Approved: February 23, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on February 4, 1999 in Room 519-S of the Capitol.

All members were present except: Rep. Aurand - excused
Rep. Tomlinson - excused
Rep. Wilk - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance, Wichita State University
Bob L. Corkins, Executive Director, Kansas Public Policy Institute
Mary Becker, Director of Kansans Respond, Inc.

Others attending: See attached list.

The Chairman announced that there will be three presentations regarding "Best Practices in State Taxation".

The Chairman introduced Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance, Director, Kansas Public Finance Center, Wichita State University and Chairman of the Governor's Tax Review Committee. Dr. Hildreth briefed the committee on the Report of the Governor's Tax Review Committee (Attachment 1).

The Chairman introduced Bob L. Corkins, Executive Director of the Kansas Public Policy Institute. Mr. Corkins briefed the committee on The Priority of Income Tax Rate Reductions in relation to Criteria for State Tax Structure (Attachment 2) and Analysis of Tax Cap Proposal of the Kansas Public Policy Institute (Attachment 3).

The Chairman introduced Mary Becker, Director of Kansans Respond, who briefed the committee on Tax Relief for Low Income Kansans (Attachment 4).

The Chairman thanked all the conferees for appearing before the committee.

The meeting adjourned at 10:50 a.m.

The next meeting is scheduled for February 9, 1999.

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb. 4, 1999

Bie Janeee	BOEING
Sandra Hazlett	SRS
Christy A Caldwell	Topeka Chamber of Commerce
Natalie Bright	KCCI
Bernie Koch	Wichita Chamber
Erin Sexton	WSU
Wendy Harms	KS Aggregate Producers' Assn.
DAVID L. ROSS	KDOCH
David Bybee	KDOCH
Kaye Ottesen	Ks Taxpayers Network
Bob Corkins	Ks Public Policy Institute
Keith Haverstein	Student
Mickel Wanbold	Student
Jean Hughes	Rogers Abstract / Wellington
SCOTT SCHNEIDER	MGA
Erin Rooney	KS Public Policy Institute
Saward Rowe	League of Women Voters of Ks
Rich McKee	KS Livestock Assoc.
Kelly Kultala	City of Overland Park

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb. 4, 1999

Don Schnacke	KIOGA
Ann Durkes	DOB
Mark Beck	KDOR
Leslie Kaufman	KFB
[illegible]	W.S University
Julie Hein	Hein and Weir, Chtd.
Larry Kleeman	League of KS Municipalities
Robert E. McHenry	Ks Ind Oil + Gas Assoc
Martha Jean Smith	KMHA
Karl Peterjohn	KS Taxpayers Network

State of Kansas

Report of the

Governor's Tax Review Committee

December 1998

House Taxation
2-4-99
Attachment 1

Governor's Tax Review Committee

Mr. Daniel Hermes
Director, Governmental Affairs
Governor's Office

Dr. W. Bartley Hildreth, Chair
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Wichita State University

Representative Phill Kline
House Tax Committee, Chair
Shawnee Mission, Kansas

Mr. Charles Ranson
President
Kansas, Inc.

Dr. Anthony Redwood
Professor of Business
University of Kansas

Senator Audrey Langworthy
Senate Tax Committee, Chair
Shawnee Mission, Kansas

Dr. Edwin Olson
Professor of Economics
Kansas State University

Staff

Aaron Dunkel, George Van Riper Fellow, Kansas Public Finance Center, Hugo Wall School of Urban and Public Affairs, Wichita State University

State of Kansas

Governor's Tax Review Committee

Governor Bill Graves;

It is a great pleasure to give you the final report from the Governor's Tax Review Committee. On July 16, 1998, you asked the seven of us to assess the current and future status of the state tax system given the major changes that have taken place since the Governor's Tax Equity Task Force issued its report to you three years ago.

We did our work in five public meetings held at the State Capitol that involved about 25 hours of informative and probing discussions. In addition to briefings from the Revenue Department, Legislative Research, and university researchers, we issued an open call for testimony that resulted in several presentations.

Our report is brief, and to the point. We present guiding principles and criteria for Kansas tax policy. This permits us to recommend particular tax results to achieve by Fiscal Year 2002, as conditions permit. Furthermore, we think the state should enhance its tax analysis reporting in ways that will benchmark yearly results to the guiding principles and that will clarify the tax burdens placed on Kansas households and businesses.

While these recommendations only reflect our personal views, they convey our shared desire to help make tax policy beneficial to all Kansans.

Respectfully submitted,

W. Bartley Hildreth
Chair of the Committee

KANSAS TAX POLICY
should be

GROWTH ENHANCING	Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans.
EFFICIENT	Tax structures should minimize distortions of both household economic decisions and capital and labor allocations by business.
ECONOMICAL	Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time.
CLEAR	Tax structures should be simple, understandable and predictable.
FAIR	The tax burden should be equitable in impact on all Kansans.

GUIDING PRINCIPLES AND CRITERIA OF KANSAS TAX POLICY

Taxes are necessary to help fund economical governmental services, but tax policy must be fair and clear to all taxpayers and respect private economic decisions in order for everyone to benefit from economic growth. State and local tax policy requires tradeoffs since there is no perfect tax or perfect tax system. Therefore, all tax legislation has to balance competing principles and criteria.

Tax policy requires continuous review based upon:

GUIDING PRINCIPLES	foundations for policy
CRITERIA	implementation guides
BENCHMARKING	measurement scales and indicators
BENCHMARK GOALS	desired ranks or results by a specified year

Guiding Principles, Criteria, and
Sample Benchmark Indicators

I. **Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans. For this to occur:**

A. **Tax policy should foster an economic development strategy benefitting households and businesses.**

Sample benchmarks include:
1. *Gross state product growth rate, by state*
2. *State personal income growth rate, by state*
3. *Annual earnings per job, by state*
4. *Business formations, by state*
5. *Unemployment rate, by state*

B. **The tax base should be broad with a clearly articulated rationale for any tax preference or imposition on any particular group or sector of the economy.**

1. *Relationship of tangible goods subject to the sales tax in comparison to services*
2. *Amounts and types of sales tax deviations from uniform base*
3. *Amounts and types of property tax deviations from uniform base*
4. *Amounts and types of income tax deviations from uniform base*

C. **Tax policy should focus on the long run and not overreact to short-run immediate concerns for any particular firm or market condition.**

1. *Cost of tax incentives compared to induced direct business activity*

D. **Government services, as well as taxes, should be competitive with other states.**

1. *Education attainment, by state*
2. *Infrastructure condition, by state*
3. *Measures of public goods providing quality of life (e.g., parks & recreation), by state*
4. *State and local expenditure growth rate, by state*
5. *State and local taxes per capita and per $1,000 of state personal income, by state*

II. Tax structures should minimize distortions of both household economic choices and capital and labor allocations by business. For this to occur:

A. Tax structures and levels should minimize interference with private economic decisions.

Sample benchmarks include:

1. *Effective tax rates on capital-intensive business, by state*
2. *Effective tax rates on representative households and business segments, by state*

B. The state and local tax structure should have a diversification of revenue sources over broad bases instead of high tax rates on limited tax bases.

1. *Percentage of reliance on major tax sources by type of Kansas government, in comparison to other states*

C. The marginal rate should be as low as possible.

1. *Comparison of marginal tax rates by source, by state*

III. **Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time. For this to occur:**

A. **Revenues generated should be lower than, and not exceed, long run changes in Kansas personal income.**

Sample benchmarks include:

1. *Comparative state and local revenue growth rates*
2. *Combined income elasticities of state and local tax sources that approximately equal 1.0 over the long run*

B. **Over the business cycle, there should be stability of (inflation adjusted) real revenue without rate changes.**

1. *Inflation adjusted revenues compared to actual collections*
2. *Inflation adjusted expenditures compared to actual expenditures*

C. **Adequate budget balances should be used to ensure balanced budgets over time thereby avoiding frequent or short-term tax and spending changes.**

1. *Size of fund balance relative to general fund revenues and expenditures*
2. *Comparison to policies in other states*

D. **State tax policies should not unduly restrain local initiatives in meeting local obligations.**

1. *Percentage of state taxes to total state and local taxes*
2. *Percentage of locally raised revenues to total local revenues*

E. **The costs and effectiveness of government services should be justified periodically.**

1. *Estimates of the costs and effectiveness of governmental services*
2. *Per capita revenues by source, and per capita expenditures by function*

IV. **Tax structures should be simple, understandable, predictable, and efficient. For this to occur:**

A. **Each tax or revenue structure should be as simple as possible to increase voluntary compliance while lowering compliance and administrative costs.**

Sample benchmarks include:

1. *Costs for taxpayers to comply with particular taxes*
2. *Costs to administer particular taxes, including delinquencies and appeals*
3. *Utilization rates of tax preferences*

B. **Taxpayers should understand how their tax is determined.**

1. *Readability of tax materials*
2. *Accessibility of tax information*
3. *Complaints on handling and resolution procedures*
4. *Taxpayers' views*

C. **The tax structure should be relatively stable and predictable to avoid disrupting business and individual tax planning and to reflect the full economic and competitive effects of past actions.**

1. *Minimized frequency of tax rate changes*
2. *Estimated versus actual economic effects of past tax changes*

D. **Taxpayers should know which government is responsible for each tax and spending component, and the services funded by the tax.**

1. *Taxpayers' views*
2. *Adherence to publication and disclosure standards*

E. **To foster informed public debate, taxpayers should have access to non-confidential tax data for modeling taxpaying behavior under alternative tax policies.**

1. *Frequency and ease of access*

V. The tax burden should be equitable in impact on all Kansans. For this to occur:

A. **Tax burdens should recognize the ability to pay.**

B. **A comprehensive measure of ability to pay should include income, consumption, and wealth.**

C. **General business taxation should be structured to recover the costs of governmental services rendered to the business community.**

D. **Taxpayers with similar levels of income, consumption, or wealth, in a particular taxing jurisdiction, should pay approximately the same amount of tax.**

E. **Competing businesses should be handled similarly for tax purposes.**

F. **Tax equity should be measured not only by effective tax rates but also by the distribution of family income by income group.**

G. **The State should estimate the economic burden of who pays Kansas taxes and promote the public's use of the tax burden distributions in assessing tax legislation.**

Sample benchmarks include:

1. *Effective tax rates for taxpayers at different income levels and characteristics*
2. *Net spendable income and implicit tax rates on low income Kansans*
3. *Economic incidence of tax burdens on households in Kansas and comparison states*
4. *Economic incidence of tax burdens on business sectors in Kansas and comparison states*
5. *Ratio of state and local business taxes to related public expenditures*
6. *Comparison of the shares of total income earned by families ranked from the poorest one-fifth to the highest one-fifth*
7. *Frequency of use by the public of the tax burden distribution models for "what if" analysis.*

BENCHMARK GOALS
To be Achieved by Fiscal Year 2002

Kansans expect a fair, efficient and understandable tax system that is capable of generating sufficient revenues to support economical governmental services in a growing economy. Accordingly, the Governor's Tax Review Committee finds that by no later than Fiscal Year 2002, as revenues permit, the State of Kansas should have permanently established frequent analyses of its tax system, but more importantly, achieved specific tax results.

SPECIFIC NON-PRIORITIZED TAX RESULTS TO BE ACHIEVED BY FISCAL YEAR 2002:

The overall tax burden on Kansans is about average for the region.

The tax burden on households is about average for the region.

The business tax burden is about average for the region and for similar industries.

Kansans at or below the poverty level bear a tax burden as low as possible.

The top marginal tax rate for the personal income tax is removed and the progressive rate structure is narrowed.

The tax on business machinery and equipment is at or below the regional average.

The sales tax base includes a broader definition of consumption.

In years of a prosperous state economy, tax receipts are managed to create a fund balance for years of weak economies.

The combined state and local tax structure is balanced in reliance on income, sales and property taxes.

The tax burden on the oil and gas industry is reduced* consistent with the characteristics of the Kansas industry.

TAX ANALYSES TO BE ESTABLISHED BY FISCAL YEAR 2002:

The State reports biennially on who pays Kansas taxes based on tax burden analyses of households and business. The report presents information on (1) the overall tax incidence and (2) the distribution by income classes (at least by quintiles) and other taxpayer characteristics.

---

* which may mean repeal (according to some committee members).

The State reports annually on the progress in meeting the Guiding Principles. The report is available to the public before the start of the regular legislative session, and includes the following information:

1. Summary of economic and fiscal trends related to tax policy;
2. Data for each relevant benchmark indicator;
3. Details on who pays Kansas taxes based on the household and business tax burden models, with information on the overall tax incidence and the distribution by income classes (at least by quintiles) and other taxpayer characteristics.;
4. Summary of "tax expenditures" for each major tax structure;
5. Comparison of existing tax policy to the state's economic development strategy;
6. Strengths and weaknesses of existing tax structures,
    a. Identify any tax sources that are out of step with modern realities of the economy and with generally accepted taxing practices;
    b. Review the economic and competitive effects of past tax changes;
7. Policy questions relevant for priority attention by the governor and the legislature.

Household and business tax burden models are available to permit the public to construct alternative tax structures and to make "what if" changes to the existing structure.

KPPI

KANSAS PUBLIC POLICY INSTITUTE

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REPORT TO KANSAS LEGISLATURE
HOUSE TAXATION COMMITTEE

February 4, 1999

The Priority of Income Tax Rate Reductions
in relation to
Criteria for State Tax Structure

by
Bob L. Corkins, KPPI Exec. Dir.

Honorable Chairman and members of the Committee,

Thank you for your interest in the research of the Kansas Public Policy Institute and for today's opportunity to present our work on the subject of state taxes. My name is Bob Corkins and although I've become acquainted with many of you over the years, my new capacity at the helm of KPPI this past year brings a change in the nature of my communications with the legislature. I now have the deep honor of leading a free-market think tank.

KPPI is a 501(c)(3) educational organization, remaining nonpartisan and accepting no government funding. All our educational efforts are guided by our mission which is to advance the Constitutional principles of limited government, individual rights, personal responsibility and free markets. As the power of reason gradually replaces the influence of pure politics in our lawmaking process, these principles will be strengthened.

In that context, KPPI observes that the recent task force -- appointed by the Governor and chaired by Dr. Hildreth of Wichita State University -- conducted quite a useful exercise. They looked at the big picture of Kansas tax policy to identify what its guiding principles should be and, in the opinion of scholars affiliated with our institute, produced a highly commendable tax analysis. KPPI has a research project underway which will provide a specific critique of the task force criteria. In the meantime, I'll address a few highlights. Indeed, there are several highlights because the task force report echoes much of the important economic rationale KPPI has published over the past three years -- including our income tax study of last summer by Dr. Henry Butler of the University of Kansas and Dr. Randall Holcombe of Florida State University.

Butler and Holcombe begin by noting that the last several years of tax reduction efforts in Kansas have had no focus, no strategy, no discernable philosophy. They make the case for simple income tax rate cuts to provide this sense of purpose. A fundamental consequence of taxation which Butler and Holcombe start with is that every tax discourages individuals from the particular activity which is being taxed. For primary examples, sales taxes discourage consumption while income taxes discourage

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Attachment 2-

the production of additional income. They then provide further analytical as well as pragmatic reasons for steadily reducing state personal income tax rates -- ultimately making a case for eliminating the Kansas personal income tax without increasing other taxes or cutting state spending.

Such an initiative would mesh extremely well with the five characteristics which Dr. Hildreth's task force recommends for determining what Kansas tax policy should be. I'll start with the group's admonition that state taxes be "fair" and then work my way back to the "economic growth" criteria.

Butler and Holcombe note that any judgement of the fairness of a given tax depends upon what you consider to be the purpose of the tax. Some might view taxes as a penalty. If considering one's "ability to pay" means that wealthier people should pay a greater percentage simply because they have more wealth, then such a tax would be a penalty for financial success. However, if taxes are viewed as the price we pay for government goods and services, then fairness should be determined by whether any class of taxpayer is paying for more than their share of services they receive.

Next, the task force urges "clarity" in our tax structure, for example, the ease of taxpayer compliance. KPPI finds no fault in this criteria, but highlights a major reason for the lack of clarity today: the excessive use of special tax exemptions, incentives, and abatements in our code. In August, 1996, KPPI published its Resolution on Economic Development which criticizes the proliferation of such special interest provisions. Thirty-one economists from universities across Kansas -- including Dr. Edwin Olson who served on the task force you heard from today -- plus more than 100 other economists across the country signed this resolution. Actually, this economic engineering factor is also highly relevant to the "fairness" question and to the "efficiency" criteria I'll discuss in a moment.

"Clarity", however, is also used in the report as an indicator of tax stability. First, Butler and Holcombe maintain that income taxes are the most volatile of our major tax sources and that higher reliance on sales tax instead of income taxes will provide greater revenue stability. Second, the report's contention that Kansas should minimize the frequency of tax rate changes is somewhat confusing. Steady decreases such as KPPI advocates are a far cry from a roller coaster increase/decrease cycles to which we assume the task force negatively refers.

The next criteria is that tax policy should be "economical". This point addresses the true root of state tax problems: our spending practices. Again, the task force report reinforces the policy advanced by KPPI with our 1997 study which supports a limitation of government spending growth to no more than the rate of state personal income growth. In more recent publications, KPPI tracks the ratio of combined state and local government spending to the growth of gross state product. We bring attention to this comparison because: 1) GSP is a strong indication of Kansas' longer-term ability to generate economic activity for sustaining any given level of government services; 2) since 1983 in this region of states, Kansas has shown the steadiest pattern of growth of government spending as a percentage of GSP; and, 3) in the last six years the federal government has displayed just the opposite trend with federal spending steadily falling as a percentage of gross national product.

With respect to the tax "efficiency" criteria, we believe that the task force makes a fair effort to discuss the issue, but declines to carry the argument as far forward as it should. Clearly, KPPI and the task force agree that marginal income tax rates should be as low as possible. The marginal rate is that which you pay on the last extra dollar you earn, thus it is different for each individual, so every bracket rate should be cut (see also flat rate discussed below).

The minimization of "interference with private economic decisions" is the area where the report in this "efficiency" section falls short. Sample benchmarks listed speak only to the interference by high tax burdens, i.e., effective tax rates. The discussion ignores the vast number of economic decisions into which the state intrudes with tax deductions, credits, abatements and other incentives of many varieties. The report also ignores a plethora of social decisions into which the state asserts itself through similarly designed incentives. **In sum, tax policy should be neutral.** If the state wishes to financially reward any given behavior or provide aid to financially struggling sectors of our population, it should do so through the appropriations process, not the tax code. Instead, simple, even-handed tax rate reductions are the best way to reduce effective tax rates.

The most compelling case for such income tax rate cuts lies with the task force's first criteria, "economic growth". Last summer's KPPI income tax study documents an historical, pragmatic case for this benefit. History has proven that it works. Federal rate cuts of the 1920s, -60s and -80s each precipitated high rates of economic growth. Federal collections rose 16% after the rate cuts of 1981 because taxpayers making between $200,000 and $500,000 saw their liability rise 76% and those making over $500,000 paid 200% more taxes than before. The top 10% of earners also began paying a bigger share of overall collections: from 50% in 1980 up to 57% in 1988.

Long term studies (minimum 33 year periods) cited by KPPI in that project show the same kind of effects from state income tax reductions. Highlights from these sources document that: 1) economic growth in flat-rate income tax states was 25% faster than in states with progressive tax rates; 2) the lower a state's marginal income tax rates, the greater its economic growth; and, 3) states which have no income tax show faster growth than states which do. For a specific example, since 1993 Arizona has reduced personal and corporate income tax rates by roughly one-third and has experienced its job creation, population growth and new business creation run three times higher than the national average.

Because you're probably most interested in Kansas, I also submit the income tax analysis published in its final form by KPPI last month. Assuming that Kansas tax revenues were allowed to rise each year no faster than our personal income growth rate, and that revenues collected in excess of this level had been applied to state income tax rate reductions effective beginning in 1998, the economic results are projected in this report through calendar year 2003. By the end of this time frame, Kansas could expect growth above baseline projections such as: more than 30,000 additional jobs, more than $1 billion personal income, almost $1,200 per capita income, and over $1.8 billion gross state product. Furthermore, total Kansas government revenue would be only 3.1% less than it would be in the absence of any tax cut. The work was performed by the Heritage Center for Data Analysis in Washington, D.C., and used economic projection data -- specific to Kansas -- from the Wharton Econometric Forecasting Associates in Philadelphia.

Thank you for this opportunity to share our information. KPPI is producing more research and analysis on this topic which we will publish within a few weeks.

A Report of The Heritage Center for Data Analysis

Analysis of Tax Cap Proposal of the Kansas Public Policy Institute

Project #82

January 11, 1999

The Heritage Foundation

House Taxation
2-4-99
Attachment 3

The Heritage Foundation

A tax-exempt public policy research institute

Mr. Bob L. Corkins
Executive Director
Kansas Public Policy Institute
P. O. Box 1946
Topeka, Kansas 66601-1946

Dear Mr. Corkins:

This letter and attachments constitute our final report on a project that you asked the Center for Data Analysis to undertake on July 8, 1998. In your letter of that date, you described a change to Kansas tax policy that would limit the annual growth in the total state and local government revenues. You also asked William Beach, the Center's Director, to prepare a Center analysis of this policy change. Your proposal calls for the rate of revenue growth to be no greater than the three-year moving average growth rate in Kansas personal income. When total state revenue growth exceeds this limit, the state legislature will reduce Kansas tax rates to a level that will refund excess tax revenues.

We are pleased to present to you our report based on this July 8 request and subsequent refinements. This report supplements analysis sent to you in August. Please note that nothing contained in this report represents the views of The Heritage Foundation or WEFA, Inc. Nor should this report be interpreted as an endorsement of the proposed policy change.

Methodology

Table 1 shows the annual growth rates of total Kansas tax revenues and Kansas nominal personal income by state government fiscal year. Kansas tax revenue data, upon which the revenue growth rates of Table 1 are based, contain the effects of inflation and count the revenues of all governments in Kansas. Counting all revenues rather than just the revenues of the state government was necessary in order to assess the economic effects of state tax limitation. Our Kansas economic model contains only tax revenues from all governments. As explained later, this comprehensive definition of tax revenues did not pose an insurmountable difficulty in estimating the percentage reduction in state-level revenues that such a limitation policy would impose.

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We chose to compare these changes in revenue with comparable, non-inflation adjusted personal income growth rates. Table 1 also contains a three-year moving average of nominal personal income growth rates. This table shows that total Kansas government revenues grew faster than the three-year moving average of personal income in 1996 and 1997. It also is important to note that personal income is expected to grow slightly faster than tax revenues across the forecast period, 1998 through 2003.

The Kansas Public Policy Institute supplied us with historical state government income tax liabilities as well as comparable state effective income tax rates. These data cover state tax years 1988 through 1996. Using personal income growth rates contained in Table 1, Center analysts determined that a tax limitation policy would have reduced tax year 1996 income tax collections for state government by $84.7 million. This reduction in income tax revenues implies a reduction in the effective income tax rate for tax year 1996 from 3.24 percent to 3.10 percent, or a reduction of 4.32 percent (14 basis points). Projecting forward to tax year 1998, the income tax portion alone of state tax revenues would fall by $101 million under a tax limitation policy.

Data on state-level sales, use, excise, and corporate profits taxes were not available at the time this analysis was performed. Many governments do include these revenues when calculating the basis for determining whether current year collections breech a tax limitation level. Center analysts assumed that a Kansas tax limitation policy would include all state-based revenues (including public gaming) and would not include transfers of revenue from other governments, principally the federal government.

With this assumption in hand, Center analysts introduced a 4.32 percent reduction of the average effective tax rate into the Kansas economic model. This percentage reduction reflects the decreases in effective tax rates needed to "refund" the excess tax collections of tax year 1996. The Center assumed that the rate reduction in percentage terms would extend over all future rates, even though the current forecasts of personal income growth do not indicate that state revenues will grow faster than income between 1999 and 2003. Thus, no additional reductions in the effective tax rate were entertained in the Center's simulation.

Center analysts further assumed that this reduction in the effective tax rate would result in a slightly higher labor effort by Kansas workers and a lower after-tax cost of capital. Specifically, the labor force participation rate is assumed to rise by .12 percent and the cost of capital to fall by 10 basis points. These assumptions were introduced into the model beginning with the first calendar quarter of 1998. No other adjustments were made to the economic model.

The Center uses a model of the Kansas economy that was built by the economists at WEFA, Inc. WEFA is a nationally recognized economics consulting company located in Philadelphia. The Center not only uses WEFA's Kansas model, but also employs its U.S. Macroeconomic Model and models for the other 49 states in the Center's analysis of how public policy change affects economic activity. It is important to note that none of the conclusions reached in this project reflect the views or opinions of WEFA, Inc.

Results

Table 2 contains the results of the Center's simulation. Significant improvement in state economic performance would likely result from this tax policy change. For example, the broadest measure of economic activity, Gross State Product, increases by $1.2 billion in 1998, or by 1.5 percent. Total employment in the state grows by 19,240 jobs in 1998 over current forecasts without the tax policy change. This growth in output and in jobs is accompanied by a small increase in unemployment (18 basis points) that disappears by the third year of the simulation.

The increased levels of economic activity and accompanying employment gains result in significant improvement to per capita income and total disposable income. Per capita income grows by an average of $1,005 higher than the baseline over the six-year forecast period. Total disposable income (what families keep after taxes) increases substantially: by 2003, Kansas households will likely have $1.1 billion more in disposable income, for an increase of 1.45 percent over the economic forecasts without the policy change.

A significant percentage (a little more than 36 percent by 2003) of this growth in disposable income stems from the reductions in total Kansas tax revenue. The Kansas economic model projects reductions in tax revenues between $243 million in 1998 to $364 million in 2003.

Also attached are graphs showing simulation results for Kansas gross state product, total employment, and total Kansas tax revenues.

William W. Beach, the Center's Director, was the principal economist for this project.

Yours Truly,

Stuart Butler

Stuart Butler
Vice President, Domestic Policy

Encls.

Table 1
Relationship Between Total Kansas Revenue Growth and Kansas Personal Income Growth

State Fiscal Year	Kansas Personal Income Annual Growth Rate	State Revenue Annual Growth Rate	Three-Year Moving Average Kansas Personal Income
1994	3.60	7.61	
1995	5.90	10.31	
1996	6.00	11.99	5.17
1997	5.70	11.85	5.87
1998	5.10	4.24	5.60
1999	4.80	2.05	5.20
2000	4.40	4.06	4.77
2001	4.50	4.31	4.57
2002	4.10	3.89	4.33
2003	4.30	4.17	4.30

Center for Data Analysis
The Heritage Foundation
Source: WEFA and heritage Forecasts

Table 2
State Economic Effects of KPPI Revenue Limitation Proposal

Economic Indicator	1998	1999	2000	2001	2002	2003
			Calendar Year			
Gross State Product			(Millions of Dollars)			
With Policy Change	78,677.76	82,763.19	87,013.54	91,399.94	96,046.62	101,090.49
Without Policy Change	77,481.01	81,534.08	85,537.09	89,812.90	94,354.51	99,237.10
Difference	1,196.75	1,229.11	1,476.45	1,587.04	1,692.10	1,853.39
Per Capita Income			(Dollars)			
With Policy Change	51,390.33	52,543.37	54,165.61	55,565.77	56,823.65	58,229.94
Without Policy Change	50,602.37	51,652.06	53,201.46	54,507.46	55,686.61	57,033.90
Difference	787.95	891.31	964.15	1,058.31	1,137.04	1,196.03
Disposable Personal Income			(Millions of Dollars)			
With Policy Change	59,046.24	62,237.74	65,939.44	69,507.06	73,107.35	77,014.25
Without Policy Change	58,230.08	61,270.32	64,948.59	68,507.49	72,042.15	75,915.25
Difference	816.16	967.43	990.86	999.56	1,065.20	1,099.00
Wage & Salary Income			(Millions of Dollars)			
With Policy Change	38,144.91	40,384.58	43,087.72	45,731.11	48,415.02	51,209.43
Without Policy Change	37,702.83	39,842.33	42,507.30	45,109.79	47,712.25	50,482.63
Difference	442.08	542.25	580.42	621.32	702.77	726.80
Total Population			(Thousands)			
With Policy Change	2,627.20	2,645.41	2,662.89	2,680.45	2,697.48	2,714.30
Without Policy Change	2,626.67	2,644.22	2,661.45	2,678.59	2,695.38	2,711.90
Difference	0.52	1.19	1.44	1.86	2.10	2.40
Total Households			(Thousands)			
With Policy Change	1,003.19	1,011.52	1,019.44	1,028.42	1,037.33	1,045.23
Without Policy Change	1,002.99	1,011.06	1,018.89	1,027.70	1,036.52	1,044.31
Difference	0.20	0.45	0.55	0.71	0.81	0.92
Total Employment			(Thousands)			
With Policy Change	1,392.29	1,409.42	1,427.26	1,448.45	1,467.53	1,486.92
Without Policy Change	1,373.05	1,387.48	1,402.16	1,420.54	1,437.67	1,456.38
Difference	19.24	21.94	25.10	27.91	29.86	30.54
Unemployment Rate			(Percent of Civilian Labor Force)			
With Policy Change	3.74	3.74	3.80	3.65	3.60	3.53
Without Policy Change	3.56	3.65	3.76	3.66	3.66	3.57
Difference	0.18	0.09	0.04	-0.01	-0.05	-0.04
Total Government Employment			(Thousands)			
With Policy Change	245.92	250.17	252.63	256.17	259.33	262.03
Without Policy Change	243.36	246.99	249.22	252.50	255.43	257.97
Difference	2.55	3.19	3.41	3.67	3.89	4.06

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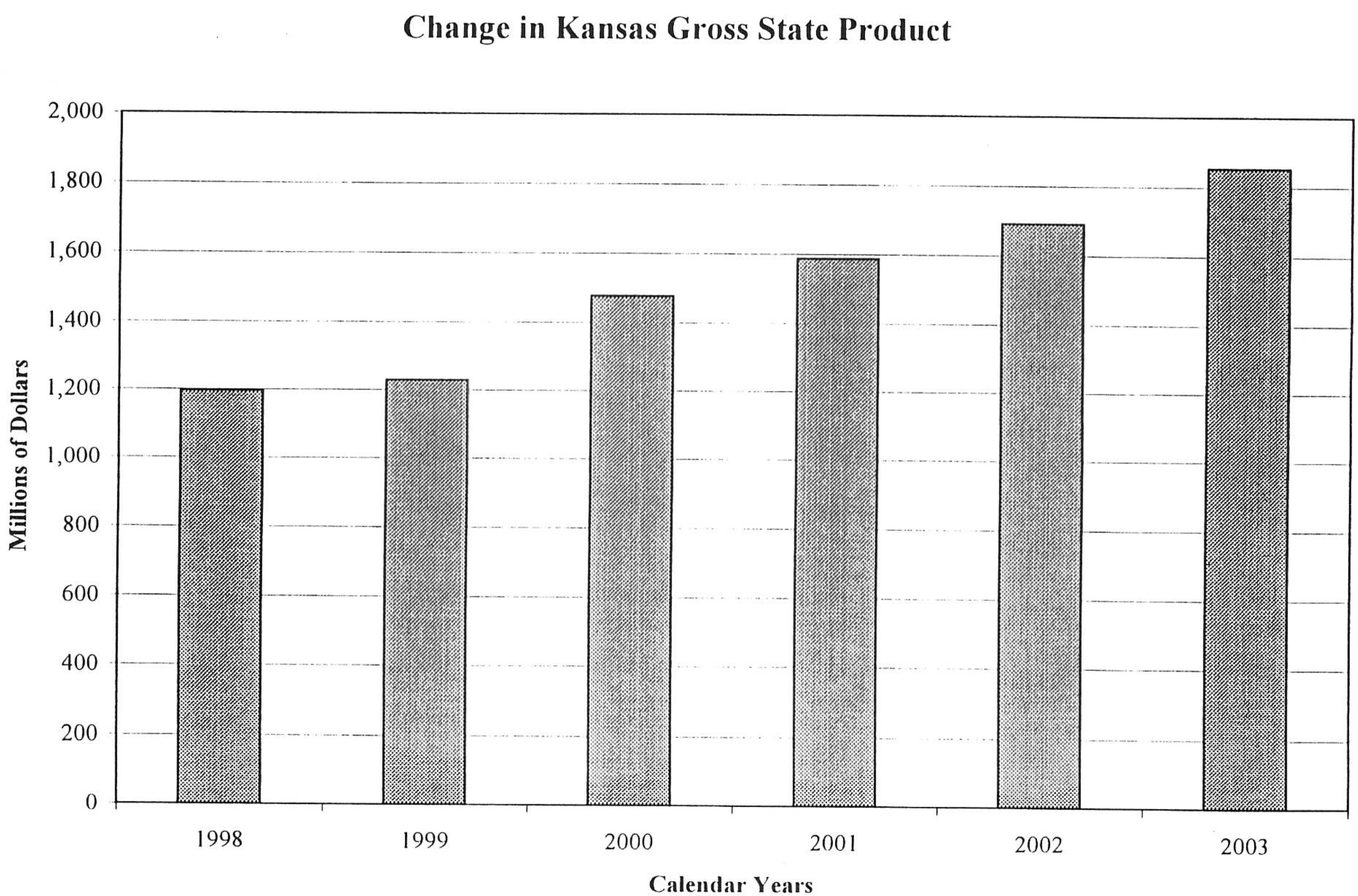
Table 2
State Economic Effects of KPPI Revenue Limitation Proposal

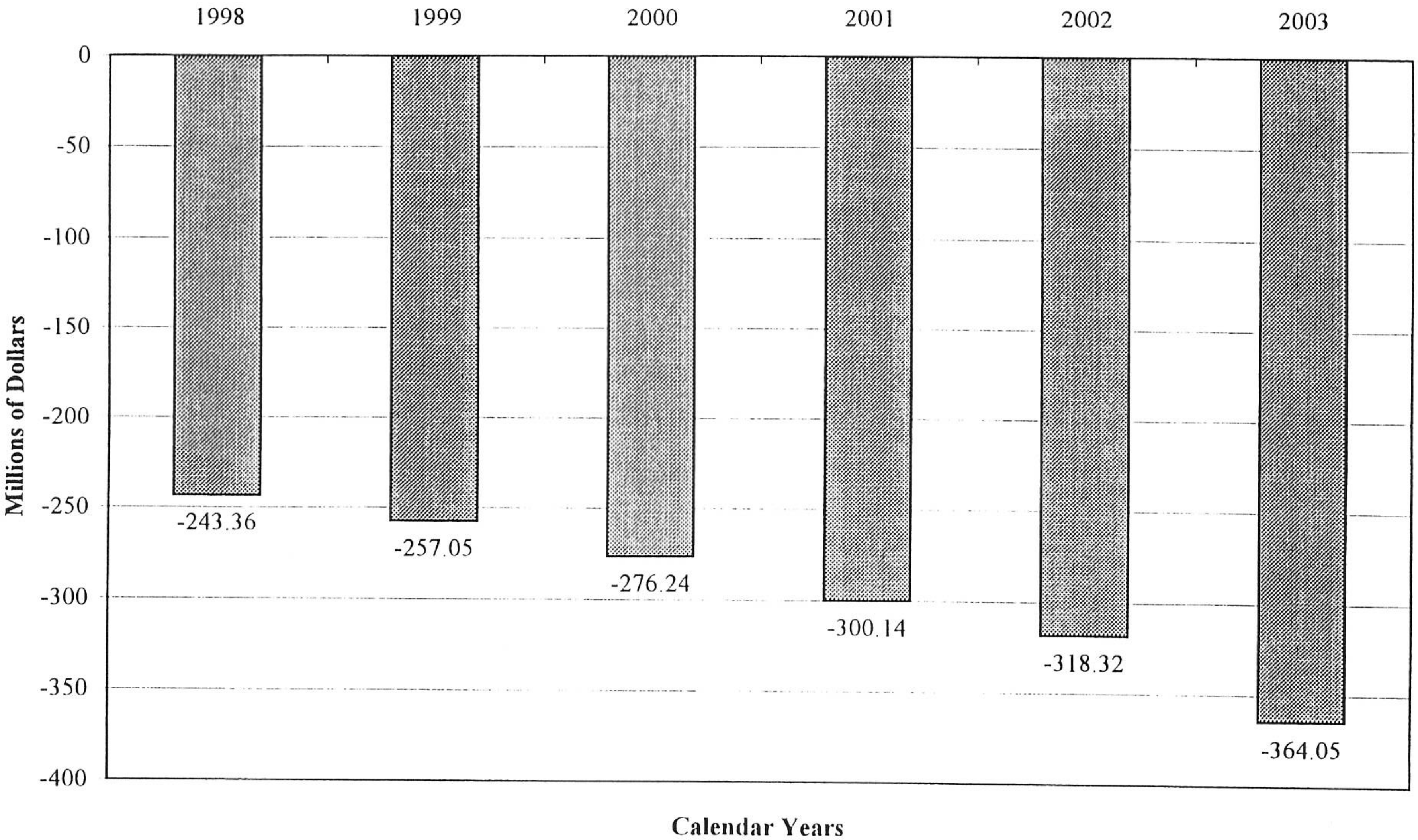
Total Service Employment			(Thousands)			
With Policy Change	801.63	818.39	834.60	849.67	863.74	878.32
Without Policy Change	790.57	806.31	820.08	833.55	846.47	860.58
Difference	11.06	12.08	14.51	16.12	17.27	17.74
Total Construction Employment			(Thousands)			
With Policy Change	61.52	60.22	60.32	60.66	60.82	61.01
Without Policy Change	60.60	59.09	58.91	58.99	58.95	59.02
Difference	0.92	1.14	1.41	1.67	1.87	1.99
Total Manufacturing Employment			(Thousands)			
With Policy Change	215.20	214.84	214.61	216.80	218.95	220.00
Without Policy Change	211.23	210.08	209.69	211.26	213.07	214.26
Difference	3.97	4.76	4.93	5.54	5.87	5.74
Durable Manufacturing Employment			(Thousands)			
With Policy Change	124.35	123.00	122.78	123.10	123.54	123.33
Without Policy Change	121.75	120.06	120.02	120.21	120.62	120.70
Difference	2.60	2.94	2.76	2.89	2.93	2.63
Non-Durable Manufacturing Employm			(Thousands)			
With Policy Change	90.85	91.84	91.84	93.70	95.40	96.67
Without Policy Change	89.48	90.02	89.67	91.06	92.46	93.56
Difference	1.38	1.82	2.17	2.64	2.95	3.11
State Tax Revenues			(Millions of Dollars)			
With Policy Change	9,488.14	9,674.13	10,057.94	10,479.75	10,880.57	11,302.27
Without Policy Change	9,731.51	9,931.18	10,334.18	10,779.89	11,198.89	11,666.32
Difference	-243.36	-257.05	-276.24	-300.14	-318.32	-364.05

3-9


Change in Kansas Gross State Product
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
Millions of Dollars
1998
1999
2000
2001
2002
2003
Calendar Years

3-9
3-8

Potential Reductions in Total State Revenues from Tax Limitation Provision



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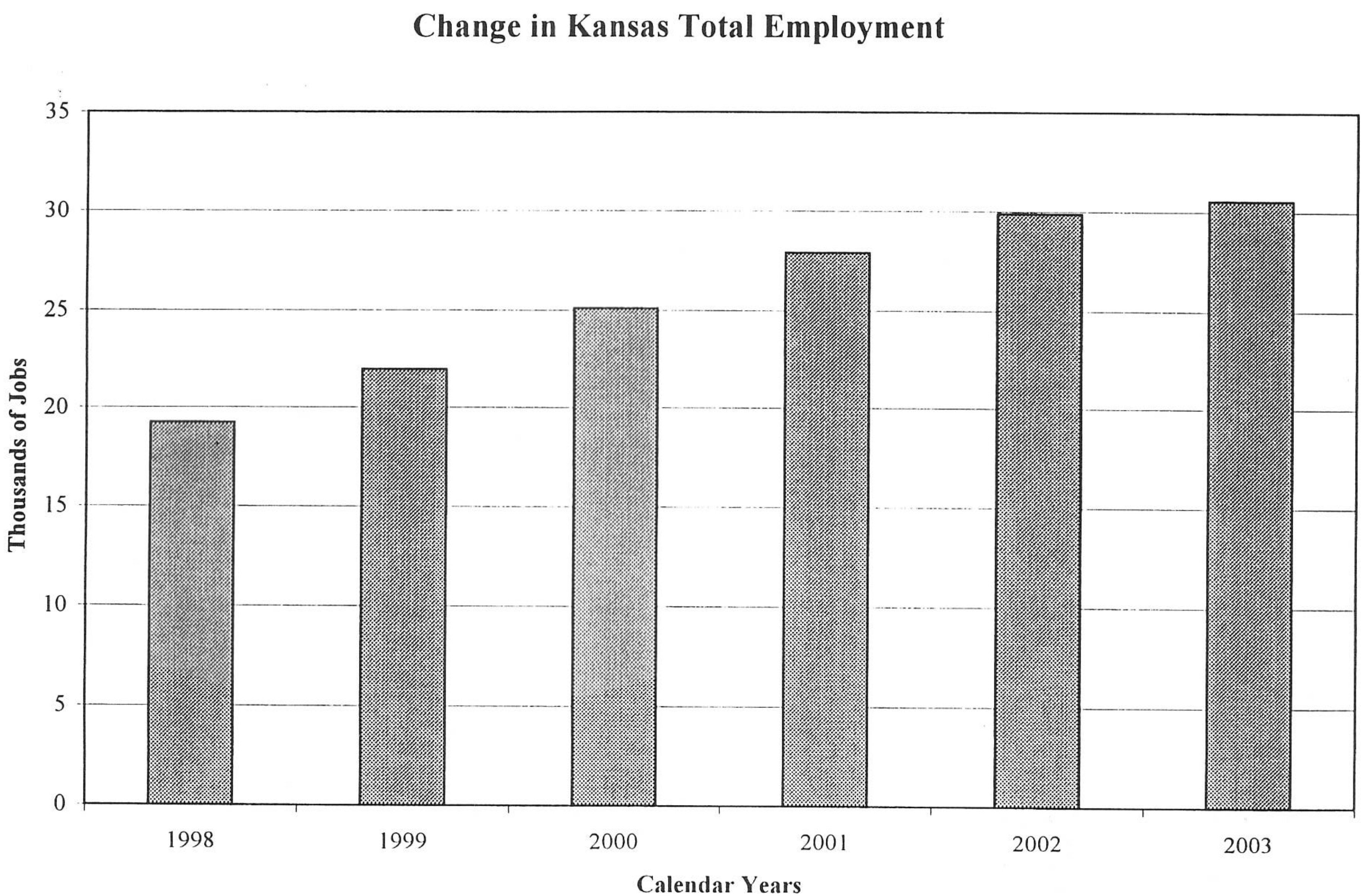
Change in Kansas Total Employment
35
30
25
20
15
10
5
0
Thousands of Jobs
1998
1999
2000
2001
2002
2003
Calendar Years

Kansans Respond

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Briefing by

Mary Becker, Director

to the House Appropriations Committee

February 4, 1999

on Tax Relief for Low Income Kansans

House Taxation
2-4-99
Attachment 4

Pulling Apart in Kansas - Poverty and Income Inequality

Facts and Figures

Poverty and income inequality are serious problems in Kansas. Large cuts in federal programs that helped the needy have not been made up by the state. While the prevailing message continues to be one of good economic times, tens of thousands of Kansas families are struggling to raise children while working longer hours for less pay.

Throughout most of the 1990's, most families in Kansas saw a decline in their annual income, despite a strong economy and low unemployment. Extending over the years 1978-1996, the poorest fifth of families had a 26% loss of inflation-adjusted income, compared to an increase of 31% for the wealthiest families. The data does not include income from capital gains, however. If it did, the increase for the wealthiest families would be significantly higher.

While wages went up on an average of 4.4 percent in FY '98 in Kansas, the hourly wage of the worker at the 20th percentile increased by only 1 percent, to $6.53. Twenty percent of all workers in Kansas made less than this wage.

According to the Economic Policy Institute, the "typical married-couple family" in the US worked 247 more hours per year in 1996 than in 1989 despite an 8 percent growth in the economy's productive capacity. That's more than six weeks' worth of additional work, just to stay even or keep from falling too far behind.

The Kansas Foodbank Warehouse, a food distributor to over 400 food programs in the state such as food pantries and soup kitchens, had increased their distributions by 20 percent as of mid-October, 1998. This 20% increase is in addition to a 10-15% increase the previous year.

The Corporation for Economic Development ranked Kansas 49th in the nation last year in income disparity between the richest 20 percent of families and the poorest 20 percent of families, with only Arizona faring worse.

The combination of low wage jobs, high utility bills, lack of affordable health insurance, and a shortage of low cost housing have combined to create a crisis of poverty among working families throughout the state.

Kansans Respond Topeka, Kansas 66601

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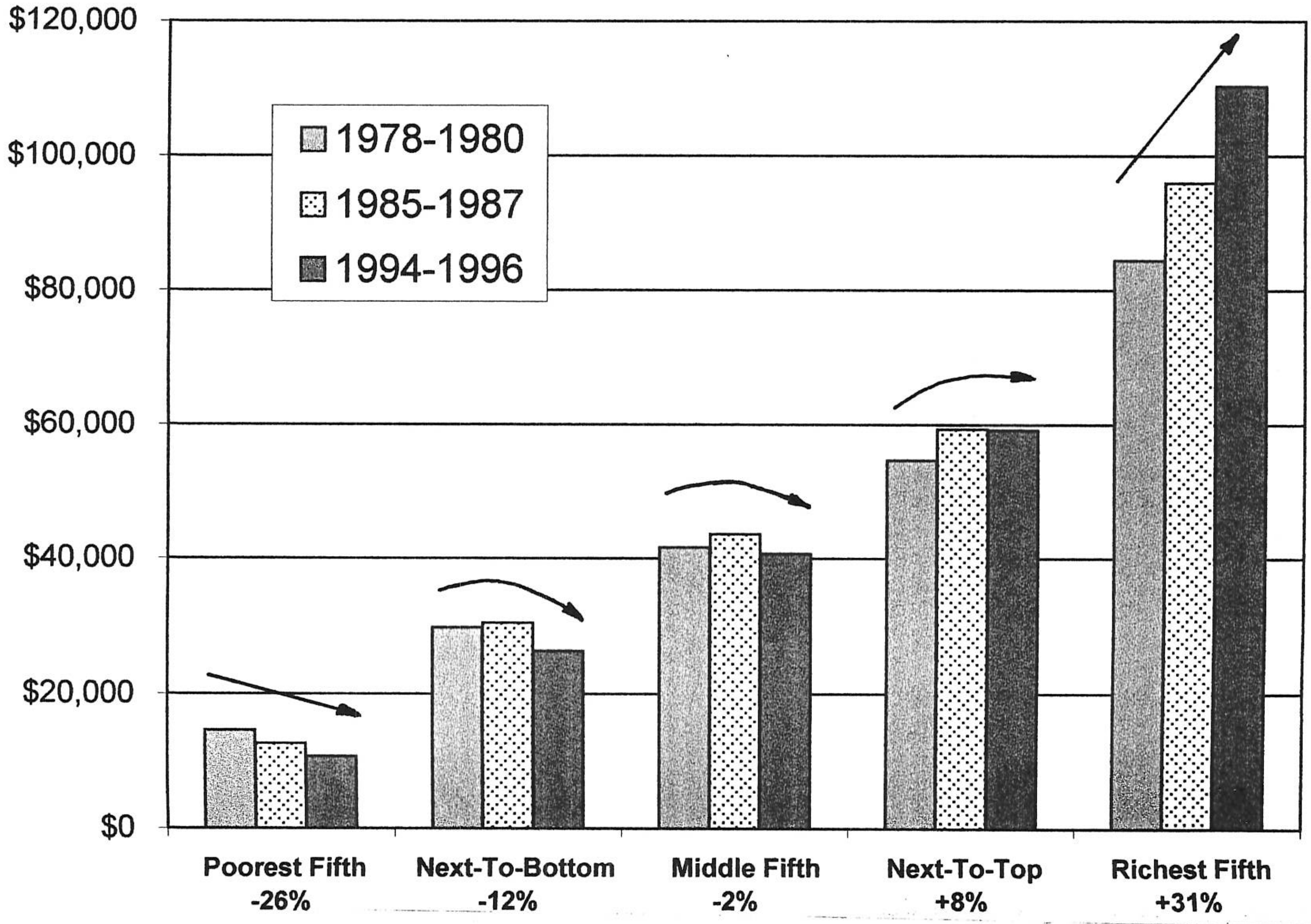
Average Income of Kansas Families with Children



Inflation-adjusted 1997 dollars. Data is from Census Bureau's March Current Population Survey public use database.

Graph by Kansans Respond

Salvation Army out of room as need goes up

By CHRISTIE APPELHANZ
The Capital-Journal

Just as the phoenix rises renewed from its ashes in the Arabian desert, the Salvation Army burned four dilapidated houses last week to breathe new life into the old social service agency.

To do that, the Salvation Army purchased the 144 feet of frontage in the 1200 block of S.E. 6th to make way for a major addition to its current operations. While there are no definite plans for the space yet, the only thing officials with the organization know is they need more room.

The need is there — clientele served reached record numbers in June — but the funding isn't in place yet. The Salvation Army is in the midst of a financial feasibility study to see how much capital can be raised and how long it will take. Then the organization will set a timeline for the project.

"We want to be in the forefront of critical services in the community," said Paul Duskin, captain of the Salvation Army, referring to plans for expanding child care and possibly adding adult day care to its services.

Space is definitely at a premium, even with four satellite storage locations scattered throughout Topeka. Supplies arrive at the main building on pallets, for example, but are unloaded one box at a time by volunteers because there isn't enough room to set down the palettes.

A large donation of frozen pastries by a commercial bakery has taken over all freezer space and some borrowed space, too. The Salvation Army is offering to share the pastries with local churches and nonprofit agencies.

The space constraints, paired with the record numbers of people seeking services, doesn't make for an efficient operation, employees and volunteers at the Salvation Army say. With the Welfare-to-Work initiatives fastapproaching, the problem is likely to get worse.

"We are already starting to see more of the working poor come in," said Michael Ballard, director of social services. "People have now found a job but need a little more to bridge the gap."

"We are already starting to see more of the working poor come in. People have now found a job but need a little more (help) to bridge the gap."

— Michael Ballard, director of social services

But the good news, Ballard said, is those coming in for the evening meal or, help with utility bills tend to talk about their new jobs with a great deal of pride.

The Salvation Army provides services to about 1,000 people in a typical month. In June, that number doubled as temperatures soared — the 300 fans distributed last month already tops the total distributed the entire summer last year. This year marks the second year for an increase in clients for the quarter, a 17 percent jump from last year.

"Everything is crowded," Ballard said. "We're dancing around stacks of boxes."

Once plans are firm for the expansion, the Salvation Army will announce how the public can assist. However, the organization is always seeking donations to fund its daily operations, which can be sent to 1320 S.E. 6th.

— David Eulitt/The Capital-Journal

Donna Mack, a volunteer and cook at the Salvation Army, hoisted boxes of tea bags to the second floor of a house the organization is using for storage. The agency is in need of more space, and an expansion west of the building at 1320 S.E. 6th is planned.

7/13/98

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4-5

Rescue Mission plans to construct 172-bed facility for women and children

RELATED:
➤ Topeka Rescue Mission director determined to operate program on a [illegible] basis.
5-D

By PHIL ANDERSON
The Capital-Journal

No end is in sight to the rising number of homeless women and children who are occupying more beds than ever at the Topeka Rescue Mission.

On Friday, mission officials announced plans to address the problem by constructing a $1.8 million two-story facility with beds for 172 people.

The building would be constructed behind the mission's playground and across the street from the present facility at 600 N. Kansas Avenue, which will continue to be used as a shelter for 177 men.

At a luncheon for clergy Friday at the Ramada Inn Downtown, 420 S.E. 6th, mission director Barry Feaker said $1,127,598 was already on hand for the new facility.

Feaker said the mission's board approved the project June 8 and set aside about $230,000.

However, the mission has since received approximately $900,000 in other gifts for the project without making any direct appeals.

Feaker said two of the largest gifts, one for $287,000 and another for $258,000, had been left to the mission by North Topeka residents who died recently. Neither man appeared to be wealthy, and Feaker said the amount of the gifts caught him completely by surprise.

"I'm just very thankful," he said. "I know it's a sign that God wants this done."

The mission needs about $700,000 in additional gifts to build the facility debt-free. Feaker asked ministers on Friday to bring the need to members of their congregations.

The need for the new facility has become critical, Feaker said, because the existing building has room for only 37 people in its family area. Often, two to three times that number are being housed there, with many sleeping on mattresses on the floor.

The problem promises to become more acute in the next few years as welfare-reform initiatives are implemented.

Feaker predicted a potential local homeless population of up to 3,000 by October 2001, 98 percent of whom would be women and children, a major reason for building the new facility.

The present facility, which cost $1.8 million, was completed July 24, 1991, seven years to the day of Friday's announcement. At that time, the vast majority of the mission's guests were homeless men.

However, in the years since, the mission's population has changed, and now about 42 percent of the homeless are women and children.

For more information, call the "Building Hope for Families" telephone number at 234-1024 or mail contributions to the mission at 600 N. Kansas Ave., Topeka, 66608.

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7/25/98

ECONOMIC REPORT CARD

State raises its grades in annual report

By KATHLEEN McLAUGHLIN
The Capital-Journal

After receiving straight D's in 1997, Kansas has improved its grades in the Corporation for Economic Development's 1998 Development Report Card for the States. But the state's economic performance grades were hampered by the second-worst earnings disparity between the richest and poorest residents.

Kansas received an A in business vitality, a C in economic performance and a C in development capacity in the report from CFED, a not-for-profit group that focuses on promoting economic self-sufficiency among low-income groups.

But Kansas ranked 49th in the income disparity between the richest 20 percent of families and the poorest 20 percent of families, with only Arizona faring worse.

"It's a good comparison if you don't get carried away with saying, "Why didn't we get all A's,"' said Jim Janousek, a statistical researcher for the Kansas Department of Commerce and Housing.

The CFED report card is an annual comparison that grades each state's economy by using more than 50 economic measures grouped into three indexes and given letter grades: economic performance, business vitality and development capacity.

Daphne Clones, senior research analyst for CFED, said the state's improved scores but increasing income disparity reflect a national trend of a high income gap despite a long economic expansion.

Most states are doing well, she said, so Kansas' status among similar economies comes from its own improvement, rather than others' decline. The study uses the most recent federal data, then measures subindexes and creates composites, with all measures weighted equally.

Janousek attributed Kansas' leap in business vitality to the increase in start-up companies that followed corporate downsizing. In the report, Kansas ranked 9th in new business job growth and 10th in change in new companies, while only placing 18th in business closings.

He said good business vitality paired with strong human resources can help market the state as a competitor for new business locations or expansions.

Kansas' 1998 economic report card

Business vitality	**A**
Business competitiveness	B
Entrepreneurial energy	B
Structural diversity	C
Economic performance	**C**
Employment	B
Earnings and job quality	C
Equity	D
Development capacity	**C**
Human resources	A
Technology resources	C
Financial resources	C
Infrastructure and amenity resources	D

Source: Corporation for Enterprise Development

In economic performance, Kansas' high income disparity weighed down the grade. But the state pulled up its grade with its low unemployment rate (13th) and unemployment duration (14th), Clones said.

In the development capacity area, Kansas' human resources are strong, with the state placing 13th in high school graduation rate and 12th in the number of residents making it to college. However, the grade was pulled down by the low rankings on infrastructure, including highway deficiency (41st) and bridge deficiency (32nd).

Clones said there is a strong correlation between economic performance and development capacity.

"If you have all those building blocks, and you have them well, you're more likely to grow," she said.

The 12-year-old study is a good comparison of states, Janousek said.

"We all find ourselves bunched in the middle of the nation's economy," Janousek said of the Plains states — Kansas, Iowa, South Dakota, Texas and Nebraska.

July 17, 1998