

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 22, 1997 in Room 519-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee:

Rep. Henry Helgerson
Paul Fleener, Kansas Farm Bureau
Karl Peterjohn, Kansas Taxpayers Network
Karen France, Kansas Realtors Assn.
Lewjean Schneider, Kansas Livestock Association
Jim Allen, Commercial Property Assn. of Kansas (CPAK)
Bob Corkins, KCCI
Mark Tallman, Kansas Assn. of School Boards
Nancy Brown, Mainstream Coalition

Others attending: See attached list

Chair called the meeting to order.

Chris Courtwright provided information requested by the committee and prepared by Shirley Sicilian, director of office of Policy and Research for The Department of Revenue on Inheritance Taxes (Attachment 1).

Alan Conroy, chief fiscal analyst of Legislative Research, explained the State General Fund Profile sheets provided to the committee. (Attachment 2).

Chair opened hearings on:

HB 2030 - Property tax relief act of 1997
HB 2031 - School district property tax levy reduced

Proponents:

Rep. Henry Helgerson
Paul Fleener, Kansas Farm Bureau (Attachment 3)
Karl Peterjohn, Kansas Taxpayers Network (Attachment 4)
Karen France, Kansas Realtors Assn. (Attachment 5)
Lewjean Schneider, Kansas Livestock Association (Attachment 6)
Jim Allen, Commercial Property Assn. of Kansas (CPAK) (Attachment 7)

Opponents:

Bob Corkins, Kansas Chamber of Commerce & Industry (Attachment 9)
Mark Tallman, Kansas Assn. of School Boards (Attachment 10)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on January 22, 1997.

HB 2031 - School district property tax levy reduced

Proponent:

Nancy Brown, Mainstream Coalition (Attachment 8)

Committee recessed at 11:00 a.m. and reconvened at Noon

Moved by Rep. Mays, seconded by Rep. Peterson, committee approve introduction of HB 2030.

Substitute motion by Rep. Shore proposed bill that would move tax levy to 25 mills for all property for one year and include inheritance tax relief. Motion died due to lack of a second.

Chair called for vote on Motion by Rep. Mays. Motion carried.

The next meeting is scheduled for January 23, 1997.

Adjournment

Attachments - 10

TAXATION COMMITTEE GUEST LIST

DATE: JAN. 22 - 1997

NAME	REPRESENTING
HAROLD PITTS	OBSERVE
SHELBY SMITH	"
ART BROWN	mid Am Lumbermen Assn
Patrick Hurley	KCAF
Jim Allen	GPAK
Diane Gjerstad	USD 259
Mary Brown	Manufacturers coalition
Louise Schneiders	Ks Livestock Assoc.
Paul E. Flesner	Kansas Farm Bureau
Karl Peterjohn	*Ks Taxpayers Network
Phil Alquist	KFA OBSERVE
Bob Corkins	KCCI
Dennis Zimmerman	GRANT Co. Econ. Devo.
Roland E. Smith	WIBA
Bill James	BOEING
Deborah Ayl	USA
Ellen Pickelkneaf	Assoc. of Cm HCs
Brenda Park-John Small	Koch
Anne Spiess	Peterson Public Affairs Group

TAXATION COMMITTEE GUEST LIST

DATE: JAN 22 - 1997

NAME	REPRESENTING
JASON PITSEMBERGER	TRAD SMOOT
Ashley Shevard	O.P Chamber
Kacie Sparks	DKB
Sonja Erickson	Senate Minority Leader
Clyde Graeber	Governors Office
Wanda Jean Smith	KMHA
Cheryl Caldwell	Topeka Chamber of Commerce
Jacque Dales	SOE
Jim Wotoff	KS AFL-CIO
Mario Cuomo	Unemployed
Harriet Leagn	KS Assn B'casters
Frances Mastner	Ks Food Dealers Assn
BOB GRANT	KCU
KAREN FRANCE	KAR
Bill Mason	House
DOUGLAD SNOBERAS	KANAS FOOD DEALERS ASSOCIATION
Doug Wareham	Ks. Grain & Feed Assn.
Mark Tallman	NASB
Dave Hoffmire	Western Resources

TAXATION COMMITTEE GUEST LIST

DATE: JAN 22 - 1997

NAME	REPRESENTING
Pat James	Wichita Chamber
Don Rye	USD 321
Bob Dammann	Blue Valley USD 229
Robin Lehman	Olathe USD 233
Pat Lehman	Olathe USD 233
Gene Amos	Shawnee Chamber of Comm
Joyce [unclear]	Johnson County Govt
BILL R. FULLER	Kansas Farm Bureau
Betsy Swannick	League of KS Municipalities

Shirley K. Sicilian, Director
Office of Policy & Research
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Office of Policy & Research

To: Representative Phill Kline, Chairman
House Taxation Committee
Members of the House Taxation Committee

From: Shirley Sicilian, Director
Office of Policy & Research

Date: January 16, 1997

RE: Inheritance Taxes

If Kansas changes from an inheritance tax to a straight pick-up tax the fiscal impact would be a reduction in fiscal year 1998 state general fund revenues of about \$44.9 million. The current estimate of inheritance tax revenues in FY 1998 is \$69.0 million. Statistics from inheritance tax returns filed by estates with the department in calendar year 1995 show that the pick-up tax reported by taxpayers on those returns equalled 35% of the total inheritance tax paid. The total amount of inheritance taxes paid in calendar year 1995 was \$65.3 million, pick-up taxes reported on those returns totalled \$23.0 million. Eliminating the inheritance tax and taking the pick-up tax revenue would have reduced calendar year 1995 revenues from \$65.3 million to \$23.0 million. This would have been a reduction of \$42.3 million, or 65%, in inheritance tax revenues. Applying this same percentage reduction to the fiscal year 1998 estimate of \$69.0 million results in a reduction of \$44.9 million in inheritance tax revenues.

Kansas is currently an inheritance and pick-up tax state. The estate computes both the inheritance tax and the pick-up tax and must pay to the state the larger amount. On the inheritance tax return the estate must enter the pick-up tax so it can be compared to the inheritance tax. In those cases where the death tax credit is larger than the computed inheritance tax the death tax credit is prorated to each distributee based on the size of the distributee's share.

At the federal level only estates over \$600,000 pay an estate tax. The pick-up tax in Kansas does not come into effect unless the estate is over \$600,000. In 1995, 10,480 inheritance tax returns were filed. Only 734, or 7%, of those 10,480 returns were for estates with values over \$600,000.

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Representative Phill Kline
Inheritance Taxes
January 16, 1997

The pick-up tax for those 734 estates was \$23.0 million and the total amount of inheritance tax collected from those same estates was \$38.8 million. The 9,746 estates with values less the \$600,000 have no pick-up tax but paid Kansas inheritance taxes in calendar year 1995 of \$26.3 million. So going to a pick-up tax only in 1995 would have eliminated the inheritance taxes on estates less than \$600,000, and reduced the amount of tax owed by estates over \$600,000 from \$38.8 million to \$23.0 million.

Attached is information the department prepared for the interim committee last summer. The information contains the data discussed above by size of estate and by size of share value. Also included are some examples of the impact on estates of going to a Kansas estate tax.

I hope this information is helpful and if you have any questions please let me know.

State Death and Transfer Taxes: Number and Type, December 1994

Type of Tax	Number	States
"Pick-Up" Tax Only	29	Alabama, Alaska, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Maine, Michigan, Minnesota, Missouri, Nevada, New Mexico, North Dakota, Oregon, Rhode Island, South Carolina, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming
Estate and "Pick-Up" Tax	6	Massachusetts, Mississippi, New York, Ohio, Oklahoma, Virginia ¹
Inheritance and "Pick-Up" Tax	16	Connecticut, Delaware, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Montana, Nebraska, New Hampshire, New Jersey, North Carolina, Pennsylvania, South Dakota, Tennessee
States with Added Gift Tax	6	Connecticut, Delaware, Louisiana, New York, North Carolina, Tennessee

Notes

¹ Local estate taxes are additional.

General Description of Death, Gift, and Inheritance Taxes

State inheritance taxes are paid by the recipient of a bequest and are based on (1) the amount of the bequest and (2) the recipient's relationship to the decedent (generally, the closer the familial relationship, the lower the tax rate). The federal government does not have an inheritance tax. Gift taxes are imposed on the transfer of property by gift. The rates imposed and the exemptions allowed under gift tax statutes follow closely inheritance rates and exemptions.

Interaction of Federal and State Taxes

The federal tax code permits the decedent's estate to take a credit against state estate taxes paid, up to certain amounts, based on the total size of the estate. All states have at least imposed a tax equal to

the allowable credit. This tax is known as the "pick-up" tax.

Six states have estate taxes that exceed the amount of the pick-up tax (see above).

Sixteen states tax the amount of the bequest (the inheritance) received by beneficiaries of the decedent rather than taxing the estate as a whole (see above).

In six states, gift taxes apply to transfers occurring while the donor is alive. Like the federal gift tax, this tax could be viewed generally as an advance payment of either the state estate tax or the inheritance tax (less any annual exemption amounts and less the lifetime exemption amounts of the state estate tax).

Source: ACIR staff compilation from Commerce Clearing House, *State Tax Guide* (Chicago, 1994). See also Tables 39-41.

State Inheritance Taxes: Rates and Exemptions, December 1994

State	Value of Share before Exemption Applied		Rates According to Class (percent)					Conditions
	Over	But Not Over	A	B	C	D	E	
Nebraska	0	2,000			6			Class A = spouse, (grand)parent, child, sibling, lineal descendant born in wedlock or legally adopted, or a mutually acknowledged child where relationship has continued for a specified time, or the surviving spouse of any such persons Class B = uncle, aunt, their descendants, spouses of descendants Class C = all others Exemptions: surviving spouse 100% Class A \$10,000 Class B \$2,000 Class C \$500 Charitable exemptions are allowed.
	2,000	5,000		6	6			
	5,000	10,000		6	9			
	10,000	20,000	1	6	12			
	20,000	50,000	1	6	15			
	50,000	60,000	1	6	18			
	60,000		1	9	18			

Iowa	0	5,000	1	5	10	10	15	Class A = spouse, parent, child, lineal descendant Class B = sibling, spouse of child, step child Class C = all others Class D = certain institutions organized in other states for charitable, educational, or religious purposes, or resident trustees, for use outside the state. Charitable exemptions may apply if reciprocal exemptions exist. Class E = firms, corporations, or societies organized for profit. Estates that do not exceed \$10,000 after deducting debts are exempt.
	5,000	12,500	2	5	10	10	15	
	12,500	25,000	3	6	10	10	15	
	25,000	50,000	4	7	10	10	15	
	50,000	75,000	5	7	12	10	15	
	75,000	100,000	6	8	12	10	15	
	100,000	150,000	7	9	15	10	15	
150,000		8	10	15	10	15		

Iowa (cont.)	Exemptions for Class A only:						
	Surviving spouses are exempt						
	each child						\$50,000
	parent						\$15,000
	other lineal descendants						\$15,000
	Transfers to alien, nonresident of U.S., within Class A are taxable at 10%						

State	Value of Share After Exemption		Tax on				Conditions
	Over	But Not Over	Low Point of Range	Rate on Excess	A	B	
Kansas	0	25,000	1	3	10		Class A = lineal ancestor, descendant, stepparent or child, adopted child, spouse of child Class B = siblings Class C = all others Deductions: Class A \$30,000 Class B \$5,000 (if share of estate after deductions is less than \$200, no tax is due) Surviving spouse is exempt.
	25,000	50,000	2	5	10		
	50,000	100,000	3	7.5	10		
	100,000	200,000	4	10	12		
	200,000	500,000	4	10	15		
	500,000		5	12.5	15		

State	Taxable Estate		Tax on		Conditions		
	Over	But Not Over	Low Point of Range	Rate on Excess			
Oklahoma			A	B	A	B	Class A = parent, child (step, adopted), and other lineal descendants Class B = all others Property passing to spouse is exempt. A total exemption of \$175,000 may be divided among lineal heirs. Estate is exempt if it does not exceed \$100. Charitable exemptions are allowed. An additional estate tax is imposed equal to the amount by which the state estate tax is less than federal estate tax credit allowable for state taxes paid.
	0	10,000	0	0	0.5	1.0	
	10,000	20,000	50	100	1.0	2.0	
	20,000	40,000	150	300	1.5	3.0	
	40,000	60,000	450	900	2.0	4.0	
	60,000	100,000	850	1,700	2.5	5.0	
	100,000	250,000	1,850	3,700	3.0	6.0	
	250,000	500,000	6,350	12,700	6.5	13.0	
	500,000	750,000	22,600	45,200	7.0	14.0	
	750,000	1,000,000	40,100	80,200	7.5	14.0	
	1,000,000	3,000,000	58,850	115,200	8.0	15.0	
	3,000,000	5,000,000	218,850	415,200	8.5	15.0	
	5,000,000	10,000,000	388,850	715,200	9.0	15.0	

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Kansas Department of Revenue
 Inheritance Tax by Size of Estate

Calendar Year 1995 Inheritance Tax Statistics

Value of Estate	Number of Estates	Total Estate Value	State Death Tax Credit	Total Liability	Fiscal Impact	% Reduction in Liability	% of Total Impact by Estate Size
\$0 - \$300,000	8,316	\$756,787,249	\$0	\$11,728,870	(\$11,728,870)	-100%	28%
\$300,000 - \$600,000	1,430	\$604,168,591	\$0	\$14,562,253	(\$14,562,253)	-100%	35%
\$600,000 - \$1,000,000	496	\$369,976,996	\$6,698,381	\$13,051,709	(\$6,353,328)	-49%	15%
\$1,000,000 - Over	238	\$699,862,472	\$16,314,038	\$25,705,191	(\$9,391,153)	-37%	22%
Total	10,480	\$2,430,795,308	\$23,012,419	\$65,048,023	(\$42,035,604)	-65%	100%

Kansas Department of Revenue
Estate "Pick-up" Tax Comparison
Calendar Year 1995

All Estates

Value of Shares	Number of Heirs	Federal Tax Credit	Kansas Inheritance Tax Liability	Fiscal Impact	% of Total Impact in Class
Class 1 - Spouses					
\$0 - \$50,000	1,609	\$0	\$0	\$0	0%
\$50,000 - \$200,000	1,546	\$0	\$0	\$0	0%
\$200,000 - \$700,000	815	\$0	\$0	\$0	0%
\$700,000 -Over	145	\$0	\$0	\$0	0%
Total	4,115	\$0	\$0	\$0	0%
Class 2 - Children					
\$0 - \$50,000	15,140	\$373,082	\$629,772	(\$256,690)	2%
\$50,000 - \$200,000	4,492	\$1,805,347	\$7,469,037	(\$5,663,690)	36%
\$200,000 - \$700,000	967	\$6,583,703	\$11,337,627	(\$4,753,924)	30%
\$700,000 -Over	82	\$8,413,548	\$13,687,800	(\$5,274,252)	33%
Total	20,681	\$17,175,680	\$33,124,236	(\$15,948,556)	100%
Class 3 - Siblings					
\$0 - \$50,000	1,297	\$15,486	\$398,069	(\$382,583)	8%
\$50,000 - \$200,000	418	\$258,003	\$2,355,716	(\$2,097,713)	42%
\$200,000 - \$700,000	83	\$303,864	\$2,272,844	(\$1,968,980)	40%
\$700,000 -Over	6	\$493,807	\$1,026,830	(\$533,023)	11%
Total	1,804	\$1,071,160	\$6,053,459	(\$4,982,299)	100%
Class 4 - Nieces, Nephews, non-relatives					
\$0 - \$50,000	7,589	\$545,013	\$7,742,363	(\$7,197,350)	34%
\$50,000 - \$200,000	968	\$1,373,584	\$9,362,999	(\$7,989,415)	38%
\$200,000 - \$700,000	160	\$2,554,795	\$6,986,772	(\$4,431,977)	21%
\$700,000 -Over	8	\$369,770	\$1,778,194	(\$1,408,424)	7%
Total	8,725	\$4,843,162	\$25,870,328	(\$21,027,166)	100%
Class 5 - Charities, organizations					
\$0 - \$50,000	1,477	\$0	\$0	\$0	0%
\$50,000 - \$200,000	232	\$0	\$0	\$0	0%
\$200,000 - \$700,000	65	\$0	\$0	\$0	0%
\$700,000 -Over	21	\$0	\$0	\$0	0%
Total	1,795	\$0	\$0	\$0	0%
All Classes					
\$0 - \$50,000	27,112	\$855,998	\$8,770,204	(\$7,914,206)	19%
\$50,000 - \$200,000	7,656	\$3,436,934	\$19,187,752	(\$15,750,818)	37%
\$200,000 - \$700,000	2,090	\$9,442,362	\$20,597,243	(\$11,154,881)	27%
\$700,000 -Over	262	\$9,277,125	\$16,492,824	(\$7,215,699)	17%
Total	37,120	\$23,012,419	\$65,048,023	(\$42,035,604)	100%

Kansas Department of Revenue
Impact of an Estate Tax on Several Hypothetical Estates

1-7

Kansas Inheritance Tax

Kansas Estate Tax
\$50,000 Exemption for all Estates

Current Law

	Kansas Estate Value	Exemptions	Taxable Estate	Kansas Inheritance Tax	State Death Tax Credit	Exemptions	Taxable Estate	Estate Tax	State Death Tax Credit	Dollar Change	Percent Change
Spouse	\$186,748	\$186,748	\$0	\$0	\$0	\$186,748					
Son	\$91,741	\$30,000	\$61,741	\$1,102	\$0						
Daughter	\$91,741	\$30,000	\$61,741	\$1,102	\$0						
Sister-in-Law	\$5,000	\$0	\$5,000	\$500	\$0						
Friend	\$2,500	\$0	\$2,500	\$250	\$0						
Charitable	\$7,500	\$0	\$7,500	\$0	\$0						
Estate Tax Exemption						\$50,000					
Total	\$385,230		\$138,482	\$2,954	\$0	\$236,748	\$148,482	\$2,454	\$0	(\$500)	-17%

	Kansas Estate Value	Exemptions	Taxable Estate	Kansas Inheritance Tax	State Death Tax Credit	Exemptions	Taxable Estate	Estate Tax	State Death Tax Credit	Dollar Change	Percent Change
Spouse	\$1,681,815	\$1,681,815	\$0	\$0	\$0	\$1,681,815					
Estate Tax Exemption						\$50,000					
Total	\$1,681,815	\$1,681,815	\$0	\$0	\$0	\$1,731,815	\$0	\$0	\$0	\$0	0%

	Kansas Estate Value	Exemptions	Taxable Estate	Kansas Inheritance Tax	State Death Tax Credit	Exemptions	Taxable Estate	Estate Tax	State Death Tax Credit	Dollar Change	Percent Change
Spouse	\$0	\$0	\$0	\$0	\$0	\$0					
Daughter	\$160,326	\$30,000	\$130,326	\$3,463	\$0						
Son	\$152,197	\$30,000	\$122,197	\$3,138	\$0						
Daughter	\$134,639	\$30,000	\$104,639	\$2,436	\$0						
Son	\$120,312	\$30,000	\$90,312	\$1,959	\$0						
Grandchild	\$10,628	\$30,000	\$0	\$0	\$0						
Grandchild	\$10,628	\$30,000	\$0	\$0	\$0						
Grandchild	\$10,628	\$30,000	\$0	\$0	\$0						
Estate Tax Exemption						\$50,000					
Total	\$599,358		\$447,474	\$10,996	\$0	\$50,000	\$549,358	\$15,468	\$0	\$4,472	41%

Kansas Department of Revenue
Impact of an Estate Tax on Several Hypothetical Estates

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	Kansas Inheritance Tax					Kansas Estate Tax \$50,000 Exemption for all Estates					Dollar Change	Percent Change
	Current Law											
	Kansas Estate Value	Exemptions	Taxable Estate	Kansas Inheritance Tax	State Death Tax Credit	Exemptions	Taxable Estate	Estate Tax	State Death Tax Credit			
Spouse	\$0	\$0	\$0	\$0	\$0	\$0						
Friend	\$610,000	\$0	\$610,000	\$83,483	\$0							
Friend	\$610,000	\$0	\$610,000	\$83,483	\$0							
Great Nephew	\$33,000	\$0	\$33,000	\$3,355	\$0							
Estate Tax Exemption						\$50,000						
Total	\$1,253,000		\$1,253,000	\$170,321	\$73,169	\$50,000	\$1,203,000	\$48,150	\$73,169	(\$97,152)	-57%	
	Kansas Estate Value	Exemptions	Taxable Estate	Kansas Inheritance Tax	State Death Tax Credit	Exemptions	Taxable Estate	Estate Tax	State Death Tax Credit	Dollar Change	Percent Change	
Spouse	\$1,951,121	\$1,951,121	\$0	\$0	\$0	\$1,951,121						
Daughter	\$34,521	\$30,000	\$4,521	\$54	\$0							
Son	\$34,521	\$30,000	\$4,521	\$54	\$0							
Daughter	\$34,521	\$30,000	\$4,521	\$54	\$0							
Daughter	\$69,041	\$30,000	\$39,041	\$548	\$0							
Niece	\$28,767	\$0	\$28,767	\$2,876	\$0							
Nephew	\$28,767	\$0	\$28,767	\$2,876	\$0							
Estate Tax Exemption						\$50,000						
Total	\$2,181,259		\$110,138	\$6,462	\$0	\$2,001,121	\$180,138	\$3,404	\$0	(\$3,058)	-47%	

Estate Tax Model

Taxable Estate				Tax Rate	Excess Over
\$0	\$100,000			1.00%	\$0
\$100,000	\$500,000	\$1,000	+	3.00%	\$100,000
\$500,000	Over	\$13,000	+	5.00%	\$500,000

STATE GENERAL FUND PROFILE
In Millions

	FY 1996	Increase	FY 1997	Increase	FY 1998	Increase	FY 1999	Increase	FY 2000	Increase	FY 2001	Increase
Beginning Balance	\$ 367.0		\$ 379.2		\$ 417.5		\$ 283.4		\$ 288.5		\$ 299.5	
Released Encumbrances ⁽¹⁾	3.2		0.1									
		7.1%		4.8%		3.9%		4.8%		4.2%		4.2%
Receipts	\$ 3,448.3	\$ 229.5	\$ 3,615.3	\$ 167.0	\$ 3,755.1	\$ 139.8	\$ 3,935.1	\$ 180.0	\$ 4,101.0	\$ 165.9	\$ 4,275.2	\$ 174.2
Tax Reductions	--	--	--	--	(66.1)	(66.1)	(85.9)	(19.8)	(100.0)	(14.1)	(105.9)	(5.9)
School Finance Revenue Transfer	--	--	--	--	(70.0)	(70.0)	--	70.0	--	--	--	--
Adjusted Receipts ⁽²⁾	\$ 3,448.3	\$ 229.5	\$ 3,615.3	\$ 167.0	\$ 3,619.0	\$ 3.7	\$ 3,849.2	\$ 230.2	\$ 4,001.0	\$ 151.8	\$ 4,169.3	\$ 168.3
		7.1%		4.8%		0.1%		6.4%		3.9%		4.2%
Expenditures												
Gen. and Supp. School Aids ⁽³⁾	\$ 1,370.4	\$ 33.2	\$ 1,387.0	\$ 16.6	\$ 1,504.9	\$ 117.9	\$ 1,534.6 ⁽⁴⁾	\$ 29.7	\$ 1,647.4	\$ 112.8	\$ 1,653.1	\$ 5.7
Demand Transfer to:												
SDCIF	15.6	4.6	17.0	1.4	19.0	2.0	20.0	1.0	21.0	1.0	22.0	1.0
SHF	83.2	1.7	84.4	1.2	86.5	2.1	87.7	1.2	89.5	1.8	93.2	3.7
LAVTRF	46.3	1.7	46.9	0.6	48.1	1.2	48.8	0.7	49.8	1.0	51.8	2.0
CCRSF	34.6	1.2	35.1	0.5	36.0	0.9	36.5	0.5	37.3	0.8	38.8	1.5
CCHF	10.4	0.4	10.6	0.2	10.8	0.2	11.0	0.2	11.2	0.2	11.7	0.5
WPF	6.0	0.1	6.0	--	6.0	--	6.0	--	6.0	--	6.0	--
State Fair	0.2	0.1	0.1	(0.1)	0.1	--	0.1	--	0.1	--	0.1	--
All Other Expend.	1,872.5	86.4	1,990.0	117.5	2,041.7	51.7	2,099.4	57.7	2,127.7	28.3	2,280.2	152.5
Total	\$ 3,439.2	\$ 129.4	\$ 3,577.1	\$ 137.9	\$ 3,753.1	\$ 176.0	\$ 3,844.1	\$ 91.0	\$ 3,990.0	\$ 145.9	\$ 4,156.9	\$ 166.9
Percent Increase		3.9%		4.0%		4.9%		2.4%		3.8%		4.2%
Ending Balance	379.2		417.5		283.4		288.5		299.5		311.9	
% of Expenditures	11.0%		11.7%		7.5%		7.5%		7.5%		7.5%	
Adj. Receipts in Excess of Expend.	\$ 9.1		\$ 38.2		\$ (134.1)		\$ 5.1		\$ 11.0		\$ 12.4	

Demand Transfers

SDCIF -- School District Capital Improvements Fund.
SHF -- State Highway Fund
LAVTRF -- Local Ad Valorem Tax Reduction Fund
CCRSF -- County-City Revenue Sharing Fund
CCHF -- City-County Highway Fund
WPF -- Water Plan Fund

Demand transfers for FY 1996 were capped at no greater than a 3.7 percent increase above the FY 1995 levels with the exception of the SDCIF and the State Fair; in addition, a 1.5 percent reduction applied to the SHF transfer. For FY 1997, the demand transfers are capped at 1.4 percent growth (except SDCIF, WPF, and State Fair). For FYs 1998-2001, the transfers are capped (except SDCIF, WPF, and State Fair) at the following rate of increase: FY 1998—2.5 percent; FY 1999—1.4 percent; FY 2000—2.1 percent; and FY 2001—4.1 percent.

FOOTNOTES:

- 1) Actual FY 1996 released encumbrance.
- 2) Receipts are actual for FY 1996. Receipts for FY 1997 reflect the November, 1996 consensus estimates. Receipts for FY 1998 reflect the consensus estimates as adjusted by the Governor's recommendations for tax relief (excluding the local school mill levy reduction) for remodeling sales tax, income tax equity, business machinery, Homestead tax rebates, food sales tax credit, adoption tax credit, and insurance annuity tax, all as detailed in the FY 1998 Governor's Budget Report. In addition, a \$70 million revenue transfer as recommended by the Governor (to be used in future years to offset the ongoing expense of providing property tax relief) is reflected in FY 1998. The projections for FYs 1999 through 2001 are not consensus estimates of receipts but are based on an annual growth rate of 4.3 percent for total taxes and separate estimates for nontax revenue.
- 3) Estimate of general and supplemental school aid payments in FY 1997 were made on November 8, 1996 by the Department of Education, Division of the Budget, and the Legislative Research Department. For FY 1998 the amount reflects an increase in the base per pupil amount of \$22 from \$3,648 to \$3,670, an additional \$9.8 million to accelerate the final year of correlation weighting, and \$4.0 million in connection with an increase in at-risk weight from .05 to .06, and the reduction in the uniform property tax rate from 33 to 29 mills. The FY 1999 estimate assumes a further reduction in the uniform property tax mill rate to 25 mills.
- 4) Assumes \$70 million expenditure in FY 1999 from the Education Property Tax Relief Fund for general and supplemental school aid.

Kansas Legislative Research Department
January 22, 1997

State General Fund Profile
In Millions
FY 1996 - FY 2005

Demand Transfers 1.5 Percent Growth
Ending Balance of at Least 7.5 Percent

Property Tax Relief - All Residential; 25 Mills All Other
Additional School Support of Approx. \$30 Million Annually

	FY 1996	Increase	FY 1997	Increase	FY 1998	Increase	FY 1999	Increase	FY 2000	Increase	FY 2001	Increase	FY 2002	Increase	FY 2003	Increase	FY 2004	Increase	FY 2005	Increase
Beginning Balance(a)	\$370.2		\$379.2		\$441.1		\$354.2		\$241.2		\$191.1		\$225.1		\$357.6		\$594.5		\$949.4	
Receipts(b)	3,448.3	7.1%	3,615.3	4.8%	3,755.1	3.9%	3,935.0	4.8%	4,101.0	4.2%	4,275.0	4.2%	4,454.6	4.2%	4,641.7	4.2%	4,836.7	4.2%	5,039.8	4.2%
	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
TOTAL Receipts	3,448.3	229.5	3,615.3	167.0	3,755.1	139.8	3,935.0	179.9	4,101.0	168.0	4,275.0	174.0	4,454.6	179.6	4,641.7	187.1	4,836.7	195.0	5,039.8	203.1
Expenditures:																				
Gen. and Supp. School Aids(c)	1,370.4	\$33.2	1,367.0	\$16.6	1,437.7	\$50.7	1,500.9	\$63.2	1,526.2	\$25.3	1,528.6	\$2.4	1,518.1	(\$10.5)	1,507.7	(\$10.4)	1,489.9	(\$17.8)	1,475.1	(\$14.8)
Additional School Aid	0.0		0.0	0.0	28.8	28.8	58.8	30.0	89.3	30.5	119.9	30.6	149.9	30.0	179.9	30.0	209.9	30.0	239.9	30.0
Subtotal Gen. and Supp. School Aids	1,370.4	\$33.2	1,367.0	\$16.6	1,466.5	\$79.5	1,559.7	\$93.2	1,615.5	\$55.8	1,648.5	\$33.0	1,668.0	\$19.5	1,687.6	\$19.6	1,699.8	\$12.2	1,715.0	\$15.2
Demand Transfers:(e)																				
School District Capital Improvements Fund	15.6	4.6	17.0	1.4	18.0	1.0	19.0	1.0	20.0	1.0	21.0	1.0	22.0	1.0	23.0	1.0	24.0	1.0	25.0	1.0
State Highway Fund	83.2	1.7	84.4	1.2	85.7	1.3	87.0	1.3	88.3	1.3	89.6	1.3	90.9	1.3	92.3	1.4	93.7	1.4	95.1	1.4
Local Ad Valorem Tax Reduction Fund	46.3	1.7	48.9	0.6	47.6	0.7	48.3	0.7	49.0	0.7	49.8	0.8	50.5	0.7	51.3	0.8	52.1	0.8	52.9	0.8
County-City Revenue Sharing Fund	34.6	1.2	35.1	0.5	35.6	0.5	36.2	0.6	36.7	0.5	37.3	0.6	37.9	0.6	38.5	0.6	39.1	0.6	39.7	0.6
City-County Highway Fund	10.4	0.4	10.6	0.2	10.8	0.2	10.9	0.1	11.1	0.2	11.3	0.2	11.5	0.2	11.7	0.2	11.9	0.2	12.1	0.2
Water Plan Fund	6.0	0.1	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0
State Fair	0.2	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
All Other Expenditures(d)	1,672.5	86.4	1,666.3	93.8	2,005.6	39.3	2,015.6	10.0	2,055.9	40.3	2,097.0	41.1	2,139.0	42.0	2,181.7	42.7	2,225.4	43.7	2,269.9	44.5
Property Tax Relief	0.0	0.0	0.0	0.0	166.1	2.0%	265.2	10.0	268.5	40.3	2097.0	41.1	2139.0	42.0	2181.7	42.7	2225.4	43.7	2269.9	44.5
TOTAL Expenditures	3,439.2	129.4	3,553.4	114.2	3,842.0	288.6	4,048.0	206.0	4,151.1	103.1	4,241.0	89.9	4,322.1	81.1	4,404.8	82.7	4,481.8	77.0	4,563.3	81.5
Percent Increase		3.9%		3.3%		8.1%		5.4%		2.5%		2.2%		1.9%		1.9%		1.7%		1.8%
Ending Balance(g)	379.2		441.1		354.2		241.2		191.1		225.1		357.6		594.5		949.4		1,425.9	
Percent of Expenditures	11.0%		12.4%		9.2%		6.0%		4.6%		5.3%		8.3%		13.5%		21.2%		31.2%	
Receipts in Excess of Expenditures	9.1		61.9		(86.9)		(113.0)		(50.1)		34.0		132.5		236.9		354.9		476.5	

b) Receipts are actual for FY 1996. Receipts for FY 1997 and FY 1998 reflect the revised November 16, 1996 consensus estimates. The projections for FYs 1998 through 2001 are not consensus estimates of receipts but are based on an annual growth rate of 4.8 percent in FY 1999 and 4.2 percent in FY 2000 and FY 2001.

c) Preliminary estimates of general and supplemental school aid payments in FYs 1997 - 2000 were made on November 8, 1996. For FY 2001 through FY 2005, the projections is by the Research Department. The FY 1997 estimate is based on \$3,648 base per pupil aid; full funding of the correlation weighting factor added by the 1995 Legislature; the provisions of 1995 S.B. 150 (motor vehicle property tax reductions); 35 mills levied for the general fund of school districts in 1996, 33 mills in 1997, and 31 mills in 1998 and thereafter. An additional amount is provided each year of the profile for additional state support (FY 1998 - \$28.8 million; FY 1999 - \$30.0 million; FY 2000 - \$30.5 million; FY 2001 - \$30. million; and for FY 2002 through FY 2005 an additional \$30 million each year).

d) FY 1997 all other expenditures as approved by the 1996 Legislature and for shifting of \$18.9 million in expenditures from FY 1998 (excluding \$11.1 million reappropriated for general state aid to school districts).

e) Demand transfers for the School District Capital Improvement Fund, Water Plan Fund and State Fair all reflect current law. For the State Highway Fund, Local Ad Valorem Tax Reduction Fund, County-City Revenue Sharing Fund, and the City-County Highway Fund are capped at 1.4 percent in FY 1997 and for FY 1998 through FY 2005 are capped at 1.5 percent growth.

f) Property tax relief: all single family residential and mobile homes would be exempt from the local school mill levy beginning in CY 1997; all other classes of property would have a uniform property tax mill levy of 25 mills, also beginning in CY 1997.

Kansas Legislative Research Department
January 17, 1997

File: KG0117B

Demand Transfers 1.5 Percent Growth
Ending Balance of at Least 7.5 Percent

School Aid and Property Tax Relief/Revenue Transfer
Additional School Support of Approximately \$30 Million Annually

STATE GENERAL FUND PROFILE
In Millions
FY 1996-FY 2001

2-5

	FY 1996	Increase	FY 1997	Increase	FY 1998	Increase	FY 1999	Increase	FY 2000	Increase	FY 2001	Increase
Beginning Balance ^a	\$ 370.2		\$ 379.2		\$ 441.1		\$ 354.2		\$ 241.2		\$ 191.1	
Receipts ^b	3,448.3	7.1%	3,615.3	4.8%	3,755.1	3.9%	3,935.0	4.8%	4,101.0	4.2%	4,275.0	4.2%
General/Supp. School Aid/Revenue Transfer	0.0	0.0	0.0	0.0	(1,437.7)	(1,437.7)	(1,500.9)	(63.2)	(1,526.2)	(25.3)	(1,528.6)	(2.4)
Additional School Aid/Revenue Transfer	0.0	0.0	0.0	0.0	(28.8)	(28.8)	(58.8)	(30.0)	(89.3)	(30.5)	(119.9)	(30.6)
Property Tax Relief/Revenue Transfer ^f	0.0	0.0	0.0	0.0	(166.1)	(166.1)	(265.2)	(99.1)	(268.5)	(3.3)	(280.4)	(11.9)
TOTAL Receipts	3,448.3	229.5	3,615.3	167.0	2,122.5	(1,492.8)	2,110.1	(12.4)	2,217.0	106.9	2,346.1	129.1
Expenditures:												
Gen. and Supp. School Aids ^c	1,370.4	\$33.2	1,387.0	\$16.6	0.0	(\$1,387.0)	0.0	\$0.0	0.0	\$0.0	0.0	\$0.0
Subtotal Gen. and Supp. School Aids	1,370.4	\$33.2	1,387.0	\$16.6	0.0	(\$1,387.0)	0.0	\$0.0	0.0	\$0.0	0.0	\$0.0
Demand Transfers: ^e												
School District Capital Improvements Fund	15.6	4.6	17.0	1.4	18.0	1.0	19.0	1.0	20.0	1.0	21.0	1.0
State Highway Fund	83.2	1.7	84.4	1.2	85.7	1.3	87.0	1.3	88.3	1.3	89.6	1.3
Local Ad Valorem Tax Reduction Fund	46.3	1.7	46.9	0.6	47.6	0.7	48.3	0.7	49.0	0.7	49.8	0.8
County-City Revenue Sharing Fund	34.6	1.2	35.1	0.5	35.6	0.5	36.2	0.6	36.7	0.5	37.3	0.6
City-County Highway Fund	10.4	0.4	10.6	0.2	10.8	0.2	10.9	0.1	11.1	0.2	11.3	0.2
Water Plan Fund	6.0	0.1	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0	6.0	0.0
State Fair	0.2	0.1	0.1	(0.1)	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
All Other Expenditures ^d	1,872.5	86.4	1,966.3	93.8	2,005.6	39.3	2,015.6	10.0	2,055.9	40.3	2,097.0	41.1
TOTAL Expenditures	3,439.2	129.4	3,553.4	114.2	2,209.4	(1,344.0)	2,223.1	13.7	2,267.1	44.0	2,312.1	45.0
Percent Increase		3.9%		3.3%		(37.8)%		0.6%		2.0%		2.0%
Ending Balance	379.2		441.1		354.2		241.2		191.1		225.1	
Percent of Expenditures	11.0%		12.4%		16.0%		10.9%		8.4%		9.7%	
Receipts in Excess of Expenditures	9.1		61.9		(86.9)		(113.0)		(50.1)		34.0	

Includes actual released encumbrances.

- b) Receipts are actual for FY 1996. Receipts for FY 1997 and FY 1998 reflect the revised November 18, 1996 consensus estimates. The projections for FYs 1998 through 2001 are not consensus estimates of receipts but are based on an annual growth rate of 4.8 percent in FY 1999 and 4.2 percent in FY 2000 and FY 2001. General and supplemental school aid is treated as a revenue transfer.
- c) Preliminary estimates of general and supplemental school aid payments in FYs 1997 - 2000 were made on November 8, 1996. For FY 2001 the projections is by the Research Department. The FY 1997 estimate is based on \$3,648 base per pupil aid; full funding of the correlation weighting factor added by the 1995 Legislature; the provisions of 1995 S.B. 150 (motor vehicle property tax reductions); 35 mills levied for the general fund of school districts in 1996, 33 mills in 1997, and 31 mills in 1998 and thereafter. An additional amount is provided each year of the profile for additional state support (FY 1998 - \$28.8 million; FY 1999 - \$30.0 million; FY 2000 - \$30.5 million; FY 2001 - \$30.6 million).
- d) FY 1997 all other expenditures as approved by the 1996 Legislature and for shifting of \$18.9 million in expenditures from FY 1996 (excluding \$11.1 million reappropriated for general state aid to school districts).
- e) Demand transfers for the School District Capital Improvement Fund, Water Plan Fund and State Fair all reflect current law. For the State Highway Fund, Local Ad Valorem Tax Reduction Fund, County-City Revenue Sharing Fund, and the City-County Highway Fund are capped at 1.4 percent in FY 1997 and for FY 1998 through FY 2001 are capped at 1.5 percent growth.
- f) Property tax relief is treated as a revenue transfer; all single family residential and mobile homes would be exempt from the local school mill levy beginning in CY 1997; all other classes of property would have a uniform property tax mill levy of 25 mills, also beginning in CY 1997.

Prepared at the Request and Direction of Representative Phill Kline
Kansas Legislative Research Department
January 21, 1997



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: H.B. 2030 and H.B. 2031

January 22, 1997
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify in support of the concepts contained in both H.B. 2030 and H.B. 2031.

For the record, my name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. We are a General Farm Organization. We represent farmers and ranchers in all of the 105 counties of Kansas. What we share with you today represents the views, policy positions and adopted resolutions of those farmers and ranchers. Attached to my statement you will find the complete text of some of our tax policies, as well as our school finance policy.

The two bills before you respond very positively to a long-held position of our people -- a view shared by more and more Kansans every day. The state of Kansas should not be in the property tax field and K-12 Education is too important to all Kansans to rely so heavily on the property tax.

House Taxation
1-22-97
Attachment 3-1

On January 15, 1997, the President of my organization -- Gary Hall, a Dickinson County farmer -- commented on the Governor's State-of-the-State and budget message. (The full text of the news release with Mr. Hall's comments is attached).

In his comments, Mr. Hall said: "We support the Governor's increase in funding for education, but, Farm Bureau also welcomes property tax relief through reduction of the 35-mill statewide levy to fund education. We believe this effort needs to go further to continue to reduce property taxes in the out-years."

Mr. Chairman and members of the committee, we share the apparent view of those on this committee whose support brought about the introduction of H.B. 2030: Reduce or be rid of the property tax for elementary-secondary education. Our Farm Bureau Policy on the property tax says:

"We support a phase-out of the state property tax used for elementary and secondary education."

Other of our policies speak with consistency of "reducing the reliance on," or placing "minimal reliance on the property tax."

We invite and encourage your review of all of our policies. Keep this portion of our school finance policy in mind as you do:

"We strongly support adequate funding for a quality K-12 Education program for all students in Kansas."

This should be the year and it should be the Legislative Session of property tax relief and reform. We will listen carefully and watch closely as the Session progresses to see if we are correct in that belief ... and, more importantly, to see if you and a majority of your colleagues in both House and Senate agree.

In conclusion we want to put before you an item ... an issue ... which also needs correction. I speak of the Kansas Inheritance tax. It has been studied. It has been examined. It has passed the House of Representatives. It is time for passage of an Inheritance Tax Reform measure in both House and Senate with a signature by the Governor. We ask for your assistance in this measure as well in the 1997 Session.

Mr. Chairman, thank you for the opportunity to share our views on property taxes and other measures related to the funding of elementary and secondary schools and revenues which come into and are expended through the State General Fund.

If there are questions, I would pleased to respond at this time.

**House Committee on Taxation
KFB Attachment 1**

Property Tax

AT-3

The State of Kansas imposes a statewide 1.5 mill property tax for the support of the Educational Building Fund and the State Institutions Building Fund. There should be no additional use of statewide property taxes.

We believe the state property tax, first imposed in 1992 for school finance, should continue to be phased-out, provided existing sales tax exemptions for business, industry and agriculture remain intact. We support a phase-out of the state property tax used for elementary and secondary education. We support replacement of those property tax revenues by increasing the reliance on sales and income tax revenues.

**House Committee on Taxation
KFB Attachment 2**

**State and Local Governmental Budgeting,
Spending and Taxation**

AT-5

Kansas should have a basic tax policy of taxing people for services to people, and taxing property for services to property. We strongly support reducing the reliance on the property tax. We likewise support increasing reliance on sales and income taxes for the support of state and local governmental units. It is important to the citizens of Kansas that the state tax mix not place Kansas at a competitive disadvantage with neighboring states.

All retirement pay should be subject to the income tax at a rate or rates uniformly applicable to all retirees.

Expenditures by the State of Kansas and by local units of government in Kansas in any fiscal year should never exceed projected revenue receipts for that fiscal year. We firmly believe government spending should not rise faster than the increase in personal income for Kansas citizens and taxpayers.

Zero-based budgeting is essential to fiscal planning and should be required for all state agencies as well as all local units of government.

Kansas should have appropriate statutory and constitutional provisions to assure:

1. Limitations on State General Fund appropriations;
2. Establishment of a state reserve fund for emergencies;
3. Taxation and expenditure limitations on local units of government, including Unified School districts; and
4. A prohibition of the imposition of unfunded state mandates on local units of government.

It is important to establish a spending lid on local units of government at the same time as, or even before the state increases its sales and/or income taxes to replace property tax revenues.

**House Committee on Taxation
KFB Attachment 3**

Sales Tax

AT-4

Kansas has appropriately created justifiable sales tax exemptions for agriculture, business, industry, and many not-for-profit groups. This has been done to assist economic development and provide for competitiveness with our neighboring states. We believe existing exemptions should remain in place.

The sales tax should not be imposed on services. Those who provide the service would not pay the tax. Those of us who use the service would pay.

We oppose taxing inputs or raw agricultural products, whether by removal of sales tax exemptions or by the imposition of an excise tax, a value-added tax or a transaction tax. We believe the sales tax should be applied at the retail level. The ingredient or component part exemption should be maintained for the sound practice of economic development and for the assistance of manufacturing, business, industry and agriculture in this state.

All citizens are consumers of food and are uniformly taxed on the food they purchase. We oppose legislation to exempt food from the state sales tax.

Kansas should require out-of-state mail order companies to collect and remit to Kansas the sales or use taxes applicable within Kansas.

**House Committee on Taxation
KFB Attachment 4**

Inheritance Tax

AT-1

In Kansas there is a tax identified as an “inheritance tax,” imposed on the privilege of succeeding to the ownership of any property. The inheritance tax often makes it difficult for future generations to continue farming when the death of a family member occurs. The federal government and several states impose a similar levy under the name “estate tax.” Short of eliminating the federal estate and Kansas inheritance taxes, Congress and the Kansas Legislature should provide significant reforms to lessen the impacts, then index these taxes for inflation.

**House Committee on Taxation
KFB Attachment 5**

Public School Finance

ED-7

We strongly support adequate funding for a quality K-12 education program for all students in Kansas.

Low enrollment and correlation weighting provisions of the school finance formula should continue at current funding and enrollment levels. This funding should be maintained under any revenue mix.

The Kansas Legislature should develop school finance legislation which provides for minimal reliance on the property tax for support of public elementary and secondary schools. The major sources of revenue for school funding should be the income tax and sales tax.

We oppose use of a local income or earnings tax by any local unit of government, other than a Unified School District.

We continue to oppose a statewide property tax levy for the funding of elementary and secondary schools. We favor phase-out of the state property tax levy now part of the school finance law. We oppose any effort to abolish the taxing autonomy of school districts and any effort to place all spending control with the state.

Until the statewide property tax for K-12 funding is phased-out, we believe property tax revenues should remain in control of the USD where collected in order to provide interest income and to give local banks an opportunity to bid on and use deposits to assist with local community development. We believe school district finances, curriculum choices and building construction or remodeling decisions should remain under local authority.

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



"Professionals from the Ground Up"

Kansas Farm Bureau and Affiliated Services

2627 KFB Plaza, Manhattan, KS 66503 913/587-6000 FAX 913/587-6914

News Release

January 15, 1997

Contact: Warren Parker

Farm Bureau welcomes governor's tax reductions, looks to go further

Manhattan - The president of the largest farm organization in the state said he was generally pleased with Governor Bill Graves' State of the State address this week. Gary Hall, KFB president, said the governor put forth a good tax and revenue mix to provide economic stimulus in both rural and urban areas.

"The governor has set forth a fiscally responsible plan, and our members appreciate that," Hall said. "An increase of 2.4 percent in general fund expenditures is less than the inflation rate and still provides new funding for education, which is important."

Hall said the governor's plan to reduce reliance on property tax is a long-time Farm Bureau goal, and urged the effort to continue.

"We support the governor's increase in funding for education," Hall said. But, Farm Bureau also welcomes property tax relief through reduction of the 35-mill statewide levy to fund education. We believe this effort needs to go further to continue to reduce property taxes in the out-years."

The KFB president also praised the governor for attention to an environmental issue of importance to all Kansans.

"Farm Bureau has been a leader in abandoned water well plugging for several years," Hall said. "The governor has made water, oil and gas well plugging a priority. We know first-hand this effort will enhance protection of our natural resources."

Kansas Farm Bureau represents more than 7 out of 10 farmers and ranchers in Kansas and has a total membership of nearly 130,000 families statewide.

-30-

Media: For more quotes from Gary Hall concerning the governor's speech, call the *Farm Bureau Newsline* at 913-587-6060 and follow the directions.

KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208
22 January 1997

316-684-0082
FAX 316-684-7527

GOVERNOR'S & TAX COMMITTEE'S TAX CUT LEGISLATION

Karl Peterjohn, Executive Director

It is a pleasure to come before this committee to hear a discussion between two proposals to cut Kansas taxes in general and a broadbased property tax cut in particular. This is a delightful change from last year's Kansas legislature.

I. Let me begin by addressing the governor's property tax cut proposal:

Cutting the statewide property tax by six mills this year and four mills next year is a sizable improvement over last year but is still too cautious with the state's substantial revenue growth. This proposal only increases the tax cut under current law by four mills this year and two mills next year. This will be a total reduction of 1998 property taxes of approximately \$100 million.

However, this idea is now in line with the many 1996 proposals to phase down and eventually phase out the statewide property tax. Frankly, I was disappointed that the governor did not state this tax's elimination as a goal during his state of the state speech. However I commend the governor for proposing an improvement over current law and also proposing other tax reductions.

The governor's proposal lacks a focus which must remain targeted upon the statewide property tax and the 36.5 mills which were levied in 1996. Phasing this tax down is good. Beginning an effort to phase this tax out is better. There are additional reasons why this is needed. As long as there is a statewide property tax the entire issue of equalization of appraisals between counties will be an insoluble problem. You already see this problem with complaints between areas which abate property taxes through Industrial Revenue Bonds and areas in this state which don't. If there wasn't a statewide property tax what one community does with IRB's wouldn't matter to the rest of Kansas. Under current law it does.

The whole issue of soaring appraisals in some counties is tied to problems with the statewide property tax. If you doubt that increasing appraisals are a significant issue, you should read the extensive report from the International Association of Assessing Officers of the Johnson County appraisers office operation which was issued last year. This report included a number of areas where appraising problems exist and suggested corrective action in its recommendations.

These proposals do not provide any protection for taxpayers from soaring local mill levy hikes. Local units will take advantage of any state levy reduction to raise their millage. Many citizens whose property taxes are handled by escrow will have difficulty sorting out who is doing what with their property tax bills under these circumstances. This legislature should consider a provision which would freeze local property tax rate hikes until the state's reduction is fully implemented or at least allow a mandatory tax referendum if the local unit raises the millage.

House Taxation
1-22-97
Attachment 4



Executive Offices:
3644 S. W. Burlingame Road
Topeka, Kansas 66611-2098
Telephone 913/267-3610
Fax 913/267-1867

TO: HOUSE TAXATION COMMITTEE

FROM: KAREN FRANCE

DATE: JANUARY 22, 1997

SUBJECT: HB 2030, 2031

Thank you for the opportunity to testify. The Kansas Association of REALTORS® supports the concepts of HB 2030 and 2031.

It has been our long-standing position that real estate is burdened with an excessive share of the constantly increasing cost of state and local government. We believe real estate taxes should be used only to pay for state and local governmental services which are rendered to real estate. People related services and programs such as education should be paid for by other types of taxation. We have advocated the restructuring of state and local taxation sources for the funding of non-property related services. We urge the state to work for the restructuring of taxes to relieve the inequitable real property tax burden but also not to unfairly shift the tax burden to any tax paying entity.

Property ownership is no longer an indication of the ability to pay. When it was first instituted, years ago, the ownership of property was an indicator of wealth. That is no longer the case. For example, we have people on fixed incomes whose property has appreciated in value through no fault of their own and their property tax bills have essentially become a rental payment to the government for their homes.

When the statewide mill levy was adopted in 1992, it began another whole spectrum of property taxation, by putting the state in the business of levying property tax far beyond the 1 1/2 mills it used to levy. The state now has to worry about increases and decreases in the statewide assessed valuation and is now a reluctant player in the game of maintaining current levels.

We urge the committee to strongly consider reducing and removing the statewide mill levy and replacing it with other forms of revenue. We think it will be in the long term best interest of the state to get out of the business of assessing property taxes and into the business of removing, at least partially, the use of an antiquated tax.

We do offer a caveat, however, and that is, if you remove or reduce the statewide mill levy for schools, you have to make sure the gain for taxpayers is not eaten up by the other taxing authorities without taxpayer input. If the amount of the LOB authority is permitted to increase without protest petition or the tax lid is not renewed, then any benefits will be lost. The legislature should keep these factors in mind when addressing this issue.

Thank you for the opportunity to testify.

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Attachment -5



Since 1894

**STATEMENT OF
THE KANSAS LIVESTOCK ASSOCIATION
TO THE HOUSE ASSESSMENT AND TAXATION COMMITTEE
REPRESENTATIVE PHILL KLINE, CHAIRMAN
WITH RESPECT TO
PROPERTY TAXES**

HB 2030

HB 2031

Presented by

**LEWJENE SCHNEIDER, J.D.
DIRECTOR OF RESEARCH & LEGAL AFFAIRS**

January 21, 1997

As some of you may already know, we at KLA do not consider ourselves to be experts on school finance. However, because our members, who attempt to make a living in the livestock industry, require large investments in land and are therefore, greatly impacted by the heavy reliance on property tax to finance education, we do have a substantial stake in both property tax and school finance issues.

KLA has long been a proponent of the elimination of property tax to raise the needed revenues to fund schools. We do, however, appreciate the differing opinions and impact on various constituencies. In reviewing both of these House Bills, it appears both proposals would hold education harmless and leave money on the table for growth in school expenditures.

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Attachment 6-1

Therefore, I won't express a position on demand transfers, receipts, and sources of any replacement revenues, which may or may not be necessary to replace the elimination or reduction of the statewide property tax to finance schools. However, we do hope that you will take this opportunity to have a serious and thoughtful discussion about how to move further away from the property tax to finance schools and other local units of government.

KLA members believe that the property tax system is largely antiquated because it is a nineteenth century concept, when land ownership was more of a reliable indicator of wealth or of a taxpayer's ability to pay. It is a product of the days when our economy was based largely on agricultural activity. All those one room school houses and county courthouses had to be funded, whether or not agriculture actually made a profit.

Today, our entire society has changed dramatically. No longer is real property necessarily a reliable indicator of wealth or of the ability to pay. Remember, all property tax must be paid from income. In today's society, it is not necessarily correct to assume that a mortgaged piece of land or a mortgaged building or home is a reliable indicator of wealth.

Today, wealth is basically in the form of investments and income. There is a significant number of people in our society, and in the State of Kansas, that really don't own much property other than an automobile and therefore, don't share as much as they possibly could or should in the support and financing of education. We believe that the most appropriate sources of revenue for schools are those other than property tax. We hope you will make recognition of this fact and proceed accordingly.

CPAK

Commercial Property
Association of Kansas

1-22-97

Chairman Kline and members of the House Tax Committee:

Thank you for allowing me to appear before you today. I am Jim Allen, representing the Commercial Property Association of Kansas (CPAK). CPAK was established in 1991 to represent the concerns of commercial property professionals in Kansas.

CPAK feels that both HB 2030 and HB 2031 are going in the right direction. The ultimate goal is to provide property tax relief to all Kansans. It appears that the revenue is available to pass a meaningful property tax reduction proposal this session. It is CPAK's observation that of the two bills, one represents the floor and one the ceiling.

CPAK supports property tax reduction and believes that all property classes should be treated the same. It is a basic issue of fairness.

Whatever tax reduction package passes, CPAK believes that education should be properly funded.

Thank you again for your time this morning. I will be happy to stand for questions.

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The MAINstream Coalition of Kansas is a non-partisan alliance of informed citizens working to preserve separation of church and state, quality public education and guaranteed constitutional rights for all.

**Johnson County
MAINstream Coalition**
Rev. Robert H. Meneilly
913/648-6179

**Shawnee County
MAINstream Coalition**
Rev. Don Miller
913/234-8220

**Southcentral Kansas
MAINstream Coalition**
Marianne Foster
316/721-5326

**East Central Kansas
MAINstream Coalition**
John Estes
913/294-3160

**Lawrence
MAINstream Coalition**
Shirley Yochim
913/843-2055

**Flint Hills
MAINstream Coalition**
Jamie Ramsey
913/539-3828

January 22, 1997

Re: Support of HB 2031

The MAINstream Coalition of Kansas, representing the concerns and interests of several individual communities, endorses Governor Graves' position strengthening public education.

The State of Kansas has a long-standing interest in strong public education. The MAINstream Coalition of Kansas is encouraged by Governor Graves' willingness to support per pupil aid at \$3,670. This represents a \$22 per pupil increase in the base state aid.

At the same time, we recognize that our state has an undue reliance on the property tax. We are, therefore, pleased that the Governor has proposed in HB 2031 to lower the property tax from 33 mills to 29 mills to 25 mills in two years.

We are encouraged that Governor Graves sees the importance of a balance between property taxes and other sources of revenue. We support Governor Graves' move to lower the property tax in a careful and deliberate way. The lowering of property tax for education needs to take into account proposals which continue the strong Kansas tradition of support of public education.

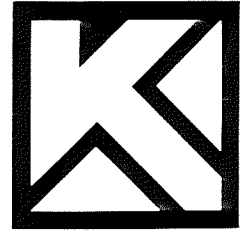
The MAINstream Coalition of Kansas is encouraged with the position taken by Governor Graves in HB 2031 and encourages the members of this committee to give serious consideration to the Governor's proposal.

Thank you.

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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

HB 2030

January 22, 1997

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Bob Corkins
Director of Taxation

Honorable Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I truly appreciate the chance to express our members' call for meaningful property tax relief. While few would dispute that HB 2030 certainly proposes that for the business community, KCCI is compelled to oppose the means by which today's plan would address these tax burdens.

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

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 46% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

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

We are pleased that both Governor Graves and the House Taxation Committee have set their sights on considerably more property tax relief than was debated in the closing days of last year's session. The proposal which passed the House and dominated the veto

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ession had been amended into SB 454. If enacted, that plan would have cut the 35-mill liability on commercial property by 9% in calendar year 1997 (the second year of a multi-year phase-out). This year, the Governor has proposed a 10-mill reduction over two years (over 28% of the school levy liability) while HB 2030 would extend the same relief to business in just one year. These numbers pale in comparison to the 100% exemption which single family residential property would receive the first year of HB 2030.

Our concerns with HB 2030 stem from its widely disparate treatment of residential and commercial property. Multi-state tax comparisons clearly identify Kansas commercial property owners as the sector most in need of property tax relief. A 1996 nationwide study by the Minnesota Taxpayers Association (published in State Tax Notes) ranked Kansas as the 12th most expensive state for urban commercial property taxes, 7th most expensive for suburban commercial, and the nation's highest in rural commercial property taxes (effective tax rates for all states were compared). The same study ranked Kansas residential property taxes as 34th highest in the country.

Other statistics also call into question the bill's heavily weighted residential tax cut. Business machinery and equipment (M&E) would benefit from a 10-mill reduction, but relief here could arguably be more justified than with any other property class. The 1995 effective tax rate on M&E averaged 2.97% across Kansas. Nebraska and Colorado's M&E rate for 1995 was 20% lower than Kansas, Missouri's was 32% lower, Oklahoma's was 66% lower, and Iowa has repealed the tax altogether. As with the nationwide comparisons, Kansas residential property tax rates are also in the middle of the pack regionally.

However, HB 2030 targets residential for more than just the lion's share of property tax relief. Residential realty accounts for 37% of the statewide tax base (1995) while commercial realty and M&E combined account for 25%. However, the 35-mill residential exemption would represent five times more tax dollars than the 10-mill reduction for these business categories (\$208 million versus \$40 million).

The inequity of the proposal is not KCCI's only concern. Although the constitutionality of this bill needs to be thoroughly evaluated, we recall that the last few times in which the Legislature desired to tax one class of property taxpayers more than others required amendments to the Kansas Constitution. This plan is defacto reclassification. Furthermore, even if constitutional, the approach would set a poor precedent: if the state sets different property tax rates for different classes, why shouldn't cities, counties or other local

governments? The many economic development disadvantages to past plans for county-option classification would apply in this context.

Finally, KCCI is troubled at the prospect of half of all general fund spending being placed off-budget. Not only would this fly in the face of notions for truth in government reporting of taxation and spending, it would subvert the whole purpose of the minimum ending balance law. If we need a 7.5% balance to meet cash flow demands, those demands will be the same whether half of the \$3.75 billion is "off-budget" or not. A simple reduction in the minimum ending balance percentage would be a more straightforward means of accomplishing the same objective.

KCCI does not seek to grasp every dime of property tax relief available solely for the business community. The most equitable and the easiest way to distribute relief -- to whatever extent the Legislature and the Administration can agree is both possible and prudent -- would be to lower the minimum USD mill levy across-the-board for all taxpayers. Homeowners would still get more tax relief than any other class, but all classes would get relief in proportion to their share of the tax base. We urge you to amend the bill accordingly.

Thank you for your time and consideration.



TO: House Committee on Taxation
FROM: Mark Tallman, Director of Governmental Relations, KASB
DATE: January 22, 1997

RE: Tax Cuts and School Funding

As the 1997 Legislature begins its debate on the issue of tax cuts, the Kansas Association of School Boards must state at the outset that our member school boards have an constitutional and statutory obligation to provide the school children of this state with an appropriate education. The State Legislature and State Board of Education have mandated many elements of the cost of this education, and simple economics dictates many other elements. The constitution of our state requires that the Legislature provide "suitable" financing for the public school system. We are therefore deeply concerned about any tax plan which threatens the ability of school districts and the state to meet those obligations.

Since a school finance and accountability system was enacted in 1992, accompanied by a significant increase in overall school district budgets, the level of budget support provided by the state has fallen far the growth in school district costs as measured by the Consumer Price Index. The budget increase in provided in 1992 has been largely eroded. But the expectation for schools - as mandated by the Legislature as well as public attitude - has not decreased at all. Schools simply cannot continue to meet current expectations with decreasing resources.

The tax cuts adopted in the past two years have contributed to the failure to maintain funding. Our deep concern is that additional reductions in state revenue will continue this trend. Despite educational enhancements recommended by the Governor, his budget plan will likely continue that trend through the end of this decade. If the Legislature attempts to cut taxes even more deeply, the impact on school districts will be even more severe.

Inflation and school district operating budgets.

School district operating budgets are declining when adjusted for inflation even as demands on schools are increasing. One major reason is the failure of the base budget per pupil to keep pace with inflation. If the base budget had been adjusted each year to reflect rising costs, it would be over \$4,000 in the current year, instead of \$3,648.

Failure to adjust the base has led to rapid growth in local option budgets as districts have struggled to keep pace with rising costs. Total local option budgets have increased from \$98.2 million in the first year of the 1992 act to a projected \$210.4 million in the current year and \$279.6 in FY. Yet the LOB is perhaps the most problematic feature of the school finance system.

Despite this increase in LOB use, total operating budgets per pupil (base budgets plus LOB divided by FTE students) have fallen to the same level as 1989-90. If the base budget is not adjusted, district budgets per pupil will fall to 1985 levels by the end of this decade. Even considering the increase schools received in 1992, school spending has now been scaled back to 1980's levels.

While budgets have been eroded, school obligations have been increased.

As the attached exhibit shows, the increased spending power that provided by the 1992 school finance act came with a host of additional and costly requirements. As spending power has fallen, none of these requirements have been repealed. In fact, they continue to be expanded.

Impact of Tax Reduction on School Budgets

Tax reductions have already had a significant impact on the state's ability to fund schools. The Governor's budget overview identifies \$168.3 million in tax reductions for FY 1998 enacted in the past several sessions. If that revenue were available for education, what could the state afford?

Example 1. The base budget could be increased to \$3975 - approximately the level necessary to have kept up with inflation since 1992; or:

Example 2. The state could do **all** of the following: reduce the threshold for state transportation aid from 2.5 miles to 1 mile to respond to student safety concerns (\$22.7 million), **and** raise the at risk pupil weighting from 5% to 20%; (\$60 million); **and** fund 100% of special education excess costs (\$60.6 million), **and** initiative the State Board of Education's early childhood program for at risk children (\$7.2 million) **and** adopt the State Board's technology grant request (\$10 million).

Impact of Proposed Budget and Tax Reductions

The Governor's budget for FY 1998 provides \$46 million in enhancements for school funding: a \$22 increase in the base budget (\$12 million); \$20 million to increase correlation weighting; \$10 million to maintain special education; and \$4 million to increase the at-risk weighting factor from 5% to 6%.

This increase of \$46 million represents about 2% of the total school district general and supplemental budgets of \$2.2 million: only about two-thirds the rate of inflation. This follows four straight years that budgets per pupil were increased less than inflation.

The Governor's projections for the next two fiscal years indicates that the entire budget "flexibility" for spending on all programs or tax reductions will be less FY 1999 and FY 2000 than the amount spent on educational enhancements alone for FY 1998. If school aid programs received half of the "flexibility" in those two years, the base budget could be increased by \$48 in FY 1999 and \$30 in FY 2000. That would be well below a reasonable expectation of inflation, and would leave no money available for other educational priorities, such as special education or changes in weighting factors.

The alternative plan under consideration by the House Tax Committee projects an additional \$30 million annually for state school aid. That represents an approximate 2% increase in state aid - less than the currently rate of inflation. But school district general and supplemental general (LOB) budgets total \$2.2 billion, so \$30 million really represents a 1.36% increase - less than half the rate of inflation.

Conclusion

The state of Kansas cannot ask more of its public schools without being willing to pay for it; and it certainly cannot ask for more while paying less in real terms each year. Yet that is what we have been doing. Our education system cannot sustain this course indefinitely. The Legislature must soon decide: does it want more tax cuts or does it want improving schools? Sooner or later, we cannot have both.

State Mandates on School Districts with Budget Impact since 1990

- 1991 Mandatory inservice programs for all districts. (State aid is provided, but since 1991 the formula has never been fully funded.)
- 1991 New restrictions on school board's ability to remove tenured teachers for any reason, including the need for reduction in force.
- 1992 Minimum school year increased by six days.
- 1992 New accreditation system mandated, requiring school improvement plans and a new student assessment program.
- 1992 Mandatory breakfast programs required for many schools.
- 1992 School site councils required ("sunset" repealed in 1994).
- 1995 New reporting requirements (school report cards and school safety act).
- 1996 Special education aid falls to 80% of "excess cost," down from 90% in 1992 and 95% in 1986.
- 1996 Qualified admissions requires technology proficiency, but no state technology aid is provided.
- 1996 Compulsory attendance age increased from 16 to 18 (unless parent allows dropping out).

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Actual and Projected Operating Expenses Per Pupil 1985-86 through 1998-99, Discounting Inflation

