

Approved: 3-31-95
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on March 16, 1995 in Room 519-S of the Capitol.

All members were present except: Rep. Cindy Empson - excused
Rep. Greta Goodwin - excused

Committee staff present: Chris Courtwright, Legislative Research Department
Alan Conroy, Legislative Research Department
Don Hayward, Revisor of Statutes
Ann McMorris, Committee Secretary

Conferees appearing before the committee: Listed after each bill heard.

Others attending: See attached list

Chair reopened hearing on:
HB 2401 - Funding source for copration for change

Proponents:
Rep. Patricia Pettey (Attachment 1)
Gary Brunk, executive director, Corporation for Change (Attachment 2)

Chair closed hearing on **HB 2401**

Chair opened hearing on:
HCR 5023 - Constitutional amendment imposing aggregate limitations upon expenditures by the state and its taxing subdivisions (Glasscock)
HCR 5006 - Constitutional amendment imposing aggregate limitations upon levy of taxes and expenditures by the state and its taxing subdivisions ; and
HCR 5007 - Constitutional amendment limiting state general fund appropriations and mandates on local government.

Proponents:
Rep. Kent Glasscock (Attachment 3)
Rep. Kenny Wilk (Attachment 4)
Alan Conroy, Legislative Research (Attachment 5)
Karen France, Association of Realtors (Attachment 6)

Chair closed hearings until March 17 meeting.

Adjournment

The next meeting is scheduled for March 17, 1995.

TAXATION COMMITTEE GUEST LIST

DATE: MARCH 16, 1995

NAME	REPRESENTING
TRAD CARL	A.P.
RICHARD BODEWALD	TAXPAYERS
JANET STUBBS	KT3 IA
Greg Hill	Sen. Moran's office
Christy Bailey	Sen. Harris office
Trudy Perkins	CPA
REV PADLEY	KS Assoc of Counties
Barbara Butts	Dept of Admin
Ernie Mosher	City of Topeka
BUD GRANT	KCCI
Gary Hund.	Corporation for Change
Shirley Allen	
PAN STUMERVILLE	KS AUTO DEALERS ASSN
Jim Yonally	USD # 512
Bill Johnson	USD # 211 Norton, KS
Merry Ray	Johnson Co Commissioner City of Overland Park

PAT HUGGINS PETTEY

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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

MEMBER: EDUCATION
TAXATION
JOINT COMMITTEE ON CHILDREN
AND FAMILIES
DEMOCRATIC LEADERSHIP
CAUCUS CHAIR

TESTIMONY BEFORE
HOUSE TAXATION COMMITTEE
March 15, 1995

HOUSE BILL NO. 2401

In 1992 the Kansas Legislature enacted the Corporation for Change through Statute 38-1801 to 38-1813. A goal of the corporation is to coordinate and implement reform of children's services in Kansas.

The work of the Corporation for Change is about building and designing new delivery systems in which parents, local communities, state agencies, private service providers, educators, and others can function productively. The work of the Corporation is also about system accountability. Accountability to service recipients, to elected officials and to taxpayers.

The "Targets for Change", from the Blueprint for Children, were developed as long-range, comprehensive strategies designed to meet the needs of Kansas children and families. (Attachment I)

In 1991, in order to create public-private partnerships at the local level and to create a new relationship between the state and local communities, local planning councils were recommended. Currently these councils are operating in 37 Kansas communities. There is neither funding, staff, nor statutory authority for these councils to do their work to implement the Blueprint in their communities. They simply accept the state's challenge to take the vision of the Blueprint and make it fit the needs of children and families in their community. The Corporation for Change does provide: technical assistance, grants to local communities, local initiative governance grants, child and family trust fund grants, court appointed

special advocate grants, and citizen review board grants. (Attachment II).

The Corporation's work in defining a program and fiscal strategy for reforming children's services is to shift emphasis to preventive, community based, family-focused services. To this end, the state should respond by assessing new, more appropriate roles in planning, financing and service delivery.

According to legislative research, as of May 1994, the State of Kansas provided over \$10 million in funding for 1994 crime bills. This is reactionary funding to a social condition.

Currently the State of Kansas appropriated \$1.3 million to the Corporation for Change. These funds are used to address local needs and are managed by local community boards. The proactive approach of investing in children ages 0-5 and reducing high-risk behaviors in children and families is the only real solution to putting a freeze on the 1994 \$10 million crime price tag. The reality is that funding to the Children's Trust Fund is the same as getting stitches for a severe laceration. The crime funding is only a band-aid for a permanent scar.

In December 1994 a state wide child care conference was held here in Topeka. The purpose of this conference was to bring together a diverse group of individuals who are involved in the child care system throughout the state. The charge was to help plan a multi-year strategy for improving the child care system in Kansas. A major point that came from this two day conference was that a local planning council is the best group to identify local needs actions and groups that can address these needs but that these local planning councils need assurance that funding by the state will be ongoing.

The funding stream I have earmarked through HB 2401 is a percentage of state sales tax equal to the amount of revenue generated through the tax of manufacture coupons. The original estimate of revenue was somewhere between \$7 and 8 million dollars annually. That has now been downsized to \$2.5 million. This change would necessitate an amendment to the present bill from 0.548% of the total sales tax to 0.189%. This percentage of sales would thus generate \$2.5 million to go directly into the family and children trust fund and would continue to provide an annual source of

funds.

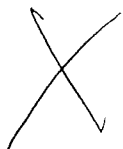
The general public doesn't even realize that they are paying sales tax on the coupons they use. This legislation would give them a way of contributing to community efforts that directly address community needs.

Mr. Chairman and committee, I appreciate your attention and now Mr. Gary Brunk from the Corporation for Change will speak more directly about how this revenue will be used.

I will be glad to stand for questions at any time.

ATTACHMENT I

- I. **Greater Support to Children and Their Families.**
- II. **Invest in Young Children Ages 0-5.**
- III. **Restructure Schools to Respond to Changing Educational and Developmental Needs of Children.**
- IV. **Improve the Physical Health and Mental Health Status of Children.**
- V. **Modify Service Delivery Systems.**
- VI. **Make Business a Partner.**
- VII. **Reduce High-Risk Behavior in Children and Families.**



Resources for Local Communities

Technical Assistance: The Corporation for Change and its state level partners provide technical assistance to our local partners as they develop their local governance mechanisms and as they develop and implement their local strategy for system reform. Common areas of technical assistance include strategic planning, consulting on creative financing strategies, training in collaboration, mediation of "turf" disputes. When feasible, state government will also provide staff support to these evolving local governing entities. The cost of these supports is modest, but the pay-off in terms of greater local understanding, ownership, and involvement in the community service system is great.

Grants to Local Communities: The Corporation operates two trust funds which provide financial support for innovative strategies. In addition, other Corporation resources are directed to support pilot governance projects in local communities.

- **Local Initiative Governance Grants:** A pilot governance project is in the third year in Sedgwick County. A Finney County governance grant is in development.
- **Child and Family Trust Fund Grants:** The Corporation for Change identifies, develops, and evaluates programs which test components of the comprehensive, coordinated service delivery system for investing in the future of Kansas children and families. Grants from this trust fund are made to programs which prevent child abuse and neglect and implement Blueprint targets. Funded programs can test a truly innovative approach or modify a proven program to fit a new targeted population.
- **Court Appointed Special Advocate Grants:** Currently twenty local CASA programs are funded. New and existing programs receive funding.
- **Citizen Review Board Grants:** Four judicial districts currently receive funds to operate citizen review boards. Expansion to other judicial districts is planned.

Barrier Removal: When local communities identify barriers to comprehensive system reform, they must first marshal all their efforts to remove the barrier and then, if needed, state partners will work to remove the identified barrier.

Information on Programs that Work: The model projects staff of the Corporation identify programs and techniques at local, state, and federal levels which are successful in producing desired outcomes for children and families. An inventory of the programs that work is maintained to provide communities a menu of successful programs and strategies to choose from and test in our communities.

The Corporation for Change

Building Partnerships for Kansas Children and Families

Testimony on House Bill 2401
Before the House Taxation Committee
by Gary Brunk, Executive Director, Corporation for Change
March 15, 1995

If HB 2401 were enacted the Family and Children Trust Fund would use the additional revenue to fund family resource and support programs. Family resource and support programs help prevent abuse and neglect by providing integrated, comprehensive and community-based services that support the establishment and maintenance of safe and healthy families. Based on the experience with community-based prevention strategies in other states, we would anticipate a significant decrease in abuse and neglect in the targeted communities.

The Need to Support Families

In the country and in Kansas there is broad agreement on the need to improve the way we support families so that families can succeed.

At the national level, the bipartisan National Commission on Families, established by Public Law 100-203 "to serve as a forum on behalf of the children of the nation," identified strengthening and supporting families as an essential element of the recommendations it outlined in its 1991 report, *Beyond Rhetoric: A New American Agenda for Children and Families*.

In a subsequent analysis of strategies to implement its recommendations the National Commission highlighted five key strategies for strengthening and supporting families. One of those strategies was the development of community-based family support programs.

In Kansas, the first "target for change" of the *Blueprint for Investing in the Future of Kansas Children and Families* is "greater support to children and their families." The first specific strategy suggested by the Special Committee on Children's Initiatives to address that target is increasing financial support for family support programs.

Fundamental Principles

While the individual characteristics of family support programs will vary according to the needs of each community, there are a few fundamental principles that should underlie those programs.

Those principles include:

- Programs should be created by the community and be based in the community. This implies that programs are developed with the participation of all sectors of the community, including families and the private and public sectors, and with a firm understanding of the local community's resources and needs.
- Programs should be built on the assumption that families have strength and skills and participation should be voluntary.
- Programs should have a primary focus on prevention.
- Programs should integrate local services, thus avoiding duplication and providing maximum utility for the consumers, i.e., for families and children.

Services Provided by Family Resource and Support Programs

Family resource and support programs offer easily accessible community-based services that provide assistance and support for families. Those programs often have a set of core services that include outreach, developmental screening, education and support for parents, information and referral, and follow-up services. Many other services may be part of a comprehensive family support program, including home visitation, respite care, and job readiness training.

What I want to stress is that the most important factor in designing a program that works is that it be designed and developed by the local community. Thus, Local Planning Councils that bring together representatives of businesses, child and family advocacy organizations, public and private front line service providers, local government units, local and state government agencies, churches and other private sector organizations are essential to the success of these programs. The Corporation for Change is currently working with 37 Local Planning Councils across the state.

Impact on Social Problems

Family support programs are not the single answer to all our social and economic ills. Having said that, I do want to note that because of their flexibility and responsiveness to local resources, states and communities across the country are turning to family support programs in their efforts to effectively deal with some of the most deep seated social problems our nation faces.

Let me briefly illustrate with two examples.

Welfare reform: In 1987 the Iowa General Assembly established an interim committee for the purposes of making recommendations on welfare reform.

Based on an analysis of Iowa's AFDC population the committee arrived at the conclusion that a narrow focus on employment and training would not solve the welfare crisis, and the committee's welfare reform recommendation to the General Assembly focused on the need for providing better support services to families. In the end both the Senate and House unanimously approved Senate File 2225, which created the Iowa Family Development and Self-Sufficiency Demonstration Grant Program. The program currently funds 11 demonstration sites that offer a broad range of supports that are not limited to, but include, employment and training.

Prevention of alcohol and other drug abuse: Family support programs can play an important role in drug abuse prevention by encouraging parents to become more positively involved in the lives of their children, and by providing information on early detection of drug use and on available community resources. Family and Schools Together (FAST) in Madison, Wisconsin is an example of a school based family support program which facilitates the creation of parent support groups, offers parenting classes and recreational and other activities that have been successful in preventing drug abuse, and is being replicated in other communities across the country.

In Summary

In summary, enactment of HB 2401 would fund the creation of prevention-focused family support programs across the state. Such programs are likely to save tax dollars in the long run since investing money up-front on prevention will reduce the need for state expenditures for foster care, juvenile detention, prisons, remedial education, and health care. Such programs are also very much in keeping with the national discussion on the need to turn control of programs over to local communities, because the programs would be community-designed and controlled.

A REPORT OF
THE COMMUNITY YOUTH BOARD
TO
MANHATTAN CITY COMMISSION,
RILEY COUNTY COMMISSION
AND
UNIFIED SCHOOL DISTRICT #383
HOUSE BILL NO. 2401

February 15, 1995

Service Agencies Advisory Committee: The resolution creating the youth coordinating council shall establish a service agencies advisory committee. That committee shall serve as a vehicle for service providers to make recommendations to the council; it may also serve as a sounding board for council proposals. Service agencies shall determine the size, make-up and operating procedures of the committee. Its chairperson shall be a non-voting, ex officio member of the youth coordinating council.

Functions of the Youth Planning and Coordinating Council: The general purpose of the council is to plan and coordinate delivery of youth programs throughout the community. The council shall develop a system for coordinating the financial, organizational and political resources to support youth.

Specific functions of the council shall include the following:

1. Do long-range planning of youth services.
2. Establish and maintain an inventory of youth services; such inventory should include sources of funding, services provided and numbers of individuals served.
3. Set up a process for a continuing review and evaluation of existing youth service programs to determine effectiveness of such programs in meeting needs.
4. Identify unmet needs of youth; invite providers to make proposals to fill those needs.
5. Review all applications for funding of youth services and make recommendations to the City, the County and U.S.D. #383; in making recommendations to the governing bodies, the council should take into consideration programs funded by other entities, such as the United Way, the YES Fund and other governmental agencies.
6. Establish and implement a mechanism for coordinating the delivery of youth services; monitor and evaluate the success of the mechanism.
7. Employ a coordinator of youth services, jointly funded by the founding agencies. Provide a job description and recommend salary level.
8. Seek additional sources of funding for programs.
9. Be an advocate for youth; build community understanding and support for youth programs.

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COMMITTEE ASSIGNMENTS
CHAIRMAN: LOCAL GOVERNMENT
MEMBER: ECONOMIC DEVELOPMENT

HOUSE OF
REPRESENTATIVES

TESTIMONY
House Taxation Committee
HCR 5023
March 15, 1995

Mr. Chairman and members of the committee, thank you for the opportunity to appear before you on behalf of HCR 5023 to nominally limit the spending of the state and its cities and counties. I say "nominally" because this constitutional amendment is not designed to bring government to its knees, nor is it meant to cripple the broadly varied and essential services provided by state and local units of government.

It is, instead, simply a way to provide three significant elements of sound public policy for Kansas: (1. Long term tax stability for businesses and individuals, (2. fair, predictable and meaningful fiscal discipline for cities, counties, and the state, and (3. the opportunity to retire the vestiges of a nearly 60 year (very ineffective) state commitment to control local property taxes through various tax lids.

The question of government spending is one which receives great attention. Every year, the air is filled with budget rhetoric and big promises as we gather to begin a new legislative session. And every year, in my mind, we do not address the two basics of the spending question: are we spending tax dollars appropriately and can we afford the amount we are spending? I have co-sponsored Performance Based Budgeting legislation which would address the first of these basics, this resolution attempts to address the second.

Over the last several days, I've had a number of people express real surprise that I would be the lead sponsor on a measure designed to limit spending. It is true that I represent a community that is the home of a Regents university and many other state offices and programs. Slightly more than half the workforce in my hometown is employed by a government agency or department. It is also true that I served for four years as a Manhattan City Commissioner and one year as Mayor. These years of city service occurred during the height of increased local spending pressure due to the New Federalism and during the implementation of the current state imposed property tax lid.

With this background, perhaps it is a little surprising that I stand before you today. But I believe strongly that the long term interests of the state are best served when we provide ourselves an atmosphere of spending stability. The premise is just this, that governments in Kansas have an obligation to not grow faster than our collective ability to pay and a second obligation to establish predictable spending priorities and stick to them. By fulfilling these obligations and maintaining an atmosphere of stability, we are giving long term protection to those budget issues I care most about and we are enhancing the credibility of state and local units of government.

I believe HCR 5023 helps us fulfill these obligations and will provide the state sound fiscal policy. I would appreciate and urge your support.

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COMMITTEE ASSIGNMENTS
 CHAIRMAN: LOCAL GOVERNMENT
 MEMBER: ECONOMIC DEVELOPMENT

HOUSE OF
 REPRESENTATIVES

Constitutional Amendment on Spending Limitations on the State, Counties and Cities

The proposed concurrent resolution contains a constitutional amendment that would impose a spending limitation on the State, counties and cities. The resolution provides the following:

- o Unless a special election is called, the proposed constitutional amendment would be submitted to the electors at the primary election in 1996.
- o Individuals or class actions could be filed in court to ensure the limitations are enforced.
- o The 1997 Legislature would enact any legislation that is necessary to implement and enforce the provisions of the constitutional amendment.

State Limitation

The state limitation would be imposed in FY 1999 and would contain the following:

- o Expenditures for FY 1999 (and each fiscal year thereafter) would be limited to a percentage increase in total expenditures over FY 1998 (or the preceding year) that could not exceed the average annual percentage growth in aggregate personal income of Kansas residents over the three most recently completed calendar years. The State would utilize the personal income data that has been officially reported by the United States Commerce Department as of September 1.
- o Total state expenditures are defined to include all state funds expended or encumbered in a fiscal year EXCEPT the following:
 1. Federal funds;
 2. Certain bond proceeds or payments;
 3. Unemployment or disability insurance funds;
 4. Permanent endowment funds, trust funds, deferred compensation funds or pension funds;
 5. Grants, gifts or donations which are expended for purposes specified by the donor.
- o The limitation for the state could be exceeded by the issuance of a declaration of need by the Governor and upon an affirmative vote of three-fifths of the members of each house of the Legislature. The Legislature would be required to set forth the amount that the limitation would be exceeded in the declaration and how the cost would be defrayed.

County and City Limitation

The county and city limitation would be imposed in CY 1998 and would contain the following:

o Expenditures for CY 1998 (and each year thereafter) would be limited to a percentage increase in total expenditures over CY 1997 (or the preceding year) that could not exceed the greater of (1) the average annual percentage growth in aggregate personal income of Kansas residents over the three most recently completed calendar years or (2) the increase in the average annual percentage growth in tax revenues from state-imposed sales and compensating taxes collected within the county over the three most recently completed calendar years. Cities would utilize the county average for calculating the increase in sales and compensating use taxes. Counties and cities also would utilize the personal income data that has been officially reported by the United States Commerce Department as of May 1.

o Total county or city expenditures are defined to include all county or city funds expended or encumbered in a calendar year EXCEPT the following:

1. Federal funds;
2. Certain bond proceeds or payments;
3. Local public or internal capital improvements that have been approved by the local electors through a referendum;
4. Any expenditures required to be expended to meet any unfunded federal mandate which takes effect after the effective date of this amendment, including any federal mandate that is administered or implemented by the state government.
5. Permanent endowment funds, trust funds, deferred compensation funds or pension funds;
6. Grants, gifts or donations which are expended for purposes specified by the donor.

o The limitation for the counties and cities could be exceeded in two different ways:

1. The limitation may be exceeded for one calendar year by a unanimous vote of all members of the governing body, after sufficient public notice. However, the local electors can gather a petition with signatures of at least ten percent of voters who voted in the last regular local election to require a public referendum on exceeding the limitation. The referendum could be at a special or regular election.

2. The limitation may also be exceeded for a period of four calendar years by a majority vote of the governing body and approval by a majority of the local electors at a regularly scheduled election. The governing body would have to give public notice as to the amount that the limitation would be exceeded for each of the four years and the method by which the additional expenditures would be defrayed.

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TOPEKA

House of Representatives

COMMITTEE ASSIGNMENTS
MEMBER: APPROPRIATIONS
SUBCOMMITTEES:
EDUCATION
K-12 SCHOOL FINANCE

**Testimony for HCR
Constitutional Amendment for Spending Limitation
March 15, 1995**

Mr. Chairman and members of the committee. Thank you for the very timely consideration of this HCR. The details of the resolution have been shared with you on a briefing sheet provided by Legislative Research. I want to share a couple of points regarding why I feel this resolution is necessary and good policy.

I refer to this resolution as the **Kansas Economic Stability Act (KESA)**. Spending Limitations conjure up negative images for some policy makers. This proposal does not inhibit spending but rather assures tax payers in the state of Kansas some degree of stability regarding tax policy. If this amendment were passed it would require governing bodies to go beyond a simple majority vote to raise streams of income revenue, another words it would be more difficult to raise taxes. One of the biggest complaints I have had as an elected official is the inconsistency we have in tax policy. As taxpayers and business owner/operators you could more accurately plan and anticipate your budget.

Another frequently asked question about KESA is why put it in the constitution, why not put it in statue. It's true we could put this provision in the KSA books today. There are several reasons why I feel it's important to have a constitutional amendment. **Public officials at all levels have lost the confidence of the people.** I believe it is imperative that we all work to restore faith in the process. We need to be accountable to the people and I believe people want to have more input on tax policy. The voting electorate is more educated today than every before. Voters know if we put this measure in statue we can simple override our decision. By allowing voter participation they get to speak about the spending of tax dollars and if approved the provision can only be repealed with a vote of the people. It would force some degree of discipline on a system that has run amuck over the last several years. I ask for your serious consideration and support of this resolution.

Kansas Personal Income Growth

(1973 - 1993)

Percent Change

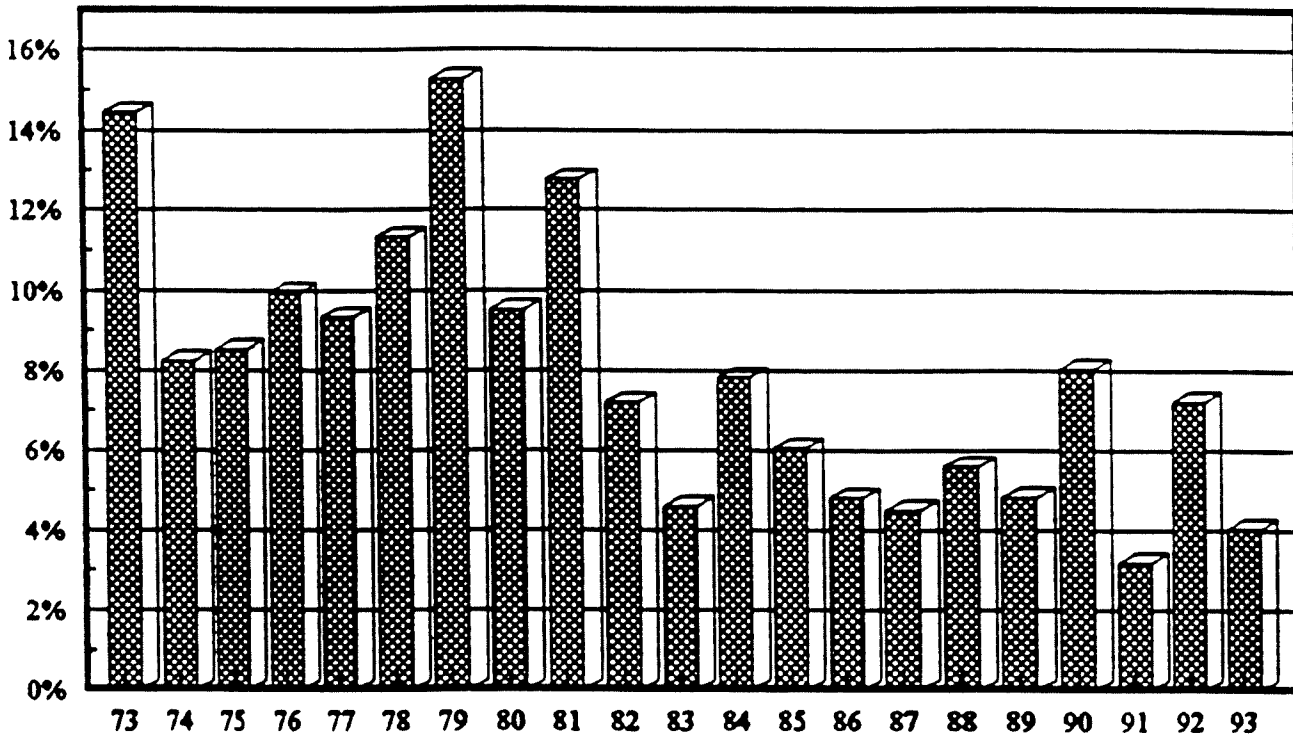
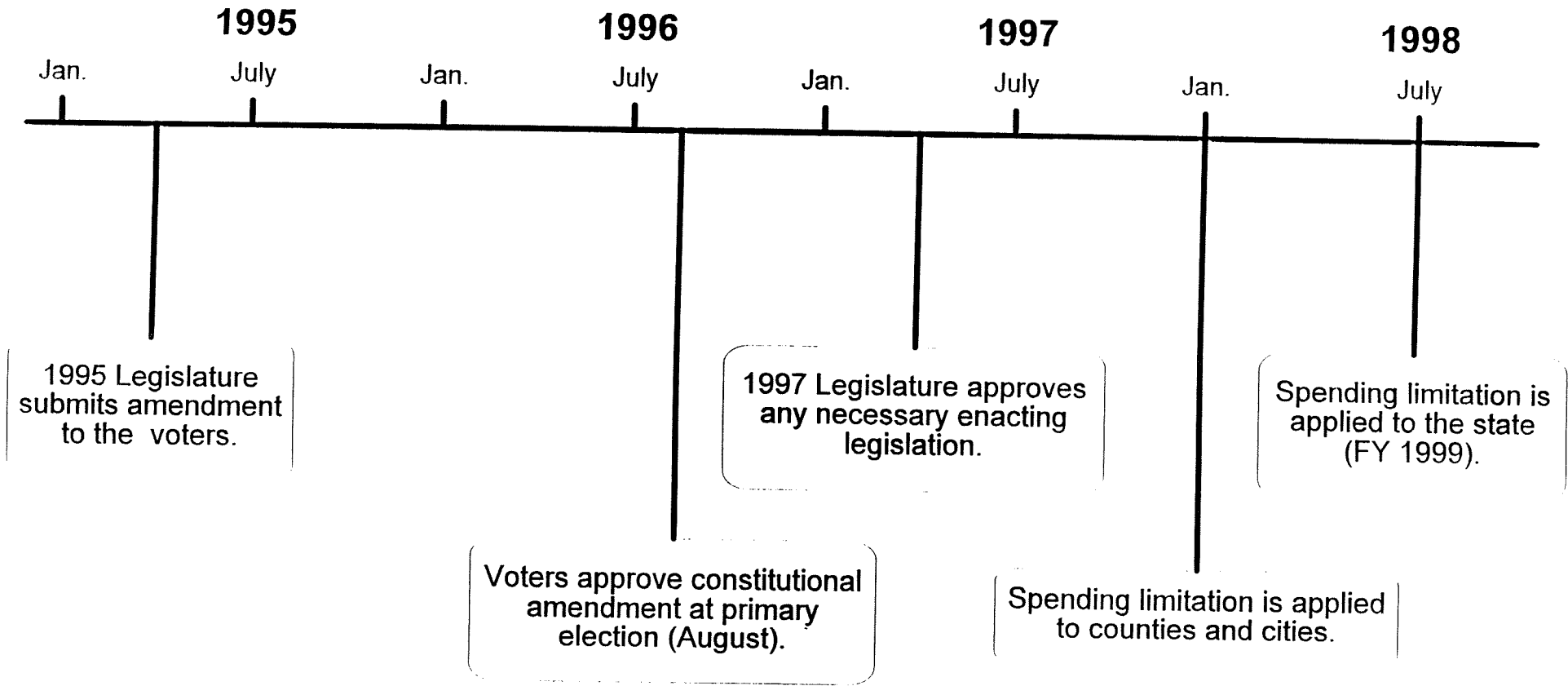


Figure 4-1

Table 4-3
Per Capita Personal Income,
Kansas, Plains, and U.S., 1983-1993

Year	Kansas	Plains	U.S.	Percent Change from Prior Year			Kansas as Percent of	
				Kansas	Plains	U.S.	U.S.	Plains
1983	12,192	11,542	12,223	3.7	4.3	5.5	99.7	105.6
1984	13,114	12,969	13,332	7.6	12.4	9.1	98.4	101.1
1985	13,847	13,410	14,155	5.6	3.4	6.2	97.8	103.3
1986	14,472	14,093	14,906	4.5	5.1	5.3	97.1	102.7
1987	15,017	14,762	15,638	3.8	4.7	4.9	96.0	101.7
1988	15,748	15,351	16,610	4.9	4.0	6.2	94.8	102.6
1989	16,399	16,462	17,690	4.1	7.2	6.5	92.7	99.6
1990	17,639	17,519	18,667	7.6	6.4	5.5	94.5	100.7
1991	18,259	18,103	19,199	3.5	3.3	2.8	95.1	100.9
1992	19,219	19,158	20,131	5.3	5.8	4.9	95.5	100.3
1993	19,874	19,645	20,781	3.4	2.5	3.2	95.6	101.2

Spending Limitation Timeline



MEMORANDUM

Kansas Legislative Research Department

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Telephone (913) 296-3181 FAX (913) 296-3824

February 17, 1995

To: House Taxation Committee
From: Alan Conroy, Chief Fiscal Analyst
Re: State Spending Lids

Chairman Kline requested that this office compare and contrast state spending limits bills in other states, provide a general discussion of state tax lids, including "pros" and "cons," and review possible implementation questions and timelines. In relatively recent years, the Kansas Legislature has passed three state spending limit bills (two in 1979 and one in 1980), all of which were vetoed by Governor Carlin. The Legislature failed to override the veto in all three cases. The following information highlights the elements in each of the three bills and Governor Carlin's major reasons for vetoing the legislation.

Prior State Spending Lid Bills

1979 S.B. 39 was enacted by the 1979 Legislature but was vetoed by Governor Carlin. The 1979 Legislature did attempt to override the gubernatorial veto, but failed. The Senate approved the override but the House did not approve an override by the required two-thirds vote. 1979 S.B. 39 contained the following provisions:

1. Established a Joint Legislative Committee on State Revenue Estimates and Expenditures composed of ten legislators.
2. At the beginning of each regular session the Joint Committee would estimate by concurrent resolution the
 - a. total receipts of revenue to the State General Fund and the federal revenue sharing fund for the current and ensuing fiscal year;
 - b. estimates of total expenditures and demand transfers, including supplemental appropriations and demand transfers from the State General Fund and from the federal revenue sharing fund, but **excluding** all expenditures for capital improvements; and
 - c. adopting an expenditure ceiling fixing the total amount of moneys available in the next fiscal year.

House Taxation
3-16-95
Attachment 5-1

3. The combined ending unencumbered cash balance in the State General Fund and the federal revenue sharing fund could not be less than 8.0 percent of the estimated total expenditures and demand transfers in the next fiscal year.
4. For the budget year the combined expenditures (excluding capital improvements) from the State General Fund and the federal revenue sharing fund could not exceed 7.0 percent above the current year.
5. A State General Tax Relief Fund would of been created that any State General Fund or federal revenue sharing fund cash balances above the required 8.0 percent would have been deposited. The Fund could of only been used for "reducing the burden of taxation."

In his veto message to the Legislature on 1979 S.B. 39 Governor Carlin stated the following:

"The strongest spending lid is a legislature and governor willing to work together to hold down unneeded spending.

In my first budget message, I recommended legislation placing a lid on state spending. As with any law, there are a number of ways to do so. I pointed out that any such lid should have adequate reserves for meeting the rising costs of government due to inflation (over which we have little control) or for unforeseen fiscal emergencies. To create a workable spending lid, both the legislative and executive branches of government must recognize the restraint is the key to limiting state spending."

1979 Sub. for H.B. 2623 was enacted by the 1979 Legislature but was vetoed by Governor Carlin. The House did attempt to override the gubernatorial veto, but failed on a vote of 73 (yeas) to 50 (nays). 1979 H.B. 2623 contained the following provisions:

1. Established a Joint Legislative Committee on State Revenue Estimates and Expenditures composed of ten legislators.
2. At the beginning of each regular session the Joint Committee would estimate by concurrent resolution the:
 - a. total receipts of revenue to the State General Fund and the federal revenue sharing fund for the current and ensuing fiscal year;
 - b. estimates of total expenditures and demand transfers, including supplemental appropriations and demand transfers from the State General Fund and from the federal revenue sharing fund, but excluding capital improvements in excess of \$15 million; and
 - c. adopting an expenditure ceiling fixing the total amount of moneys available in the next fiscal year.

3. The combined ending unencumbered cash balance in the State General Fund and the federal revenue sharing fund could not be less than 8.0 percent of the estimated total expenditures and demand transfers in the next year.
4. For the budget year the combined expenditures (excluding capital improvements beyond \$15.0 million) from the State General Fund and the federal revenue sharing fund could not exceed 7.0 percent above the current year.
5. A State General Fund Tax Relief Fund would of been created that any State General Fund or federal revenue sharing cash balances above the required 8.0 percent would of been deposited. The Fund could have only been used for "reducing the burden of taxation," or for increased state aid under the School District Equalization Act in an amount equal to the estimated property tax relief, or for increased benefits under the Homestead Property Tax Refund Act.

In his veto message to the 1979 Legislature on H.B. 2623, Governor Carlin stated the following:

"On February 20, 1979, I vetoed S.B. 39 because of its numerous defects. Of these flaws, the worst were the arbitrary 7 percent ceiling on expenditures and 8 percent floor for ending balances which S.B. 39 would have statutorily imposed on the state. This excessively rigid lid would have seriously impaired the state's ability to respond to changing economic conditions.

In an effort to provide the state a workable spending lid, I asked the Legislature to introduce what was H.B. 2623 -- a spending lid which would have allowed the Legislature to annually set a percentage or dollar limit on expenditures, a percentage or dollar tax floor for ending balances, and to consider portions of surplus revenue for tax relief for Kansans. In essence, it would have enabled the Legislature to accomplish the positive things which S.B. 39 attempted without the negative side effects which S.B. 39 entailed."

1980 S.B. 626 was enacted by the 1980 Legislature but was vetoed by Governor Carlin. The 1980 Legislature did not attempt to override the Governor's veto. This bill had many of the same components as the 1979 lids. The Joint Committee on State Revenue Estimates and Expenditures would have been established, and an 8 percent ending balance (combined) in the State General Fund and the federal revenue sharing fund. The increase would have been tied to the percentage change in the implicit price deflator for gross national product for state and local government purchases of goods and services (GDP-SLG). Capital improvements would have been excluded from the lid. Any receipts beyond the required 8 percent would have been transferred into a state general tax relief fund could only be used to reduce the burden of taxation. Governor Carlin's veto message expressed concern of an 8.0 percent ending balance in the State General Fund and the "narrow scope" of the tax relief provisions in the bill.

General Discussion of State Tax Lids

1. Does a state need to have a spending limit?

According to data available to the Legislative Research Department, 25 states have some type of limitation on state appropriations, expenditures, or state tax revenue. Several additional states have limitations of some type, although when compared to the 25 states, they are much weaker and may only apply in a general way, like in Iowa. (Iowa does have a limitation on State General Fund appropriations. The Iowa limit is expenditures can be 99 percent of adjusted general fund receipts.)

The following map of the United States displays the 25 states that have some type of significant state revenue and expenditure limitation. Three of the four states that surround Kansas have some type of state expenditure limitation. The three states include Colorado, Oklahoma, and Missouri. Nebraska does not have any type of limitation. On the page following the U.S. map is a very brief outline of those states that have some type of meaningful state revenue and expenditure limitations. Perhaps one of the most stringent state tax lids is in the State of Colorado.

Colorado

The Colorado tax lid was a result of citizen initiative that was approved in 1992 and placed in the *Colorado Constitution*. Significant features of the Colorado lid are:

- The limit applies to all state spending and tax increases.
- Spending can only increase based on population growth and an increase in the Consumer Price Index (CPI).
- No change in taxes or tax policy without voter approval.
- Current spending limits cannot be weakened without voter approval.
- General Assembly can declare an emergency by two-thirds vote and raise emergency taxes subject to voter approval.

Missouri

The Missouri tax lid was also a result of citizen initiative that was approved in 1980 and placed in the *Missouri Constitution*. Significant features of the Missouri lid are:

- The limit applies to state revenue and expenditures.
- Revenue shall not exceed: FY 1980-FY 1981 state revenue, plus 1979 state personal income times the greater of state personal income in the prior calendar year or average state personal income over the three previous calendar years.
- The Governor must first specify an emergency; then the legislature must concur by two-thirds vote in each house.

- Revenues exceeding by 1 percent or more shall be refunded on a pro rata based on income tax liability. Any excess less than 1 percent is transferred to the general revenue fund.

Oklahoma

Oklahoma was a result of a constitutional amendment that was approved in 1985. Significant features of the Oklahoma spending lid are:

- The limit applies to appropriated revenue.
- The limit of 12 percent yearly increase (adjusted for inflation); and 95 percent of certified revenue.
- Any revenue to the general fund in excess of estimate (up to 10 percent) is deposited in a rainy day fund.

Other States

The following table (Table 2) summarizes some of the significant features of spending limit bills in 25 states.

Discussion Points

The imposition of a state tax lid can take many different forms. Some points to consider include the following:

1. Should the lid apply to total state revenues, or total appropriations, or total expenditures, or just revenues, appropriations, or expenditures from the State General Fund? The 25 states that have some type of lid have a great deal of difference in what area the state lid applies. Some states apply the lid to only State General Fund appropriations, others to state tax revenue, others to appropriated state tax revenues, and still others to state appropriations. This fundamental question is key to the successful implementation of any tax lid. Should the lid apply to all funds, which would include federal funds, special revenue funds (which would include fees), or just the State General Fund.
2. What allowances are acceptable within a lid for an increase in spending? Most states limit the increase in state appropriations to the growth in state personal income, or population and inflation. The use of state personal income growth would have to be carefully crafted. The U.S. Department of Commerce normally releases preliminary estimates of state personal income data for the prior calendar year in April of each year and "final" estimates in August or September. However, each time those estimates are published the Department revises estimates previously made for at least several prior years. Estimates by quarters also are published periodically during a year, but they are not as reliable as the calendar

year data published as noted above and the data for the quarter ending in June is not released until several months later.

“Personal income” is current income received by persons from all sources. It includes salaries and wages; other labor income (the largest part of which is employer contributions to private pension, health, and welfare funds); net income of farm and nonfarm proprietors or unincorporated businesses, including independent professionals; property income (dividends, interest, net rent); and transfer payments (disbursements to persons for which no services are currently rendered, such as Social Security, welfare, veterans, government retirement, workers compensation, and unemployment benefits). Personal income is measured before deduction of income and other personal taxes, but after subtraction of individual contributions to Social Security, government retirement, and other social insurance programs.

Total personal income for a state is a very broad measure of income and should not be confused with state totals of adjusted gross income or taxable income under the federal and state income tax laws, nor with disposable income which is personal income less personal taxes and certain nontax payments. Personal income is much larger than these other three measures of income.

While personal income is a useful indicator of overall economic conditions, it is not totally relevant to estimating receipts from income and consumption taxes. This is because personal income includes certain types of income which are not subject to one or the other of, or both, such taxes, *e.g.*, payments in kind, imputed income, and transfer payments. As previously noted, personal contributions to Social Security, government retirement, and other social insurance programs are deducted in estimating personal income; such contributions would be included, in whole or in part, in the income tax base of many individuals, but would not be spendable and subject to consumption taxes. On the other hand, a large part of transfer payments is not taxable on an income basis but is spendable and subject to consumption taxes.

3. What avenues should be open to deal with emergencies, so that a state may respond quickly? Some states require the governor to declare an emergency while others require the legislature to act. In many instances the legislature must act with a super majority votes (*i.e.*, two-thirds or three-fifths votes). Who should have the responsibility to determine if an emergency exists, is it the legislature or the Governor? Should the voters have to approve any declaration of an emergency? Should there be a limit on the length that an emergency can be declared? Some individuals view an emergency as natural disasters, civil unrest, or major economic downturns.
4. What happens to any major surpluses that might develop and remain in the State General Fund, for example. Should the “surpluses” be shifted to a rainy day fund, or shifted to provide some type of tax relief. If a tax relief model is chosen, how does the intended tax relief relate to the sources of income that caused the surplus to begin with?

5. Should any spending lid be placed in the state constitution or in statutes? If the inclination is to place some type of limitation in the constitution, should the details of the spending lid be in statute, rather than in the constitution?

The following items briefly discuss the arguments that might be advanced in support or in opposition concerning a state tax lid.

In Support

- A spending limit bill is necessary because, generally, citizens of Kansas do not trust the Governor or the Legislature to control state government spending in a responsible way.
- A recent publication by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) indicates that 25 states have some limitation on state appropriations, expenditures, or state tax revenue.
- A spending limit bill would permit responsible growth in state expenditures and allow for a financial plan of state expenditures to be developed over a several year period.
- A measure of growth, whether it be the consumer price index or Kansas personal income are legitimate measures that most "reasonable individuals" would consider as allowing adequate room for growth or increased cost of "doing business."
- A mechanism could be developed to allow the state to respond to emergencies, such as natural disasters or major economic downturns.
- A constitutional amendment would ensure that the people of Kansas approve of the spending limit and future legislatures could not modify the spending limit provisions without returning to the people for approval.

In Opposition

- Any type of spending limit bill is an artificial barrier that ties the hands of the Governor and the Legislature to respond to the needs of the state as they see fit. Kansas currently has a cash basis law and it is not legally possible for the state to have a "deficit." In addition, the state also has a current requirement that the projected ending balance in the State General Fund must be no less than 7.5 percent of expenditures.
- Any type of spending limit bill is an arbitrary decision to tie expenditures to some given measure, for example, consumer price index or personal income growth. A lot of given factors outside of Kansas can have an impact on either one of these two measures. In one compares Kansas personal income growth (calendar year basis since 1965) and State General Fund (SGF) expenditures (fiscal year basis since FY 1966), it might be interesting to note that 11 years (or 38 percent of the

time) out of the 29 years on the attached table, Kansas personal income grew at a faster rate than SGF expenditures. In fact, for two of the four most recent years on the table, Kansas personal income grew at a faster rate than SGF expenditures. It is important to note that there are many reasons why SGF expenditures have increased since FY 1966. A few examples are increased state aid to schools and other local units state assumption of county costs of public assistance and of nonjudicial personnel of the court system, growth of Department of Social and Rehabilitation Services programs, new correctional facilities and programs, shifting of financing of the Highway Patrol to the SGF, and transfer of a portion of sales tax receipts from the SGF to the State Highway Fund.

- If the limit is tied to Kansas personal income, the growth rate will be determined by the U.S. Department of Commerce. The federal Commerce agency normally releases preliminary estimates of state personal income data for the prior calendar year in April of each year and "final" estimates in August or September. However, each time those estimates are published the Department revises estimates previously made for at least several prior years. Estimates by quarters also are published periodically during a year, but they are not as reliable as the calendar year data published as noted above and the data for the quarter ending in June is not released until several months later.
- What is the mechanism for a state that has a spending limit to deal with an emergency? Should the Legislature have the ability to declare an emergency to exceed the limitation or only the Governor? If the Governor is the only one able to declare an emergency should the Legislature have to ratify the declaration? And should that ratification take a super majority members of the Legislature, say two-thirds?
- What if the SGF receipts come in greatly above or below what was anticipated? What happens to the surplus above the estimate? Should it be put in some type of "savings type" account?
- Will the ceiling limitation really become the expenditure level, rather than some level that would be less than the growth in Kansas personal income, as has been the case for certain years in the past?

TABLE 1
State Revenue and Expenditure Limitations

State	Adopted	Constitutional or Statutory	Limit Applies to	Nature of Limit
Alaska	1982	Constitutional	Appropriations	Growth of Population and Inflation
Arizona	1978	Constitutional	Appropriations	7.12 Percent of Personal Income
California	1979	Constitutional	Appropriations	Personal Income Growth + Population
Colorado	1992	Constitutional	Appropriations & Revenue	Population & Inflation
Connecticut	1992	Statutory	Appropriations	Greater of Population or Income Growth
Idaho	1980	Statutory	Appropriations	5.33 Percent of Personal Income
Louisiana	1979	Statutory	Tax Revenue	Ratio to Personal Income in 1979
Massachusetts	1986	Statutory	Revenue	Growth of Wages and Salaries
Michigan	1978	Constitutional	Revenue	Ratio to Personal Income in 1979
Missouri	1980	Constitutional	Appropriations & Revenue	Ratio to Personal Income in 1981
Montana	1981	Statutory	Appropriations	Personal Income Growth
Nevada	1979	Statutory	Appropriations	Growth of Population and Inflation
New Jersey	1990	Statutory	Appropriations	Personal Income Growth
North Carolina	1991	Statutory	Appropriations	7 Percent of State Personal Income
Oklahoma	1985	Constitutional	Appropriations	12 Percent Adjusted for Inflation
Oregon	1979	Statutory	Appropriations	Personal Income Growth
South Carolina	1980, 1984	Constitutional	Appropriations	Personal Income Growth
Tennessee	1978	Constitutional	Tax Revenue	Personal Income Growth
Texas	1978	Constitutional	Appropriations	Personal Income Growth
Utah	1989	Statutory	Appropriations	Growth in Population and Inflation
Washington	1993	Statutory	Appropriations & Revenue	Growth in Inflation and Population

Source: NCSL Survey of Legislative Fiscal Officers, 1993. Updated 5/94.

MEMORANDUM

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October 10, 1994

KANSAS PERSONAL INCOME AND SGF EXPENDITURES

The attached table shows (1) Kansas personal income and the annual percentage increase, CYs 1965-1993 and (2) State General Fund expenditures, the annual percentage increase, and SGF expenditures as a percentage of personal income, FYs 1966-1994. The personal income data are for the calendar year in which the state fiscal year began. Personal income estimates are the latest available from the U.S. Department of Commerce.

Over the last 29 years, SGF expenditures have ranged between 3.76 percent and 6.19 percent of Kansas personal income. From FY 1976 through FY 1993, the range was between 5.01 percent and 5.92 percent; the ratio was 6.19 in FY 1994. The average (mean) for the last five years was 5.77 percent.

There are many reasons why SGF expenditures have risen from less than 4 percent of personal income to slightly over 6 percent. A few examples are increased state aid to schools and other local units, state assumption of county costs of public assistance and of nonjudicial personnel of the court system, growth of SRS programs, new correctional facilities and programs, shifting of financing of the Highway Patrol to the SGF, and transfer of a portion of sales tax receipts from the SGF to the State Highway Fund.

KANSAS PERSONAL INCOME AND STATE GENERAL FUND EXPENDITURES

Personal Income**			General Fund Expenditures**			
Cal. Year	Amount (000)	Percent Increase	Fiscal Year	Amount (000)	Percent Increase	Percent of Income
1965	\$5,917,377		1966	\$222,417		3.76%
1966	6,350,887	7.3%	1967	239,376	7.6%	3.77
1967	6,666,762	5.0	1968	258,728	8.1	3.88
1968	7,225,662	8.4	1969	279,136	7.9	3.86
1969	7,850,250	8.6	1970	343,617	23.1	4.38
1970	8,455,734	7.7	1971	354,939	3.3	4.20
1971	9,174,877	8.5	1972	366,331	3.2	3.99
1972	10,263,135	11.9	1973	386,701	5.6	3.77
1973	11,745,098	14.4	1974	490,456	26.8	4.18
1974	12,712,070	8.2	1975	598,387	22.0	4.71
1975	13,796,997	8.5	1976	701,648	17.3	5.09
1976	15,168,413	9.9	1977	816,589	16.4	5.38
1977	16,582,045	9.3	1978	841,164	3.0	5.07
1978	18,457,198	11.3	1979	967,214	15.0	5.24
1979	21,275,441	15.3	1980	1,113,603	15.1	5.23
1980	23,297,250	9.5	1981	1,265,711	13.7	5.43
1981	26,313,692	12.9	1982	1,342,057	6.0	5.10
1982	28,238,415	7.3	1983	1,414,109	5.4	5.01
1983	29,452,891	4.3	1984	1,518,194	7.4	5.15
1984	31,793,545	7.9	1985	1,655,127	9.0	5.21
1985	33,615,115	5.7	1986	1,770,499	7.0	5.27
1986	35,210,053	4.7	1987	1,768,718	(0.1)	5.02
1987	36,726,516	4.3	1988	1,920,822	8.6	5.23
1988	38,777,922	5.6	1989	2,159,915	12.4	5.57
1989	40,553,271	4.6	1990	2,400,232	11.1	5.92
1990	43,762,639	7.9	1991	2,495,418	4.0	5.70
1991	45,475,634	3.9	1992	2,491,270	(0.2)	5.48
1992	48,340,690	6.3	1993	2,690,098	8.0	5.56
1993	50,295,417	4.0	1994	3,111,023	15.6	6.19

Estimates by the U.S. Department of Commerce, September 1993 for 1965-1980 and August 1994 for 1981-1993.

For FYs 1975-1988, includes revenue transfers (which were netted out of receipts) that were changed to demand transfers (expenditures) by 1988 legislation.

Kansas Legislative Research Department
October 10, 1994

5-12



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TO: HOUSE TAXATION COMMITTEE
FROM: KAREN FRANCE, DIRECTOR, GOVERNMENTAL AFFAIRS
DATE: MARCH 15, 1995
SUBJECT: GOVERNMENT SPENDING LIMITS, HCR 5023

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS®, I appear today to support the Government Spending Lid presented in HCR 5023.

The Kansas Association of REALTORS® feels that this government spending limitation amendment is an idea whose time has come. Such an amendment serves three important purposes.

First, this amendment can eventually eliminate the need for local tax lids. It restricts spending by local units of government without the utilization of any "loopholes" or exemptions. It is a straightforward way of limiting spending which would be in place from year to year, without having the property tax "sieve" discussions which have become an annual event. Such a spending limitation for all levels of government takes away the complaint made by local governments that the legislature is advocating spending limits for local units of government without limiting state budgets.

Second, this amendment brings both fiscal responsibility and flexibility to the government budget making process. Because the growth of government costs would be predictable from year to year, governments can establish long term planning methods, within the parameters of the cost limitations.

The logical fallout of this amendment would be that local units could be given legislative authority for alternative taxes, including additional sales tax authority, earnings tax authority or income tax surcharges. They could then alter their tax mix, as long as the total amount spent did not increase above the limits provided by the amendment. By the same token, the state could change the current tax mix between income tax, sales tax, property tax etc., as long as the total amount spent did not increase above the spending limits for the year. Meanwhile, the tax base for all units of government could grow at the same rate as personal income grows.

The amendment provides for methods by which both the state and local governments can handle emergencies if they arise. We believe that these provisions give enough flexibility to handle concerns about "bad years" or falling on "bad times".

HOUSE TAXATION
3-16-95
ATTACHMENT 6-1

Third, this amendment would answer the demand of voters in the last election that government become more efficient and responsive. Taxpayers ask over and over, "Why can't government be run like a business?". While we know it cannot be completely run like a business, a spending limitation would force the government to live within its means. A business cannot continually raise its prices in order to cover increased costs. The market prevents it. Thus businesses must continually look to keeping their costs in line if they are to survive in the market place. A spending lid amendment would be the equivalent of the "market place" competition for government. It would put a limit on the expense side of the balance sheet, thus providing the "incentive" to keep costs in line. Government would have to prioritize its services in order to deliver the best product for the best prices.

In summary, we believe this amendment provides many answers to questions which plague the legislature on an annual basis. We believe such an amendment would help return confidence to government without placing unreasonable restrictions on the hands of government officials. We believe the people would strongly support such an amendment if given the chance to vote. We ask that you give them that chance.