sales-income taxes) --- for other families' kids in public schools --- is a further factor pushing them out of private schools & onto full subsidy by enrolling in public schools.

Third Category: Other Policy Changes To Get Over The Santa Claus State Spending Syndrome.

I. The State Constitution Is Purposely Designed To Financially Coerce Public School Enrollments By Families. Aside from the loss of liberty resulting, the constitution must be changed because of the budget/taxation Santa Claus it has created. That state & local super spending syndrome is out of control. Constitutional amendment proposals may well be in double digits this session --- surely this change should be among them.

J. The Market System, & Constitutional Amendments.

THE CHANGES SHOULD MOVE US TO FAIR SCHOOL CHOICE, THE MARKET SYSTEM FOR EDUCATION & AWAY FROM THE PRESENT SCHOOL SOCIALISM. ALL OF THESE STEPS TO IMPROVE THE QUALITY OF OUR SCHOOLS, SAFETY FOR OUR CHILDREN, & TO OVERCOME BUDGET SHOCK.