Approved: March 14, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on March 13, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Lee, Senator Bond, Senator Donovan, Senator Goodwin, Senator Hardenburger, Senator Karr, Senator Praeger, Senator Steffes and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Dr. Bartley Hildreth, Wichita State University
Bernie Koch, Wichita Area Chamber of Commerce
Karen France, Kansas Association of Realtors
Hal Hudson, National Federation of Independent Business
Paul Fleener, Kansas Farm Bureau
Bob Corkins, Kansas Chamber of Commerce and Industry
Rich McKee, Kansas Livestock Association
Karl Peterjohn, Kansas Taxpayers Network

Others attending: See attached list

HB 2031-- Enacting the education and tax reform act of 1997.

Dr. Bartley Hildreth, Professor of Public Finance at Wichita State University, presented personal testimony based upon his professional expertise, not as an expression of the position of the Board of Regents or Wichita State University. He addressed only the provision for a property tax exemption for single family residences. Dr. Hildreth served on the 1995 Governor's Tax Equity Task Force. The task force concluded "that adoption of a residential homestead property tax exemption would be poor public policy." He discussed the possible implications of a homestead exemption and cautioned the committee that once a property gains exemption, it is politically difficult to stop the program once it begins. He concluded that any use of a dollar-value homestead exemption is a negative signal to any business considering investing in Kansas or maintaining its presence here. (Attachment 1)

Bernie Koch, Wichita Area Chamber of Commerce, followed with testimony in support of some of the provisions of **HB 2031**. He had no official position on the homestead exemption; however, he urged the committee to give it careful consideration before enacting it. Many chamber of commerce colleagues in other states where homestead exemptions were enacted have complained that education suffered and the burden of funding education shifted to business. (Attachment 2)

Karen France, Kansas Association of Realtors, testified in support of the concepts in **HB 2031**. It is the position of the Kansas Association of Realtors that real estate is burdened with an excessive share of the constantly increasing cost of state and local government; and it advocates the restructuring of taxes to relieve the inequitable real property tax burden and also not to unfairly shift the tax burden to any tax paying entity. (Attachment 3)

Hal Hudson, National Federation of Independent Business, testified in support of some of the provisions of **HB 2031**. He discussed points that will have a direct impact on small business and urged approval of bringing Kansas into conformity with federal estate tax law. (Attachment 4)

Paul Fleener, Kansas Farm Bureau, testified in support of some of the concepts contained in **HB 2031.** The

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:00 a.m. on March 13, 1997.

Kansas Farm Bureau supports the thrust of the legislation to remove some portion of the property tax for the support of elementary and secondary schools and to change the Kansas inheritance tax. (Attachment 5)

Bob Corkins, Kansas Chamber of Commerce and Industry, testified in support of provisions in **HB 2031** regarding property tax relief, the 10 percent income tax credit for business machinery and equipment, and the repeal of the sales tax on construction and remodeling services. He believed the most troublesome aspect of the bill is the inclusion of a homestead exemption for single-family residences. (Attachment 6)

Rich McKee, Kansas Livestock Association, focused his comments on **HB 2031** on the reduction of the statewide mill levy verses the expanded homestead exemption. Kansas Livestock membership prefers the property tax reductions be provided by lowering the mill levy equally for all classes of taxpayers. (Attachment 7)

Karl Peterjohn, Kansas Taxpayers Network, gave final testimony on **HB 2031**. He believed that tax reductions should be broad based, stimulate economic growth, and be balanced between Kansas taxpayers. Mr. Peterjohn supported the enactment of a broad based package of tax cuts which totals an amount closer to the House version of the bill. (Attachment 8)

Senator Langworthy called attention to written testimony on **HB 2031** which was submitted by Jim Allen, Commercial Property Association of Kansas (Attachment 9); Dennis Jones, Kansans for Local Control (Attachment 10); and Craig Grant, Kansas National Education Association (Attachment 11).

Senator Bond moved to remove the House provisions in **HB 2031**, maintaining the education provisions, to be replaced by the Governor's seven recommendations, and to recommend the bill be amended to reflect the language passed by the Senate on machinery and equipment exemption, on tax credits, and on adoption credits. Senator Hardenburger seconded the motion.

Senator Bond explained his reason for the motion. He felt that it was vital that the bill be moved out of committee so the it can be considered by the Education Committee, to which the bill was separately referred. The sooner the bill gets out of committee, the sooner it will get to the Senate floor where an attempt to reach a consensus can be made.

Senator Karr felt that the committee should have an opportunity to work on the bill collectively before acting on it. Senator Steineger echoed his concern and indicated that he supported the $40,000 homestead exemption.

On a call for a vote on Senator Bond's motion, the motion carried.

The meeting was adjourned at 11:58 a.m.

The next meeting is scheduled for March 14, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: March 13, 1997

NAME	REPRESENTING
BART HILDRETH	professor
Jim Allen	CPAK
Patrick J. Hurley	KLC/KEC
Paul E. Fleener	Kansas Farm Bureau
Bob Corkins	KCCI
HAROLD PITTS	OBSERVE
Diane Gjerstad	USD 259
Rich McKee	KLA
Bill Jarrell	BOEING
Dean Burnett	USD 501
Harriet Lange	Ks Assn B Casters
Kathie Sparks	DOB
Mike Reecht	AT&T
Hershel Pace	cit.
DONALD SNODGRASS	KANSAS FOOD DEALERS ASSOC
JASON PITSENBERGER	BRAD SMOOT
Sue Chase	KNEA
Ashley Sherard	Overland Park Chamber
Nichole Lambrecht	Topeka West HS

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: March 13, 1997

NAME	REPRESENTING
Christy Caldwell	Topeka Chamber of Comm
Ed Spiess	Peterson Public Affairs
Karl Peterjohn	KS Taxpayers Network
Karen Lowery	KTSB
Sonja Erickson	Office of the Senate Minority leader
[illegible] Brown	mid-Am Lumbermen
Karen French	Ks. Assoc of REALTORS
Joyce Coker	Johnson County Government
Robin Lehman	Olathe USD 233
Jacque Oakes	SQE
Julie Hein	Hein & Weir

Implications of a Property Tax Homestead Exemption

W. Bartley Hildreth
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Hugo Wall School of Urban and Public Affairs, and
W. Frank Barton School of Business
Wichita State University
Wichita, KS 67260-0135
316-978-6332
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Thank you for the opportunity to speak today on a proposal before the Kansas Legislature to establish a property tax exemption for single family residencies. Specifically, I refer to Article 16 of House Bill No. 2031, as amended by House Committee of the Whole.

I am honored to be asked to give personal testimony based upon my professional expertise. Please recognize, however, that my comments should not in any way be taken as expressing a position or opinion of the Board of Regents, the Wichita State University, or any of the university's programs or units.

Governor's Tax Equity Task Force

In the Summer of 1995, Governor Graves appointed a Tax Equity Task Force. I was honored to have been appointed. Our charge was to review the Kansas tax system. To facilitate that work, I headed the research team that produced original research on the status of Kansas state and local taxes. The Task Force held hearings around the state to hear the concerns and desires of taxpayers. One important result was that we gained a new appreciation of what each of you must go through every day as you seek to balance competing voter concerns.

The Task Force reviewed the research and testimony, and then concluded its work in December 1995 by making several recommendations. My appearance today directly addresses one of those recommendations (on page 17 of the *Report of the Governor's Tax Equity Task Force*), specifically:

> "The task force concludes that adoption of a residential homestead property tax exemption would be poor public policy."

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Attachment 1

Before I discuss the rationale for such a conclusion, it may help to clarify several points. We are not talking about the homestead exemption that protects homesteads from certain forced sales.

Furthermore, I am not focusing on the targeted income tax rebate program designed mainly for the elderly who fall below certain income levels. This property tax rebate program applies to owners and renters alike. As such, it is similar to a "circuit breaker" form of tax relief, that is, a program designed to avoid "overloading" certain vulnerable taxpayers. There is a part of H.B. 2031 that appears to expand the income tax rebate program in a way that is consistent with another recommendation of the Governor's Tax Equity Task Force.

In contrast, the proposed new program to exempt $40,000 of the appraised valuation of property used as a single family residence is not consistent with the recommendation of the Tax Equity Task Force. It is for that reason that I would like to give you some background on the possible implications of a homestead exemption. These comments do not mean that every possible effect will occur in Kansas, but they provide perspective to some public policy implications of a homestead exemption.

Possible Implications of a Homestead Exemption

A homestead exemption is a fixed-dollar exemption for residential property owners. The state with the broadest and most generous homestead exemption is Louisiana. An owner of a homestead that does not exceed 160 acres can request the exemption of $7,500 from assessed value. Given Louisiana's 10% assessment ratio on residential real estate, the effect is to remove a $75,000 homestead from nearly all school and local government property taxes. As a result, nearly 90 percent of the tax burden falls on business. This does not foster a very favorable business climate.

Sometimes the best lessons come from the worst case example. Given that there is a dearth of analytical research on the topic, the research on the Louisiana experience will guide this presentation.

As usually formulated, a homestead exemption reduces property taxes on owner-occupied residential property by exempting a certain amount of a home's value from taxation. H.B. 2031 has a different slant on this theme. The bill proposes to exempt "property used as a single family residence, to the extent of $40,000 of its appraised valuation." Thus, it is not only the legal status of the exemption itself, but the use of the term "single family residence," that deserves attention.

The legal basis of the proposed homestead exemption in H.B. 2031 must be reconciled with Article 11, Section 1, of the Constitution of the State of Kansas, that says, in part, " . . . the legislature shall provide for a uniform and equal . . . rate of taxation of all property subject to taxation." While deferring to lawyers for the definitive interpretation, on the surface it seems that the Constitution imposes a difficult hurdle for a homestead exemption. This does not consider the recent state Supreme Court decision that broadly interpreted the Legislature's powers of taxation. However, the Constitution seems more precise about property taxation than the income tax. Further clouding the legal standing of such a proposal is the oversight offered by Judge Bullock, and the implications that he might draw on the effects of a homestead exemption on school finance and the "uniform and equal" basis for the property tax.

The Constitution breaks the uniformity principle in one way by allowing the classification of property. Residential property with a 11.5% classification ratio includes "real property used for residential purposes including multi-family residential real property and real property necessary to accommodate a residential community of mobile or manufactured homes including the real property upon which such homes are located." When H.B. 2031 uses the term "single family residence" it appears to cover only one part of this grouping.

The use of the term "single family residence" appears to exclude many forms of residential properties, including: duplex, triplex, fourplex, condominiums, mobile home sites, apartments, and residential dwellings converted to apartments. In so doing, the proposal appears to bestow a benefit on one group but not on the others. Currently, property owners may have little reason to challenge the tax assessor's distinctions in the use of terms such as duplex or condominium, or whatever. Once the definition leads to a tax exemption, however, property owners may be more likely to legally question the assigned definition.

A homestead exemption can introduce inequity between renters and owners. Renters of property pay a rental price that must cover the owner's property taxes, though the renter does not know how much of the rent goes for taxes. Under the proposed homestead exemption, only a single family home would be exempt from the applicable property tax. Furthermore, there is no evidence that owners will reduce rents to compensate for the reduced tax liability, especially if the reduction applies for just one year.

A dollar-specific exemption sets up incentives to underassess higher-value property and overassess lower-valued properties. In Kansas this may not be nearly the same problem as in other states. The reason is that Judge Bullock retains an interest in property assessment uniformity. Furthermore, county assessors have to maintain certain professional standards. The challenge is to maintain, and improve, on this legacy. Otherwise, the property tax system may evolve into the problems found in Louisiana, for example. There, the homestead exemption reduces the incentive to correctly appraise residential property that falls under the exemption. Any appraisal effort for such a property has little value if the property escapes all or most of the tax. In a related way, there is also little incentive for the tax assessor to correctly assess property that may fall over the exemption amount. This situation arises because such high-value property would face full taxation on the amount over the exemption level, an event likely to cause severe taxpayer dissatisfaction.

Once a property gains an exemption, often it retains that status even if it is used in part for commercial or profit-making purposes. There is little incentive for property owners to correctly report changes in status since by doing so will subject the property to full taxation. Legal changes in title status and property transfers may also emerge as ways to gain and maintain homestead status.

As drafted, the proposed homestead exemption appears to last for one year. The evidence from other states suggests that it will be politically difficult to stop the program once it begins, especially in an election year. If you assume, however, that the homestead exemption will last only one year, then the additional administrative and computer programming requirements that every county will have to undertake will then have to be reversed in the following year. The cost of this unfunded mandate is unclear.

The dollar value of homestead exemptions tends to grow over time, not decline. It is politically difficult to remove a homestead exemption program once it is established. Taxpayers get use to the exemption, and do not care to have their tax rates go up. Just the opposite, the dollar-value of the exemption is likely to increase over time, further eroding the property tax base or requiring larger amounts of substitute revenues.

Perhaps the worst effect of the traditional homestead exemption is that homeowners facing little if any tax liability can vote to increase taxes on other types of property owners. The version contained in H.B. 2031 does not directly introduce this problem. The proposed homestead exemption appears to apply only to the statewide minimum school levy. If the exemption program expands to include all local government levies, however, it could lead to this result. Any movement along this path quickly labels the state as having an unfriendly business climate.

A homestead exemption that applies only to education levies may discriminate against non-education programs. This suggests that while the program might initially apply only to the uniform school levy, there may be incentives to expand the exemption to tax levies supporting other types of services. Exemptions beget new exemptions.

A homestead exemption may foster a regressive tax policy. As envisioned, the homestead exemption provides tax relief to everyone who is wealthy enough to own a home, but offers nothing to the vast number of residents who live in rental property. Since lower-income residents often lack the capital to invest in property ownership, they likely live in rented homes and apartments. Furthermore, a homestead exemption of $40,000 is not adjusted for wealth, but applies to all single family residences.

A homestead exemption can shift the tax burden. If there is not an alternative source of money to offset the tax exemption, or spending is not reduced, then the remaining taxpayers face increased burdens. The homestead exemption in H.B. 2031 appears not to shift the tax burden during tax year 1997 since it provides an offsetting revenue source, though that source is a draw down of the State's prudent fund balance. However, this design leaves other property owners (those not contained in the residential single family grouping) with the tax burden for school finance. Moreover, if the exemption grows beyond its initial use, then the tax burden on residential property may shift more directly to other property. This is because traditional homestead exemptions can force up the tax rate on the remaining taxpayers since the same tax rate generates less in property taxes because the tax base is smaller.

The average Kansas business pays higher tax rates than residential owners. During tax year 1995, for example, the business tax burden was 220 percent higher than the average residential property owner.

	1995 Effective Tax Rate
Residential real property	1.48%
Commercial and industrial real property	3.25%
Business machinery and equipment	3.19%

These results reflect the favorable assessment system for residential property voted in as the 1992 Amendment to the state Constitution. Under the terms of that Amendment, commercial and industrial property is assessed at 25 percent of fair market value while residential property is assessed at only 11.5 percent. Instead of helping to alleviate some of this added tax burden, Article 16 of H.B. 2031 adds to this inequity.

Business also faces a high effective property tax on commercial and industrial machinery and equipment, also known as tangible personal property. To put this tax into perspective, residential property owners do not face a similar tax on household furniture, nor do farmers face a tax on their inventory of farm animals that produce income. Legislative proposals to reduce the tax burden on machinery and equipment are consistent with the need to restore the state to a competitive position for new business growth, and are consistent with specific recommendations of the Governor's Tax Equity Task Force.

In conclusion, it is a political truism that no one likes to pay taxes, but it is an economic truism that only people pay taxes. While a tax may be legally levied against a business, and the check written by that business, the real effect is that one or more people actually make the economic sacrifice. For example, a store owner may raise customer prices to cover the tax amount, or the owner may pay the workers a little less than might otherwise be the case, or the owner will have to take less income. Rest assured, there is no hidden pocketbook that business taxes are paid out of. Thus, any use of a dollar-value homestead exemption is a negative signal to any business considering investing in our state, or maintaining its presence here.

Thank you for your patience, and I will be happy to try to answer any questions that you may have.

March 14, 1997

Testimony on H.B. 2031
March 13, 1997
Senate Assessment and Taxation Committee

Bernie Koch
Wichita Area Chamber of Commerce

Senator Langworthy, members of the Committee, thank you for the opportunity to appear today on House Bill 2031. I'll be brief in the interest of time. I'm Bernie Koch with The Wichita Area Chamber of Commerce.

Although I'm listed as a proponent, I'm merely a proponent of some of the provisions of the Education and Tax Reform Act of 1997.

I was not able to be here when you held hearings on Senate Bill 51, the refundable income tax credit for 10 percent of property taxes paid on commercial and industrial machinery and equipment. That provision is in this bill, and we certainly support it and thank you for your support of it in Senate Bill 51. It will be particularly meaningful to South Central Kansas, where we have so many manufacturing jobs.

We also support the provisions of this bill which reduce the statewide mill levy for schools. Kansas property taxes on commercial and industrial real property and machinery and equipment are high compared to our neighboring states.

We support the sales tax exemption in this bill on remodeling. This will be very helpful in our downtown renovation efforts. In particular, our downtown development people tell me that this could go a long way toward making the renovation of the Keene-Cutter Building in Wichita's Old Town a reality.

I know this bill has also been referred to the Education Committee to examine the school finance portion, but I will tell you we favor the acceleration of the correlation weighting.

Although we don't have an official position on the homestead exemption, I urge you to give it careful consideration should you decide to enact it. Our concern is based on conversations with chamber of commerce colleagues in other states, particularly in the South, where homestead exemptions have been enacted and increased over the years without regard for replacing the exempted revenue. Not only does education suffer, but the burden of funding education shifts to business.

That does not mean it can't work here, but we believe you should give careful consideration before enacting one and it should be diligently reviewed periodically to avoid the pitfalls which other states have experienced.

Thank you for the opportunity to appear before the committee today.

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Attachment 2

KANSAS ASSOCIATION OF REALTOR

REALTOR®

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TO: SENATE ASSESSMENT AND TAXATION COMMITTEE

FROM: KAREN FRANCE, DIRECTOR OF GOVERNMENTAL AFFAIRS

DATE: MARCH 13, 1997

SUBJECT: HB 2031, THE EDUCATION AND TAX REFORM ACT OF 1997

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS® I appear today in support of the concepts presented in HB 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. The increasing valuation of properties as represented by the Change of Value notices recently sent to property owners only complicates the issue and frustrates the property taxpayers.

We urge the committee to strongly consider reducing the statewide mill levy as much as possible and replacing it with other forms of revenue. While the exact combination of this tax package may not be perfect, we think it will be in the long term best interest of the state to develop a plan to get out of the business of assessing property taxes and into the business of removing, to the extent possible, the use of an antiquated tax.

Thank you for the opportunity to testify. I will be happy to answer any questions you might have.

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Attachment 3

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K A N S A S

LEGISLATIVE TESTIMONY

NFIB
National Federation of Independent Business
The Voice of Small Business

Testimony of Hal Hudson, State Director
Kansas Chapter of the National Federation of Independent Business
Before the Kansas Senate Assessment and Taxation Committee
On House Bill 2031
March ~~14~~, 1997
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Madame Chairwoman and members of the committee: Thank you for allowing me to testify today in support of some of the provisions of H.B. 2031.

My name is Hal Hudson, and I am State Director for the Kansas Chapter of the National Federation of Independent Business. Our members are small and independent business owners, representing a broad spectrum of types of businesses, with one thing in common. They are small.

While NFIB members strongly support some of H.B. 2031, there is no part of this bill for which our members have expressed specific opposition. However, we recognize there are issues of State policy in H.B. 2031 which only obliquely affect small and independent business owners. We will leave those for others to discuss, and respectfully leave those tough decisions such as school funding and ending balances to the wisdom of the Legislature.

The points I will address are easily identified as having some direct impact on small business. They include:

1. Reduction of the property tax levy to 27 mills this year and 25 mills next year.
2. Refundable income tax credit of 10 percent of property taxes paid on commercial and industrial machinery and equipment.
3. Exemption from sales tax on labor services associated with remodeling, etc.
4. Repeal of the Kansas inheritance tax and replacement with a federal pick-up estate tax.

First, NFIB members have indicated on State Ballots for the past three years a desire to totally eliminate the state-levied property tax. While we would like to take that levy to zero this year, we recognize that's not likely to happen. We urge you to accept the reduction in the mill levy passed by the House, or reduce it further if possible.

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3601 S.W. 29th St., Suite 116-B · Topeka, Kansas 66614 · 913-271-9449 · Fax 913-273-9200

Second is the refundable income tax credit of 10 percent of property taxes paid on commercial and industrial machinery and equipment. While property tax is the most difficult for small business owners to pay, it is the personal property tax -- on business machinery and equipment that is most despised. The Governor has recognized that commercial and industrial enterprises are the only Kansas taxpayers burdened with this tax, and he has built into the budget the funds to allow this credit. You often have heard in testimony from Kansas, Inc., how the taxes on Kansas business are too high, and are disproportionately high, compared with our neighboring states. We urge you to retain the 10 percent income tax credit.

Third is exemption from sales tax on labor services associated with remodeling, etc. The Governor requested this exemption and has built its cost into the budget. You already have heard the arguments for this tax exemption, and acted upon the issue. Whether it is a part of H.B. 2031, or as a stand-alone issue, we urge you re-insert the "repair" language approved by this committee, and not to let this exemption slip away.

Fourth: Repeal of the Kansas inheritance tax and replacement with a federal pick-up estate tax. Small business owners who have spent their lives building a business for their families face the unpleasant prospect of that business being sold out from under their heirs just to pay Kansas taxes after their death. It has been estimated that this change could result in a loss of revenue in the magnitude of $40 million a year. That has to be pure speculation, based on historical data. Consider how the State might gain if entrepreneurs could spend their time building a bigger business, providing more jobs, and paying more income and property taxes -- instead of trying to shelter their heirs from Kansas death taxes. It is not often that you will hear me say the "feds" have a better way, but this is one of those times. We urge you to approve bringing Kansas into conformity with federal estate tax law.

Thank you for your attention.

Ka...sas Farm Bureau

PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

RE: H.B. 2031

March 13, 1997
Topeka, Kansas

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

Madam Chair and Members of the Committee:

Thank you very much for the opportunity to testify in support of some of the concepts contained in HB 2031. You will see from the attached House testimony, added only to show you our consistency, that we testified in support of the property tax reduction aspects of HB 2030 and HB 2031 on January 22, 1997, when the House Committee on Taxation held hearings on both of those bills.

We are not here today to give a blanket endorsement of HB 2031. We do, however, support the thrust of the legislation to remove some portion of the property tax for the support of elementary and secondary schools. Our members have indicated their desire to move away from the use of the property tax…reduce reliance on the property tax…for the funding of K-12 education.

For the record, my name is Paul E. Fleener. I am the Director of the Public Affairs Division for the 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.

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Attachment 5

.B 2031 goes beyond what our policy positions support. However, favorable outcomes...property reduction, tax reform for the state of Kansas, tax fairness for all Kansans and funding for our elementary and secondary schools...are contained in this bill. We are in support of a reduction in the state imposed property tax levy.

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). We incorporated some of Mr. Hall's comments in our testimony before the House Committee on January 22. 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."

We share the view of those in this legislature who believe it is time to reduce or eliminate property tax for elementary-secondary education. Our policy on property tax says:

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

Many of our policy positions speak of "reducing the reliance on," or placing "minimal reliance on the property tax." We invite you to review all of our policies. As you do, keep this portion of our school finance policy in mind:

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

We told the House Committee on January 22...and we share with you today...our strong support for a change in the Kansas Inheritance tax. It has been examined over the course of a number of years by various tax committees in this legislature. Inheritance tax reform passed the House of Representatives last year. It did not move forward from this committee. It has become a part of HB 2031. **We very strongly support the Inheritance tax reform contained in HB 2031.** We ask you to retain that language in this legislation...and support it as you conference wit Iouse. Please keep the Inheritance tax reform as now set forth in HB 2031, replacing the Kansas Inheritance Tax with a federal "pick-up" estate tax. As you know, the federal estate tax needs reform, and we are working on that at the national level. We ask for your assistance on this important matter in this, the 1997 Session of the Legislature.

Madam Chair, we appreciate the opportunity to share our views on property taxes and some of the other measures contained in the funding of elementary and secondary schools. We appreciate the suggestions and proposals made by the Governor in his State of the State message to bring fairness to the tax code and tax structure of this state. We believe that you and the members of the House of Representatives can come to an agreement, with revenues available for significant and uniform reduction of property taxes for all classes of property taxpayers in this state.

We do not support the de facto classification contained in HB 2031 which seeks to reduce the mill levy for one class of property to a greater degree than it does for any other class. We think the levy should be the same for all, **but it should be phased-out.**

The property tax should not be utilized to the degree it is today for the funding of elementary and secondary schools. The ownership for property is not a good measure of wealth or ability to pay taxes. We pay taxes out of income. Farmers do…as do taxpayers throughout the state, regardless of their vocation, work or profession. Let's bring Kansas into compliance with that appropriate theory of taxation. We thank you for the opportunity to share our views. If there are questions, I would be pleased to respond at this time. Thank you.

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.

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.

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.

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KFB Attachment 4

ASSESSMENT AND TAXATION
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.

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.

The Farmers and Ranchers
of Farm Bureau
"Professionals from the Ground Up"
Kansas Farm Bureau and Affiliated Services
2627 KFB Plaza, Manhattan, KS 66503 913/587-6000 FAX 913/587-6914

House Comr on
Taxation
KFB Attachment 6

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.

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.

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.

LEGISLATIVE TESTIMONY
Kansas Chamber of Commerce and Industry

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

HB 2031 March 13, 1997

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment and Taxation

by
Bob Corkins
Director of Taxation

Madam 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 significant property tax relief. Few would dispute that HB 2031 represents a major stride in the business community's pursuit of that objective.

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.

Obviously, property tax relief is not the only subject addressed by this proposal. I'll highlight two other components which KCCI is actively supporting: the 10% income tax credit for business machinery and equipment and the repeal of the sales tax on construction remodeling services. You

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ha   eard our position and rationale for these initiatives in testimony on Senate Bills 44 and 51 Each measure has passed the Senate on a vote of 40 to 0. There are other parts of HB 2031 which would be of benefit to the business community, but KCCI has established its priorities and for this year will leave the disposition of all remaining tax issues in this bill (other than property tax relief, SB 44 and SB 51) to your discretion.

The most troublesome aspect of HB 2031's property tax proposal is its inclusion of a "homestead" exemption for single-family residences. For our reasons cited below (which were earlier presented to this committee), KCCI advocates that this component be stricken and that the state funds it would encumber be otherwise devoted to an across-the-board reduction of the minimum USD mill levy. If the first-year cost of the "homestead" provision were redirected to an even levy reduction for all property classes, the 1997 levy could be cut to 21 mills.

KCCI is well founded in contending that multi-state tax comparisons 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.

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, KCCI does not seek to grasp every dime of property tax relief available solely f the business community. Nor do we argue for the lion's share of relief even though a compelling case can be made for that approach. A fair way which would easily be the most expeditious method of distributing relief 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.

HB 2031 would not achieve all of the property tax reduction that is needed for Kansas businesses. The multi-state comparisons show Kansas property tax rates generally one-third higher than our nearby competing states. KCCI maintains that an approximate one-third reduction in the overall state commercial effective tax rate is an appropriate target. It is not imperative that this degree of reduction be done in just one or two years, but the sooner it can be done, the better. The second year 25-mill levy in today's bill would take 30% of the average 1995 mill levy and make it about 28% smaller, so you can see how much farther there is to go. We support an even-handed levy reduction for all property classes, to whatever extent the Legislature and the Administration can agree is both possible and prudent, and we appreciate the strong effort that HB 2031 represents.

Thank you for your time and consideration.

KANSAS LIVESTOCK ASSOCIATION

Since 1894

Testimony

presented by

Rich McKee
Executive Secretary, Feedlot Division

regarding

House Bill 2031

before the

Senate Committee on Assessment and Taxation

March 13, 1997

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing over 7,300 members on legislative and regulatory issues. KLA members are involved in all segments of the livestock industry including cow-calf, feedlot, seedstock, swine, dairy and sheep. In 1996 cash receipts from agriculture products totaled over $7.5 billion, with sixty percent of that coming from the sale of livestock. Cattle represent the largest share of cash receipts, representing ninety percent of the livestock and poultry marketings.

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6031 SW 37th Street Topeka, KS 66614-5129 (913) 273-5115 Fax (913) 273-3399 E-MAIL: kla@kla.org

Chairperson Langworthy and members of the Senate Committee on Assessment and Taxation, thank you for the opportunity to testify. My name is Rich McKee and I am representing the Kansas Livestock Association.

We want to focus our comments on the reduction of the statewide mill levy versus the expanded homestead exemption. The KLA membership would prefer the property tax reductions be provided by lowering the mill levy equally for all classes of taxpayers.

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.

KAN' ' S TAXPAYERS NETWORK
P.C 20050
Wichua, KS 67208
13 March 1997

Testimony on H.B. 2031
by Karl Peterjohn, Exec. Dir.

Kansas taxes are too high. A significant tax cut is needed in this state. There are two plans. The first would cut taxes a little over $100 million. The Kansas House version would almost double that tax cut. KTN favors the larger tax reduction. This is particularly true since tax relief in general or property tax cuts in particular were not enacted last year.

Broadbased tax relief is needed. It is needed for homeowners, for business, for rural Kansas. The property tax reduction in both packages cut the statewide mill levy. With state revenue growth KTN would prefer a deeper reduction in the statewide mill levy. The tax reductions should be broadbased, stimulate economic growth, and balanced between Kansas taxpayers.

KTN receives many calls from unhappy taxpayers. We get more complaints on property taxes than of all other taxes combined. This is why KTN would like to see the statewide mill levy phased down as rapidly as possible and eventually phased out. One key point to consider in this type of tax cut which needs to be considered. A reduction in property taxes is partially offset through increases in state income tax revenues. This excludes any dynamic scoring for economic growth which is contained within this tax cut. With a static analysis it is clear that a reduction in property taxes of $1 will cost the state less than 94 cents because of the recapture effect of the state income tax and the decrease in property tax deductions.

The homestead exemption passed by the house expands the homestead exemption in current law and the increase proposed by the governor. If broadbased, across-the-board millage cuts which cut more than 10 mills in the property tax are not enacted this year than the $40,000 homestead exemption on state taxes is needed. Some may complain that this is unfair between homeowners and business. That is why KTN prefers an across the board cut which is proportional for everyone. If sizable across-the-board cuts can not occur a homestead exemption is needed for homeowners while businesses receives a number of other tax cuts in both proposals this committee is examining.

Another reason to focus upon property tax cut is due to rising property appraisals. Rising property taxes in many counties across this state are being caused automatically by soaring appraisals.

I was surprised at the number of single taxpayers who did not know about the discriminatory rates between single and married taxpayers in this state. This variance in tax rates is addressed in both bills and should be enacted. Since December I have received more calls on discriminatory income tax rates second to only property taxes.

Broader tax cuts are preferable to narrow, targeted tax cuts. Certain tax cuts must be considered carefully by this committee. I have heard from Sedgwick County officials that the current seniors/disabled homestead exemption program is only utilized by a small number who are eligible. Expanding this type of narrow, targeted program which may not be meeting its current objectives is not the best way to cut Kansas taxes.

In a similar way the earned income tax credit which was added in the house raises problems. Nationally, the earned in come tax credit on federal taxes has suffered from significant problems with misuse, false claims, and even outright fraud. Before Kansas implements this sort of tax change the state needs to make sure that the problems which exist at the federal level are not duplicated here.

KTN urges this committee to enact a broadbased package of tax cuts which totals an amount closer to the house amended version of H.B. 2031.

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CPAK

Commercial Property
Association of Kansas

3-13-97

Madame Chair and members of the Senate Assessment and Taxation Committee:

Thank you for allowing me to present written testimony 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 HB 2031 is 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 tax reduction proposal this session. It is CPAK's observation that the bill represents a starting point in reducing the statewide mill levy.

Tax reductions encourage economic growth. The state of Kansas has been rated as one of the worst states to do business in because of the state's property taxes. The tax credits for business machinery and equipment provided for in the current bill would help established and new businesses. The sales tax exemptions for remodeling services will provide an incentive to business owners to refurbish older buildings, making those buildings more desirable for renting.

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

820 SE Quincy, Suite 220 C - Topeka, KS 66612 - Phone/Fax (913) 232-0486

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

Thank you again for your time this morning.

Madam Chairman and members of the Committee:

My name is Dennis Jones and it is my privilege to present this testimony to your Committee today on behalf of Kansans for Local Control. I apologize that I could not be here in person to answer any questions.

Kansans for Local Control is an organization of Southwest Kansas counties and school districts who are firmly committed to the removal of property tax as a funding source for state government. It is our position that the property tax, as it has historically been used in Kansas, should be a local tax, levied and administered at the local level. We are therefore supportive of the philosophy contained in House Bill 2031, which begins the process of getting the State entirely out of the business of levying a property tax for schools.

It should be here noted, however, that we firmly support the full funding of public schools in Kansas. The children of each of our communities in this State represent our greatest resource, as well as our hope, for the future. We must be committed to providing the fullest and best educational opportunities for the youth of Kansas that are possible. If Kansas is to compete and prosper as we enter the 21st Century, we must be prepared to meet the challenge of providing, now, through education and training, a foundation upon which such prosperity and competitiveness can be based.

It was my privilege to serve on the Governor's Tax Equity Task Force. That Task Force was charged with analyzing the fairness of the state's current tax policies and recommending any necessary improvements or revisions. The Task Force, as its first unanimous conclusion and recommendation, found and recommended that the state tax system should reduce its reliance on the uniform school finance levy over time.

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Kansans for Local Control fully endorses and embraces that recommendation. It is our belief that the 35-mill state property tax levy established in the 1992 School Finance Act signaled a very drastic and a very dangerous change in both tax philosophy and tax policy in Kansas. Until that act was adopted, the state government had, with the exception of a 1 1/2 mill building improvement fund, left the property tax as the primary revenue source for local units of government.

Cities, counties and school districts used property tax to provide the necessary services that the citizens of our communities require. Roads, bridges, sewer systems, police and fire protection, health care delivery systems, and physical plants for schools and local governments are but a few of the services and facilities funded by the property tax at a local level. Now, those local units of government are being forced to compete with state government for that source of tax revenue.

The income and sales tax base of most communities in Kansas is simply not adequate to serve as an alternative tax revenue source for government at a local level. It is our fear that if the state continues to rely on property tax, to any degree, to fund public education, then the ability of cities and counties to meet the needs and requirements of their constituencies will deteriorate.

Another area of concern to our organization is simply an issue of tax fairness in regard to the 33 mill levy as it is now levied. Currently, exemptions to the uniform levy are allowed to be implemented. While we firmly support the ability of cities and counties to use tax exemptions and incentives to promote economic development, as that need may arise in any individual county or city, we do not feel it is fair for such exemptions and incentives to be offered by one entity to the detriment of other local government entities in the state.

If the state was out of the property tax arena, then local units of government could offer exemptions and incentives as the need arose, without causing a hardship or additional burden to cities and counties in the remainder of the state.

The issue before this committee, and indeed before this Legislature, can be very simply stated: How can the school finance mill levy imposed by the state be reduced and eventually eliminated and what sources of replacement revenue are available so that funding of public education will not be diminished? Although the issue is simply stated, it cannot be simply resolved. That was the challenge that the Governor's Tax Equity Task Force faced and it is the challenge now faced by the Legislature.

However, now that the state has an abundance of surplus revenue due to the state's healthy economy we strongly support using as much of that surplus revenue as you can to drive down the mill levy as far as possible. We encourage you to reduce it even further than the House did to begin to eliminate the gross unfairness of the recapture provision for as many districts as possible.

We therefore urge you to take these steps to create a finance plan for public education that is adequate to provide quality education for children in all districts without, at the same time, diminishing the ability of our cities and counties to provide the services so necessary to the quality of life we enjoy as Kansans. Thank you for the opportunity to testify on this bill.

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

Written Testimony by Craig Grant
for Senate Assessment & Taxation Committee
Thursday, March 13, 1997

Thank you Madame Chair and members of the Senate Assessment & Taxation Committee for allowing me to submit written testimony on HB 2031. I am Craig Grant and I represent Kansas NEA.

Kansas schools certainly have a keen interest in the state's financial situation. Since an extremely high portion of school funds come from the state general fund, you can understand our concern when legislation is proposed or passed which could hurt the state's ability to adequately fund our schools.

This is what we believe happened in HB 2031. We believe there are some dangerous policies within the bill which would have a harmful effect on our budget. Specifically, the provisions to transfer funds to the "State School District Finance Fund" which artificially lower the ending balance requirement are troublesome. FY 98 and FY 99 may not cause problems, but we believe the cash flow situation in our state will get worse each year until we find ourselves in a crisis.

Additionally, our organization feels that we have cut too much of our revenue. We feel that a number in \$110-\$120 million range is the maximum amount of cuts we can afford in this fiscal year. When we see cuts of \$355 million in the out-years, we believe that is excessive. The \$200 million proposed by the Governor seems quite adequate for out-year tax cuts.

We will speak and have spoken to the Senate Education Committee about the education portions of the bill. We ask that, when you work the bill, you modify the tax policies and tax cuts to make this year's tax cut plan more reasonable and moderate as we have outlined. We believe that would be the best course for long-term policy in our state.

Thank you for considering our testimony.

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