

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by the Chairman Edmonds at 8:30 a.m. March 29 in Room 519-S of the Capitol.

All members were present.

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Don Hayward, Revisor  
Winnie Crapson, Secretary

Conferee appearing before the committee:

Ben Barrett, Director, Legislative Research Department  
Mark Tallman, Kansas Association of School Boards  
Craig Grant, Kansas-NEA  
Ron Hein, Kansas Soft Drink Association  
Chuck Burkhardt, Coca Cola Mid-America  
R. E. Duncan, Kansas Wine & Spirits Wholesalers Association  
Karl Peterjohn, Kansas Taxpayers Network  
Bob Corkins, Kansas Public Policy Institute

Others attending: See attached list.

Chairman Edmonds noted today's discussion would include comments relating to the Senate Education Committee plan proposed as **Senate Substitute for HB 2051** which has some similarity to **HB 2578**.

The Chairman distributed a spreadsheet dated 3/28/2001 providing statistics on the school finance proposal of Senator Umbarger (Attachment #1).

Hearing was opened on:

**HB 2578 - School district finance and appropriations relating thereto.**

Mark Tallman presented testimony in support of **HB 2578** on behalf of the Kansas Association of School Boards (Attachment #2) and responded to questions from members of the Committee.

Craig Grant presented testimony in support of **HB 2578** on behalf of the Kansas School Finance Coalition (Attachment #3) and answered questions from Committee members.

The Committee recessed at 10:56 a.m.

The Committee reconvened at 12:32 p.m.

The Chairman introduced Ben Barrett, Director of Legislative Research, who provided "Summary of Main Provisions of **HB 2578**" (Attachment #4) and the Supplemental Note on the proposed **Senate Substitute for HB 2051** (Attachment #5). Mr. Barrett answered questions concerning changes suggested in the Senate and the effect of those changes..

The Committee resumed questioning of Mr. Grant concerning his testimony presented earlier..

Ron Hein, representing the Kansas Soft Drink Association, testified in opposition to the imposition of a tax on soft drink beverages as recommended by the Senate Committee on Education.

## CONTINUATION SHEET

Mr. Hein introduced Chuck Burkhardt, of Coca Cola Mid-America. Mr. Burkhardt explained how the soft drink industry would need to handle implementation of such a tax. He responded to questions from members of the Committee.

R. E. Duncan testified in opposition to Senate Substitute for HB 2051 on behalf of the Kansas Wine & Spirits Wholesalers Association, Inc. (Attachment #6). Mr. Duncan responded to questions from members of the Committee and commented generally on school finance.

Neal Whitaker presented oral testimony on behalf of the Kansas Beer Wholesalers Association. He stated he believed information presented to the Senate Committee concerning revenue that would be raised by increases in the gallonage tax on beer to be wishful estimates.

The Committee recessed at 1:50 p.m.

The Committee reconvened at 3:30 p.m.

Karl Peterjohn presented testimony on behalf of the Kansas Taxpayers Network entitled "Taxpayers Oppose Graves/Umberger Tax Hike Proposals" (Attachment #7). He answered questions from members of the Committee.

Bob L. Corkins provided the Committee with copies of a publication of the Kansas Public Policy Institute dated March 13 entitled "New Study Examines Practical, Fundamental School Finance Reforms" (Attachment #8). Mr. Corkins made reference to a publication of the Institute entitled A Real Student-Centered Focus for Kansas K-12 Finance available from him upon request. He answered questions from Committee members.

Hearing on HB 2578 closed.

The Committee recessed at 4:15 p.m. and reconvened at 4:17 p.m.

Representative Huff moved to strike the contents of HB 2064 and substitute the contents of Senate Substitute for HB 2051. Representative Newton seconded. Motion was adopted.

Representative Huff moved to recommend HB 2064 as amended favorable for passage. Representative Newton seconded.

Representative Mays moved a substitute motion to report out HB 2064 as amended without recommendation. Representative L. Powell seconded. Motion was adopted.

Representative Huff moved to recommend HB 2578 as amended favorable for passage. Representative Newton seconded.

Representative Mays moved a substitute motion to report out HB 2578 as amended without recommendation. Representative L. Powell seconded. Motion was adopted.

The meeting adjourned at 4:24 p.m. Next scheduled meeting is March 30.

GUEST LIST

DATE March 29

NAME	REPRESENTING
Craig Grant	KWEA
Bill Yinek	Ks Assn of REALTORS
Karen France	"
Jim Allen	KEC = KFRC
Glaive Frisbie	Div. of Budget
Christy Caldwell	Topeka Chamber of Comm.
Karl Peterjohn	Ks Taxpayers Network
Trista Bendles	Office of the Governor
<del>KLB</del>	Herb Hoover
Bill Brady	KI Gov't Consulting
Mark Tallman	KASIS
Diane Gjerstad	Wichita Public Schools
Bernie Kork	Wichita Chamber
John L. Leneick	Berry
Erik Santorus	K.C. Regional Assoc. of Realtors
Marlee Carpenter	KCEA
Shirley Sue Smith	KMHA
<del>AD</del>	AD
<del>AD</del>	Ks Gov't Consulting
<del>AD</del>	KWSWA
Jacqueline Baker	S&E
Don Hayes	USD 324
Denny Ceyt	USA
Richard Crain	KBOR

GUEST LIST

DATE March 29

NAME	REPRESENTING
Bob Corkins	Ks Public Policy Institute
Brilla Scott	USA
Tom Whitaker	Ks Motor Carriers Assn
Bruce H Wyatt	Kansas Board of Educat
Aue Sample	KSBQE
Andy Shaw	KMCA
Bill Truel	S.M. Schools
Bob Vanaman	USD 229
Ann Dukes	IOB
Paul Kowmets	Intern
Jim Yonally	self
E. O'Malley	OP Chamber
TUCK DUNDEN	KWSWA
Emily Hitchens	Intern



FY 02	Sales/Use * to 5.0 Pct on 6/1/01 and to 5.1 on 6/1/02	Liq Excise June 1 Incr from 10 to 12%	Liq Enf June 1 Incr from 8 to 10%	Liq Gallon June 1 Incr Strong Beer \$0.18 to \$0.25	CMB Gallon June 1 Incr CMB \$0.18 to \$0.25	Liq Gallon June 1 Incr Fortified Wine \$0.75 to \$1.05	Liq Gallon June 1 Incr Light Wine \$0.30 to \$0.42	Liq Gallon June 1 Incr Alc & Spirits \$2.50 to \$3	Liquor Tax Pkg Total	Tob Products June 1 Incr from 10 to 14%	Cig Tax June 1 Incr from 24 to 34c	Cig, Tob Pkg Total	Liquor Pkg Plus Cig, Tob Total	Carbonated Beverage Gallage Tax \$0.20 gal	Rough Est Admin Costs DOR re Carb Bev Tax	After Admin, Net of Carb Bev Tax	Grand Total Sales/Use, Liquor, Cig, Tob Prod, & Net of CB Tax
03	\$38.086	\$4.903	\$9.364	\$3.005	\$1.003	\$0.026	\$0.324	\$1.476	\$20.101	\$1.496	\$21.663	\$23.159	\$43.260	\$30.000	(\$0.886)	\$29.114	<b>\$110.460</b>
04	\$79.155	\$5.099	\$9.926	\$3.095	\$1.033	\$0.026	\$0.334	\$1.520	\$21.034	\$1.556	\$21.230	\$22.786	\$43.820	\$30.000	(\$0.140)	\$29.860	<b>\$152.835</b>
05	\$82.256	\$5.303	\$10.521	\$3.188	\$1.064	\$0.027	\$0.344	\$1.566	\$22.014	\$1.618	\$20.805	\$22.424	\$44.438	\$30.000	(\$0.144)	\$29.856	<b>\$156.549</b>
06	\$85.482	\$5.515	\$11.153	\$3.283	\$1.096	\$0.028	\$0.354	\$1.613	\$23.043	\$1.683	\$20.389	\$22.072	\$45.115	\$30.000	(\$0.149)	\$29.851	<b>\$160.448</b>
06	\$88.834	\$5.736	\$11.822	\$3.382	\$1.129	\$0.029	\$0.365	\$1.661	\$24.124	\$1.750	\$19.982	\$21.732	\$45.856	\$30.000	(\$0.153)	\$29.847	<b>\$164.537</b>
total	\$373.813	\$26.556	\$52.786	\$15.953	\$5.326	\$0.136	\$1.721	\$7.837	\$110.315	\$8.103	\$104.069	\$112.173	\$222.488	\$150.000	(\$1.472)	\$148.528	<b>\$744.829</b>

\* The bill also will retain the Governor's recommended \$5.0 million enhancement in the food sales tax rebate program.

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 Attachment #1  
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KANSAS  
ASSOCIATION



OF  
SCHOOL  
BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024  
785-273-3600

TO: House Committee on Taxation  
FROM: Mark Tallman, Assistant Executive Director for Advocacy  
DATE: March 29, 2001

RE: **Testimony on H.B. 2578 – School District Finance**

Mr. Chairman, Members of the Committee:

We appreciate the opportunity to appear before you today on H.B. 2578, which contains school finance enhancements recommended by Governor Graves. KASB, through our participation in the School Finance Coalition, has endorsed these recommendations.

Attached to this statement is an analysis of the proposal's impact on school districts, school employees and students.

We fully understand that the funding proposal of this magnitude will require a tax increase. We support the tax components of this plan, but we do not object to the Legislature considering other revenue options.

Finally, I have also attached a copy of a document we have shared with the various legislative committees this session, most recently the House Appropriations Committee (yesterday). It provides information on school district funding trends since the 1992 school finance act was adopted.

Thank you for your consideration.

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## Governor Graves' school finance enhancement plan

Governor Bill Graves proposed a 0.2 cent increase in the state sales tax and a 2 cent increase the state motor fuels tax to add \$100 million to his original budget for public education funding. Combined with his original proposal of nearly \$80 million, this total plan would add \$180 million to school funding this year. Here are the highlights:

<b>Base Budget Per Pupil.</b> Increase by \$110 to \$3,930. Cost: \$63 million.	Would slightly exceed the projected rate of inflation for the first time since 1992.
<b>At-Risk Weighting.</b> Increase at-risk weighting from 9% to 11%. Cost: \$8.2 million.	Expands services to students who are not making adequate academic progress.
<b>Correlation Weighting.</b> Decrease the correlation weighting threshold from 1,725 to 1,700. Cost: \$10.6 million.	Provides funding for larger school districts with lower budgets per pupil to promote funding equity.
<b>Four-year-old at-risk.</b> Add funding to serve an additional 436 pupils. Cost: \$1 million	Help disadvantaged students acquire basic skills to begin school.
<b>Special Education.</b> Raise special education funding as a percent of excess cost to 90% and make a weighted program. Cost: \$22.2 million.	Brings the state closer to funding mandated costs for serving children with special needs.
<b>National Board Certification for Teachers.</b> Provide each teacher receiving National Board Certification \$5,000 per year for the life of the certificate, and the school employing the teacher \$3,000 per year. Cost: \$500,000.	Encourages teachers to reach high levels of training and performance.
<b>Reward Outstanding Schools.</b> Reward schools that reach the standard of excellence on state assessments, or that show significant progress as defined by the State Board, or increase high school graduate rate. Schools would receive \$50 per pupil. Local boards must consult will staff of the schools prior to spending this money, and the money would have to be spent in the building receiving the reward. Cost: \$8 million.	Creates incentives for high academic achievement or improvement and provides additional resources for those schools.
<b>Outstanding Teacher Rewards.</b> Offer competitive grants to fund teacher pay for performance plans. Districts would have to apply for such grants in cooperation with teachers. Cost: \$2 million.	Allows districts to develop ways to reward outstanding teaching performance.
<b>Extended Learning Time.</b> Provide \$44 per FTE in the school finance formula. Districts must submit a plan on how these funds would be used prior to implementation, and an evaluation with results would have to be submitted at the end of the year. Any plan must include reading as a component. Cost: \$20 million.	Allows districts to fund after school, weekend or summer school programs for both remedial intervention and enrichment.
<b>All Day Kindergarten.</b> Begin five-year phase-in of all day kindergarten. In the first year, students in all day K programs would be counted as 0.6, rather than 0.5. Cost: \$4.3 million.	Helps schools give kindergartners additional time for learning and preparation for academic success.

For questions about this plan, contact KASB at (800) 432-2471.

## Kansas School District Expenditures: Basic Facts

*Prepared by the Kansas Association of School Boards in support of the School Finance Coalition  
January, 2001*

### Introduction

The school finance coalition is a group of education organizations and school districts that believe the quality of public education in Kansas can be sustained only by raising educator salaries, helping all children reach high standards, supporting technology and insuring safe schools. The coalition has adopted a position that over \$650 million in additional state funding is required to assure that each child receives a high quality education.

A task force appointed by Governor Bill Graves also addressed many of these issues. The recommendations from this group would increase state spending on education by approximately \$200 million. In addition, the task force endorsed a number of proposals in the State Board of Education's Fiscal Year 2002 budget request totaling over \$100 million. The Task Force also recommended that the state fund a study to determine cost of providing a "suitable" education in each school district in Kansas. This study could find that even an even greater increase in state funding is necessary.

Implicit in the positions of the coalition, the Governor's Task Force and the State Board is the concern that school district funding has not kept up with needs since the current system was adopted in 1992. For example, the base budget per pupil has fallen far behind inflation since 1992-93. However, some reports indicate that school funding has increased more than inflation over that period, and note that state aid to public school districts has nearly doubled. Which position is correct?

Actually, both are. This paper reviews the basic features of the Kansas school finance system and how those features changed between 1992-93, when the current law took effect, and 1999-2000, the last year complete figures were available from the State Department of Education. It demonstrates the following basic facts:

- The base budget per pupil is the foundation of the school finance system, and is determined by the state.
- Although total school district expenditures have increase more than inflation, most of this growth has been in restricted use areas of the budget, not available for general education needs.
- General, or discretionary spending has slightly exceeded inflation only because school districts have increased local option budgets, which increase property taxes.
- Even within the general fund, much of the increase has been directed to specific programs, such as at-risk and correlation weighting.
- Much of the increase in state aid has been offset by reductions in local revenues, specifically reducing the statewide mill levy from 35 mills to 20 mills.

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**The base budget per pupil is the “foundation” of the school finance system.**

The base amount is multiplied by the total of the actual full-time equivalent enrollment plus various weighting factors and other adjustments in each district to determine the general fund budget. Districts may adopt a local option budget (also called the supplemental general fund) which is a percentage of the general fund, up to a maximum of 25%. Therefore, the value of the base determines the value of weighting factors and the LOB.

**The base budget per pupil is determined by the State Legislature.**

The base is currently set at \$3,820 by state statute. To change the base, the Legislature must pass a bill. Although the base budget per pupil is set in law, the Legislature must also pass a separate appropriations bill to actually fund the base each year. (Any change in law or appropriations requires a majority vote in both the House and Senate, and is also subject to the Governor’s veto. The Legislature can override a veto by a two-thirds vote of both houses.) If the Legislature does not appropriate enough money to fund the required state aid in every district, the base is prorated (proportionately reduced for each district).

**State aid is not the same as the base budget per pupil.**

In addition to setting the base, the Legislature also sets a uniform mill levy on property in all districts. To fully fund the base at the statutory level each year, the Legislature must appropriate enough money to make up the difference between the general fund budget and the amount raised by the statewide general mill levy in each district, plus a few other revenue sources. This appropriation is called “general state aid.” (If the statewide general fund mill levy raises more in a district than is required to fund the general fund budget, the excess amount is “recaptured” by the state and used to fund general state aid for other districts. This occurs in only a few very districts with very high property valuations - probably only one in 2000-01.) The legislature also provides assistance for local option budgets, based on the property valuation per pupil in a district. The wealthiest districts do not receive any “supplemental general aid.”

**The general fund and local option budget are the “discretionary” parts of school budgets.**

The general fund and supplemental general fund (if any) combined represent the “discretionary” portion of a school district’s budget, although a portion of these funds must be transferred to other funds restricted uses. Last year, total general fund expenditures of all districts was \$2.174 billion, and supplemental general fund expenditures totaled \$320.9 million. Combined, these funds represented less than two-thirds (63.9%) of all school district expenditures. All other expenditures are restricted to use for very specific purposes outside of general or regular education, such as building construction, food service and special education.

**Restricted purpose funds are important, but cannot be used for regular education costs.**

Expenditures outside of the general and supplemental general funds are almost always restricted to very specific purposes. This does not mean they are unimportant, but it means they are not available for general education costs, such as regular teachers’ salaries.

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Major examples of these "restricted use" funds include:

- Special education aid, which may only be used for special education teacher salaries, transportation and related costs. (\$248.4 million last year)
- Capital outlay, which may only be used for equipment, construction, and repairs or remodeling. (\$136.9 million last year)
- Food service, which provides meals for low income children and meal preparation support. (\$152.2 million last year, mostly provided by the federal government)
- Bond and interest costs, which pay off the debt on construction projects approved by district voters. (\$183.4 million last year)
- Other federal programs, such as Title I aid for disadvantaged children. (\$100 million last year)

In addition, districts received \$136 million within the general fund through "program weightings" that must be used on specific programs, such as bilingual and vocation programs and student transportation. Districts also had to transfer approximately \$36 million to cover additional special education costs that exceeded special education aid provided by the state.

**Restricted expenditures have increased much more than discretionary expenditures.**

Total "discretionary" expenditures (general and supplemental general fund) have increased from \$1.939 billion in 1992-93 to \$2.495 billion in 1999-00, or 28.7%. Because enrollment increased statewide, this represents a per pupil increase of 23.7%, from \$4,454 to \$5,561.

However, total expenditures from **all** funds increased from \$2.498 billion to \$3.403 billion (36.2%). Total per pupil expenditures increased from \$5,791 to \$7,585 per pupil (30.9%). This means that a decreasing portion of total district expenditures is available for discretionary purposes. General "discretionary" spending fell from 77.6% of the total in 1992-93 to 63.9% in 1999-00.

Not only do total expenditure figures contain many funds with restricted uses; these funds are not equally available to all districts. For example, only districts with outstanding bonded debt have bond and interest expenditures, and most federal funds are distributed on the basis of student poverty. These two items alone account for 12.8% of total district expenditures, up from 9.1% in 1992-93.

**Discretionary spending kept up with inflation only because of the Local Option Budget**

Since 1992-93, total expenditures per pupil have increased 30.9%, considerably more than the consumer price index, which increased 19.4%. However, discretionary expenditures (general and supplemental general fund) per pupil have increased just slightly more than inflation (23.7%).

This increase has been possible only because of increased use of local option budgets. Total LOB expenditures (supplemental general fund) increased \$97.9 million in 1992-93 to \$320.5 million in 1999-00. Without the LOB, discretionary general spending would have fallen behind inflation. From 1992-93 to 1999-00, general fund spending per pupil (excluding the LOB) increased from \$4,267 to \$4,846, or 13.6% - only about 70% of the increase in the CPI. The base budget per pupil increased just 4.7%, from \$3,600 to \$3,770.

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**Much of the increase in the general fund has also been restricted to specific programs.**

Total general fund expenditures increased more than the base because of changes in enrollment weighting factors. Between 1992-93 and 1999-00, general fund expenditures increased by \$304.9 million. Without changes in enrollment or weightings, the increase would have been just \$87.8 million. The additional increase in the general fund expenditures result from the following changes since 1992-93:

- FTE enrollment rose statewide by 17,810 students (approximately 4%). In addition, the legislature approved a declining enrollment feature to help districts phase in budget reductions when enrollment falls. These two changes added \$88.3 million.
- The Legislature created a "correlation weighting" feature to assist districts with enrollment over 1,725 because it believed these districts were underfunded by the original 1992 finance act. This change added \$73.5 million, all for districts with enrollment over 1,725.
- More students are enrolled in approved bilingual and vocation programs, at a cost of \$16.8 million.
- The Legislature increased the at-risk weighting factor from 0.05 to 0.09. This factor is applied to students who qualify for free lunch and must be used for approved programs to assist students at risk of academic failure. This change added \$23.2 million.
- Higher costs for busing children to and from school added nearly \$10 million to the transportation weighting.
- Weightings to assist districts with the special costs of opening new buildings added \$14 million.

**State aid increased more than district expenditures because of reductions in property taxes.**

In addition to changes in total school district expenditures since 1992-93, the sources of funding have also changes. Total state aid for school districts rose by just over \$1 billion, or 90.8%. Federal funds also rose by \$81.8 million, or 69.6%. But school district revenue from local sources – primarily property taxes – fell by \$196.5 million, a decline of 15.6%.

A significant portion of increased state aid for districts was used to reduce local property taxes. For example, in 1993-94 state aid rose 33.6%, but local revenues dropped 22.2%. In 1997-98, state aid rose 15.9% while local revenue dropped by 11.9%. As a result, state aid increased from 44.9% of the total expenditures in 1992-93 to 62.9% in 1999-00

# KANSAS SCHOOL FINANCE COALITION

Craig Grant Testimony  
House Taxation Committee  
March 29, 2001

Thank you, Mr. Chairman. I am Craig Grant and today I am making a statement on behalf of the Kansas School Finance Coalition. As you have heard before, the coalition includes membership from the Kansas Association of School Boards, Kansas National Education Association, United School Administrators of Kansas, Schools for Quality Education, Kansas Education Coalition, Kansans for Local Control, Unified School District 259 (Wichita), Unified School District 229 (Blue Valley), Unified School District 233 (Olathe), Unified School District 500 (Kansas City), Unified School District 501 (Topeka), and Unified School District 512 (Shawnee Mission).

Lest there be any doubt, I am here to remind you that on March 14 the School Finance Coalition announced its support for the proposal by Governor Graves on school finance. We believe that the proposal represents the best hope available for improving the quality of Kansas public education during the legislative session.

The proposal put forward by the Governor represents the first time since the School District Finance and Quality Performance Act was adopted in 1992 that a proposal to increase the base budget per pupil has exceeded the rate of inflation. We are also pleased that the Governor's plan gives new recognition to the importance of the extended school year and education in the early years of a child's life. This is done without prescribing how this is to be accomplished by the local schools.

In supporting the Governor's plan, we are not absolute in the funding mechanism described in his proposal. We do believe that it represents a comprehensive plan for dealing with funding of our public education system. If there were other methods of increasing the revenues necessary for this plan, we would be happy to endorse those methods.

We hope that this committee and the Kansas Senate will continue to show leadership for education by passing the Governor's proposal for school finance. Thank you for listening to the School Finance Coalition.

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## SUMMARY OF MAIN PROVISIONS OF HB 2578

HB 2578 modifies the school finance formula, addresses other education policy matters, contains appropriations, and increases certain taxes in connection therewith. The main provisions are described below:

### School Formula Changes

- **Base State Aid Per Pupil (BSAPP).** BSAPP is increased by \$110—from \$3,820 in the 2000-01 school year to \$3,930 in 2001-02 and thereafter.
- **Correlation Weight.** Correlation weight is applied to all school districts having enrollments of 1,700 and over. (The weight currently applies to all districts with enrollments of 1,725 and over.) This change increases the weight's percentage from 6.3211 to 7.2242.
- **Special Education.** State funding for special education is converted from a categorical state aid program to a pupil weighting component of the school finance law. Beginning in the 2001-02 school year, the full-time equivalent (FTE) exceptional pupil weighting is 3.22 for exceptional children with severe disabilities and 0.72 for all other exceptional children.
- **“Success in School State Aid”—Extended Learning Time.** Each year school districts will receive \$44 per FTE pupil. These funds are to be used for extended learning time. In order to qualify for this aid, a school district must submit an approvable plan to the State Board of Education. The district's plan may be for any of the following purposes:
  - Providing pupils with additional time to achieve learner exit or improvement plan outcomes;
  - Giving pupils remedial instruction or independent study assistance; and
  - Affording pupils opportunity to attain or enhance proficiency in the basic or higher order thinking skills.

The plan may schedule the extended learning time before or after regular school hours, on weekends, or during the summer months. The plan must include an intensive research based reading intervention component and an evaluation procedure.

- **At-Risk Pupils.** The at-risk pupil weighting is increased from 0.09 in the 2000-01 school year to 0.11 in 2001-02 and thereafter. An amount equal to 0.01 will be used by the district for achieving mastery of basic reading skills by completion of the third grade in accordance with standards established by the State Board of Education. A school district must

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include information in its at-risk pupil assistance plan as the State Board of Education requires about the district's remediation strategies and its results in achieving the State Board's third grade reading mastery standards. A school district's report must include information documenting remediation strategies and improvement made by pupils who performed below the expected standard on the State Board's second grade diagnostic reading test. A school district whose third grade pupils substantially meet the State Board standards for mastery of third grade reading skills, upon request, may be released by the Board from the requirement to dedicate a specific portion of the at-risk weight to this reading initiative.

- **Four Year Old At-Risk Pupils.** The four year old at-risk pupil competitive grant program is expanded by 436 pupils—from 2,230 in the 2000-01 school year to 2,666 in 2001-02 and thereafter.
- **Kindergarten Pupils.** Pupils who attend kindergarten programs that last at least six hours will be counted at 0.6 full-time equivalent (FTE) in 2001-02, 0.7 FTE in 2002-03, 0.8 FTE in 2003-04, 0.9 FTE in 2004-05, and 1.0 FTE in 2005-06 and thereafter. (Currently, pupils who attend kindergarten are counted at 0.5 FTE.)

### Other Education Policy Changes/Initiatives

- **National Board for Professional Teaching Standards Certification Initiative.** The law is amended to increase from \$1,000 to \$5,000 the amount of incentive bonuses paid to teachers who have earned certification by the National Professional Teaching Standards Board. In addition, the school district will receive \$3,000 per year for each such teacher in support of staff development programs in schools in which the national board certified teachers are located. Districts receive money under this program in the form of grants. The portion of the grant attributable to reimbursement of the district for payment of incentive bonuses to teachers is deposited in the school district's general fund and the remainder is deposited in the school district's inservice education fund.
- **Exemplary School Recognition Award Program.** Public schools that meet the building standard of excellence based on State Board of Education criteria under the Quality Performance Accreditation (QPA) system in consideration of attainment or significant and continuous progress of pupils toward advanced or proficient performance or substantial increase in the high school graduation rate are entitled to the exemplary school recognition award. Subject to available appropriations, the amount of this award may not exceed \$50 per pupil in attendance at the exemplary school. The reward a district receives is deposited in the district's general fund and is credited to the account of the exemplary school. The funds may be spent whether or not they were budgeted. The

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exemplary school's site council determines the purposes for which the award is spent.

- **Alternative Teacher Compensation Plan.** School district boards are authorized to establish and maintain an alternative teacher compensation plan and apply for a grant of state moneys to finance all or a portion of the amount budgeted for maintenance of the plan. An "alternative teacher compensation plan" is one that includes components of peer mentoring and peer evaluation and that bases pay increases or differential pay rates on the demonstration of excellence or significant improvement in skills, knowledge, and performance.

In order to be eligible to receive this state grant, a school board must submit to the State Board of Education an application which includes a description of the plan. A grant recipient school district must submit reports to the State Board as it requires.

The State Board of Education will adopt rules and regulations for the administration of this program and will:

- Establish standards and criteria for reviewing, evaluating, and approving alternative teacher compensation plans and applications of school districts for grants;
- Evaluate and approve alternative teacher compensation plans including efforts of boards to enlist assistance and support in development of the plan from teachers, administrators, school site council members, district patrons, community organizations, and private sector organizations and foundations; and
- Receive from each grant recipient school district reports containing information on the effectiveness of the plan.

A state grant may not exceed the amount spent by the school district in the maintenance of a plan. The grant money a district receives must be deposited in the school district general fund and is treated as a reimbursement for purposes of the school finance law.

### Appropriations

- The bill includes the following State General Fund appropriations to the State Department of Education to fund the enhancements contained in the bill.

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(Amounts in Millions)

Purpose	FY 2002
General State Aid	\$87.71
KPERS—Employer Contributions	\$2.0
National Board Certified Teacher Incentive Grants	\$0.5
Exemplary School Recognition Award	\$8.0
Alternative Teacher Compensation Plan Grants	\$2.0

**Taxes**

- **Uniform Property Tax Levy.** The uniform school district property tax rate of 20 mills and the \$20,000 residential exemption are continued for 2001 and 2002.
- **Sales and Compensating Use Taxes.** The state sales and compensating use taxes are increased from 4.9 to 5.1 percent on June 1, 2001. Demand transfers from the State General Fund (SGF) to the Local Ad Valorem Tax Reduction Fund and City and County Revenue Sharing Fund are adjusted for the next five fiscal years so that the full amount attributable to the 0.2 percentage point increase accrues to the benefit of the SGF.
- **Motor Fuel Taxes.** Motor fuel taxes are increased by 2.0 cents per gallon, effective June 1, 2001. Also, the 1.0 cent increase currently scheduled for implementation on July 1, 2001, is accelerated by one month—to June 1, 2001. Liquified petroleum taxes also are adjusted commensurately. After June 1, 2001, the state tax on gasoline and gasohol would be 23.0 cents per gallon and, on diesel fuel, 25.0 cents per gallon. Motor fuel tax allocations to the Special City and County Highway Fund are adjusted so that the State Highway Fund will receive the full benefit of the fuel tax increase. Commensurately, the amount attributable to the statutory transfer of sales tax receipts from the SGF to the State Highway Fund will be reduced for the next five fiscal years by the amount produced by the 2.0 cent increase in fuel taxes.
- **Food Sales Tax Refund.** The food sales tax refund is increased as follows:

Household Income and Additional Personal Exemption—Each	Current Maximum Rebate	New Maximum Rebate
Under \$12,500	\$60	\$75
\$12,500-\$25,000	\$30	\$38

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## Background

HB 2578 contains the Governor's school funding enhancement recommendations of March 13, 2001.

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**Comparison: HB 2578 and Governor's Original Plan: FY 2002**

(Amounts in Millions)

Policy	Governor Initial Proposal	HB 2578	Amount Difference HB 2578 Over Governor
<b>BSAPP</b>			
Change	\$3,870	\$3,930	
Amount	\$28.7	\$63.1	\$34.4
<b>Correlation Weight—1,725 and Over</b>			
Change	NA	1,700 and over	
Amount	NA	\$10.6	\$10.6
<b>At-Risk</b>			
Change	0.09 to 0.10	0.09 to 0.11	
Amount	\$4.0	\$8.2	\$4.2
<b>Four Year Old At-Risk Pupils</b>			
Change	2,230 to 2,666	2,230 to 2,666	
Amount	\$1.0	\$1.0	same
<b>Extended Learning Time</b>			
Change	NA	\$44 per FTE	
Amount	NA	\$20.0	\$20.0
<b>Special Education</b>			
Change	becomes a pupil weighting	becomes a pupil weighting	
Amount	\$8.0-85.3% excess cost	\$22.2-90.0% excess cost	\$14.2
<b>All Day Kindergarten</b>			
Change	NA	5 year phase in to 1.0 FTE	
Amount	NA	\$4.3	\$4.3
<b>National Board Certification</b>			
Change	NA	teacher grants \$ increase from \$1,000 to \$5,000—plus \$3,000 for school	
Amount	\$0.012	\$0.5	\$0.488
<b>Outstanding Schools</b>			
Change	NA	\$50 per student	
Amount	NA	\$8.0	\$8.0
<b>Alternate Compensation Plans</b>			
Change	NA	grant program	
Amount	NA	\$2.0	\$2.0
<b>Increase</b>			
SGF	\$40.712	\$138.9	\$98.188
Children's Initiative Fund	1.0	1.0	0.0
<b>TOTAL</b>	<b>\$41.712</b>	<b>\$139.9</b>	<b>\$98.188</b>

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**Comparison: FY 2002—HB 2578 Tax Policy Changes  
and Governor's Initial Recommendation**

(Amounts in Millions)

<u>Policy</u>	<u>Governor Initial</u>	<u>HB 2578</u>	<u>Difference HB 2578 Minus Initial Governor</u>
<b>Property Tax</b>			
Proposed Amount	20 mills/\$20,000 res. exemption no change from current law	20 mills/\$20,000 res. exemption no change from current law	NA
<b>Sales and Use Tax</b>			
Proposed Amount	NA NA	0.2 percentage point \$76.1	\$76.1
<b>Motor Fuels Tax</b>			
Proposed Amount	NA NA	2.0 cents \$36.2	\$36.2
<b>Increase</b>			
<b>SUBTOTAL</b>	<b>NA</b>	<b>\$112.3</b>	<b>\$112.3</b>
<b>Less</b>			
Food Sales Tax Rebate Expansion	NA	\$5.0	\$5.0
<b>TOTAL</b>	<b>NA</b>	<b>\$107.3</b>	<b>\$107.3</b>

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SESSION OF 2001

**SUPPLEMENTAL NOTE ON  
SUBSTITUTE FOR HOUSE BILL NO. 2051**

As Recommended by Senate Committee on  
Education

**Brief\***

Sub. for HB 2051 modifies the school finance formula, addresses other education policy matters, contains appropriations, and increases certain taxes in connection therewith. The main provisions are described below:

**School Formula Changes**

- **Base State Aid Per Pupil (BSAPP).** BSAPP is increased from \$3,820 in the 2000-01 school year to \$3,930 in 2001-02 and to \$4,060 in 2002-03 and thereafter.
- **Correlation Weight.** Correlation weight is applied to all school districts having enrollments of 1,690 and over. (The weight currently applies to all districts with enrollments of 1,725 and over.) This change increases the weight's percentage from 6.3211 to 7.5855.
- **"Success in School State Aid"—Extended Learning Time and Eye Examinations.** Each year school districts will receive \$44 per FTE pupil. These funds are to be used for extended learning time. In order to qualify for this aid, a school district must submit an approvable plan to the State Board of Education. The district's plan may be for any of the following purposes:

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext.cgi>

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- Providing pupils with additional time to achieve learner exit or improvement plan outcomes;
- Giving pupils remedial instruction or independent study assistance; and
- Affording pupils opportunity to attain or enhance proficiency in the basic or higher order thinking skills.

The plan may schedule the extended learning time before or after regular school hours, on weekends, or during the summer months. The plan must include intensive interventions for K-3 pupils needing assistance in achieving mastery of basic reading, writing, and mathematics skills.

In order to assist districts to establish and maintain an extended learning time plan, each pupil who needs assistance to master basic reading, writing, and mathematics skills is encouraged to obtain an eye examination by an optometrist or ophthalmologist to determine if the pupil suffers from conditions which impair the ability to read. The expense of such examination, if not reimbursed through Medicaid, Healthwave, private insurance, or other governmental or private program is the responsibility of the pupil's parent.

- **At-Risk Pupils.** The at-risk pupil weighting is increased from 0.09 in the 2000-01 school year to 0.11 in 2001-02 and thereafter. An amount equal to 0.01 will be used by the district for achieving mastery of basic reading skills by completion of the third grade in accordance with standards established by the State Board of Education. A school district must include information in its at-risk pupil assistance plan as the State Board of Education requires about the district's remediation strategies and its results in achieving the State Board's third grade reading mastery standards. A school district's report must include information documenting remediation strategies and improvement made by pupils who performed below the expected standard on the State Board's second grade diagnostic reading test. A school district whose third grade pupils substantially meet the State Board standards for mastery of third grade reading skills, upon request,

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may be released by the Board from the requirement to dedicate a specific portion of the at-risk weight to this reading initiative.

- **Four Year Old At-Risk Pupils.** The four year old at-risk pupil competitive grant program is expanded by 436 pupils—from 2,230 in the 2000-01 school year to 2,666 in 2001-02 and thereafter.

**Other Education Policy Changes/Initiatives**

- **National Board for Professional Teaching Standards Certification Initiative.** The law is amended to increase from \$1,000 to \$5,000 the amount of incentive bonuses paid to teachers who have earned certification by the National Professional Teaching Standards Board. In addition, the school district will receive \$3,000 per year for each such teacher in support of staff development programs in schools in which the national board certified teachers are located. Districts receive money under this program in the form of grants. The portion of the grant attributable to reimbursement of the district for payment of incentive bonuses to teachers is deposited in the school district's general fund and the remainder is deposited in the school district's inservice education fund.
- **Exemplary School Recognition Award Program.** Public schools that meet the building standard of excellence based on State Board of Education criteria under the Quality Performance Accreditation (QPA) system in consideration of attainment or significant and continuous progress of pupils toward advanced or proficient performance or substantial increase in the high school graduation rate are entitled to the exemplary school recognition award. Subject to available appropriations, the amount of this award may not exceed \$50 per pupil in attendance at the exemplary school. The reward a district receives is deposited in the district's general fund and is credited to the account of the exemplary school. The funds may be spent whether or not they were budgeted. The exemplary school's site council determines the purposes for which the award is spent.

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- **Alternative Teacher Compensation Plan.** School district boards are authorized to establish and maintain an alternative teacher compensation plan and apply for a grant of state moneys to finance all or a portion of the amount budgeted for maintenance of the plan. An "alternative teacher compensation plan" is one that includes components of peer mentoring and peer evaluation and that bases pay increases or differential pay rates on the demonstration of excellence or significant improvement in skills, knowledge, and performance.

In order to be eligible to receive this state grant, a school board must submit to the State Board of Education an application which includes a description of the plan. A grant recipient school district must submit reports to the State Board as it requires.

The State Board of Education will adopt rules and regulations for the administration of this program and will:

- Establish standards and criteria for reviewing, evaluating, and approving alternative teacher compensation plans and applications of school districts for grants;
- Evaluate and approve alternative teacher compensation plans including efforts of boards to enlist assistance and support in development of the plan from teachers, administrators, school site council members, district patrons, community organizations, and private sector organizations and foundations; and
- Receive from each grant recipient school district reports containing information on the effectiveness of the plan.

A state grant may not exceed the amount spent by the school district in the maintenance of a plan. The grant money a district receives must be deposited in the school district general fund and is treated as a reimbursement for purposes of the school finance law.

- **School Finance Study.** The State Board of Education is directed to provide for a professional evaluation of school



district finance to determine the per pupil cost of a suitable education for Kansas children. This evaluation must include a thorough study of the current school finance law with the objective of addressing any inherent inadequacies and inequities. Also, this evaluation must address:

- The funding needed to provide a suitable education in typical K-12 schools of various sizes and locations;
- The additional support needed for special education, at-risk, limited English proficient pupils, and pupils impacted by other special circumstances;
- The funding adjustments necessary to ensure comparable purchasing power for all districts, regardless of size or location; and
- An appropriate annual adjustment for inflation.

The evaluation must cover the costs of providing:

- Comparable opportunities in the state's small rural schools as well as the larger, more urban schools, including differences in transportation needs resulting from population sparsity as well as differences in annual operating costs;
- Suitable opportunities in elementary, middle, and high schools;
- Special programming opportunities, including vocational education programs;
- Education of at-risk children and those with limited English proficiency;
- Meeting the needs of pupils with disabilities; and
- Geographic variations in costs of personnel, materials, supplies and equipment, and other fixed costs so that districts across the state are afforded comparable purchasing power.

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The State Board of Education would secure consultant services to conduct this evaluation. The consultant would report findings and recommendations to the Governor and the Legislature at the beginning of the 2002 Legislative Session.

For the purpose of this legislation, the term "suitable education" means a curricular program consisting of the subjects and courses required under KSA 72-1101, 72-1103, and 72-1117, as amended, the courses in foreign language, fine arts, and physical education required to qualify for a state scholarship under KSA 72-6810 through 72-6816, as amended, and the courses included in the precollege curriculum prescribed by the Board of Regents under KSA 76-717, as amended.

- **Compulsory School Attendance Requirement—Extension.** The bill permits a school district to adopt a policy that extends the school term for pupils in need of remediation or for disciplinary purposes.

A school district board may adopt a disciplinary policy or school improvement plan which includes additional school time for pupils who are in need of remedial education or who are subject to disciplinary measures imposed under the district's disciplinary policy. Any school day or school hour scheduled for a pupil under such a policy may be scheduled on weekends, before or after regular school hours, and during the summer months. Inexcusable absence from school on any school day or during any school hour by a pupil for whom additional school days or school hours have been scheduled under the policy is counted as an inexcusable absence from school for the purposes of enforcing the compulsory school attendance law.

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**Appropriations**

- The bill includes the following State General Fund appropriations to the State Department of Education to fund the enhancements contained in the bill.

(Amounts in Millions)

<u>Purpose</u>	<u>FY 2002</u>
General State Aid	\$73.51
Special Education Services Aid	\$14.2
KPERS—Employer Contributions	\$2.0
National Board Certified Teacher Incentive Grants	\$0.5
Exemplary School Recognition Award	\$8.0
Alternative Teacher Compensation Plan Grants	\$2.0

**Taxes**

- **Uniform Property Tax Levy.** The uniform school district property tax rate of 20 mills and the \$20,000 residential exemption are continued for 2001 and 2002.
- **Sales and Compensating Use Taxes.** The state sales and compensating use taxes are increased from 4.9 to 5.0 percent on June 1, 2001, and then to 5.1 percent on June 1, 2002. Demand transfers from the State General Fund to the Local Ad Valorem Tax Reduction Fund and City and County Revenue Sharing Fund are adjusted for the next five fiscal years so that the full amount attributable to the sales and use tax increases accrues to the benefit of the State General Fund.
- **Liquor Excise Tax.** The liquor drink (excise) tax is increased from 10 to 12 percent, effective June 1, 2001.
- **Liquor Enforcement Tax.** The liquor enforcement tax is increased from 8 to 10 percent, effective June 1, 2001.
- **Liquor Gallonage Taxes.** Gallonage taxes on beer are increased from 18 to 25 cents per gallon; fortified wine from 75 cents to \$1.05 per gallon; light wine from 30 to 42 cents per gallon; and alcohol and spirits from \$2.50 to \$3.00 per gallon, all effective June 1, 2001.

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- **Cigarette Tax.** The cigarette tax is increased from 24 to 34 cents per pack, effective June 1, 2001.
- **Tobacco Products Tax.** The tobacco products tax is increased from 10 to 14 percent, effective June 1, 2001.
- **Carbonated Beverage Tax.** A new tax is imposed on carbonated beverages equating to a rate of 20 cents per gallon, effective June 1, 2001.
- **Food Sales Tax Refund.** The food sales tax refund is increased as follows:

Household Income and Additional Personal Exemption—Each	Current Maximum Rebate	New Maximum Rebate
Under \$12,500	\$60	\$75
\$12,500-\$25,000	\$30	\$38

### Background

Provisions of HB 2051, as amended by the Senate Committee on Education, replaced the contents of the bill which, as introduced, contained a State Board of Education recommended repeal of an obsolete school law.

Following is a comparison of the increases contained in the Senate Education Committee plan as compared to the Governor's initial recommendation to the 2001 Legislature.



**Comparison: Senate Education Committee Plan and  
Governor's Original Plan: FY 2002**

(Amounts in Millions)

<u>Policy</u>	<u>Governor Initial Proposal</u>	<u>Senate Education Committee</u>	<u>Amount Difference Senate Educ. Comm. Over Governor</u>
<b>BSAPP</b>			
Change	\$3,870	\$3,930*	
Amount	\$28.7	\$63.1	\$34.4
<b>Correlation Weight—1,725 and Over</b>			
Change	NA	1,690 and over	
Amount	NA	\$14.9	\$14.9
<b>At-Risk</b>			
Change	0.09 to 0.10	0.09 to 0.11	
Amount	\$4.0	\$8.2	\$4.2
<b>Four Year Old At-Risk Pupils</b>			
Change	2,230 to 2,666	2,230 to 2,666	
Amount	\$1.0	\$1.0	same
<b>Extended Learning Time</b>			
Change	NA	\$44 per FTE	
Amount	NA	\$20.0	\$20.0
<b>Special Education</b>			
Change	becomes a pupil weighting	current formula	
Amount	\$8.0-85.3% ex- cess cost	\$22.2-90.0% excess cost	\$14.2
<b>National Board Certification</b>			
Change	NA	teacher grants \$ increase from \$1,000 to \$5,000—plus \$3,000 for school	
Amount	\$0.012	\$0.5	\$0.488

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<u>Policy</u>	<u>Governor Initial Proposal</u>	<u>Senate Education Committee</u>	<u>Amount Difference Senate Educ. Comm. Over Governor</u>
<b>Outstanding Schools</b>			
Change	NA	\$50 per student	
Amount	NA	\$8.0	\$8.0
<b>Alternate Compensation Plans</b>			
Change	NA	grant program	
Amount	NA	\$2.0	\$2.0
<b>School Finance Study</b>			
Change	current formula	adequacy	
Amount	\$0.45	\$0.225	\$(0.225)
<b>Compulsory Attendance Extension</b>			
Change	NA	local policy	
Amount	NA	NA	NA
<b>Increase</b>			
SGF	\$41.162	\$139.125	\$97.963
Children's Initiative Fund	1.0	1.0	0.0
<b>TOTAL</b>	<b>\$42.162</b>	<b>\$140.125</b>	<b>\$97.963</b>

\* Note: Increases to \$4,060 in 2002-03: added cost, \$74.5 million.

Although not included in Sub. for HB 2051, other items also were considered as elements of the Senate Committee's proposal. Implementation of these recommendations requires legislative action in other bills. These are summarized below.



**FY 2002**  
(Amounts in Millions)

Program	Governor Initial	Senate Education Committee	Added Cost
Parent Education	\$2.0 tobacco money (includes 3 year olds and some program expansion)	2.0	NA
Supp. General State Aid	\$10.89	\$10.89	NA
Capital Improvements	\$7.1	\$7.1	NA
KPERS	\$16.4	\$18.4	\$2.0
Technology Backbone	\$0.5	\$0.5	NA
Sports Hall of Fame	\$0.05	\$0.05	NA
Ag. in Classroom and Envi- ronmental Education	\$0.01	\$0.01	NA
TOTAL	\$36.95	\$38.95	\$2.0

**Note:** Amounts do not take into account any additional Supplemental General State Aid that might result from these formula changes.

**EXHIBIT**

<b>Total Sub. for HB 2051 and Additional Items</b>	<b>\$79.1</b>	<b>\$179.1</b>	<b>\$100.0</b>
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**Comparison: FY 2002—Senate Education  
Committee Tax Policy Changes  
and Governor's Recommendation**

(Amounts in Millions)

<u>Policy</u>	<u>Governor Initial</u>	<u>Senate Education Committee</u>	<u>Difference Senate Educ. Comm. Minus Initial Governor</u>
<b>Property Tax</b>			
Proposed	20 mills/\$20,000 res. exemption	20 mills/\$20,000 res. exemption	
Amount	no change from current law	no change from current law	NA
<b>Sales and Use</b>			
Amount	NA	\$38.1	\$38.1
<b>Liquor and Cereal Malt Beverage</b>			
	NA	\$20.1	\$20.1
<b>Cigarettes/Tobacco Products</b>			
	NA	\$23.2	\$23.2
<b>Carbonated Beverages</b>			
	NA	\$29.1	\$29.1
<b>Increase</b>			
<b>SUBTOTAL</b>	<b>NA</b>	<b>\$110.5</b>	<b>\$110.5</b>
<b>Less</b>			
Food Sales Tax Rebate Expansion	NA	\$5.0	\$5.0
<b>TOTAL</b>	<b>NA</b>	<b>\$105.5</b>	<b>\$105.5</b>
<hr/>			
<b>EXHIBIT: FY 2003</b>			
<b>Sales and Use</b>	<b>NA</b>	<b>\$39.6</b>	<b>\$39.6</b>
<hr/>			



K · A · N · S · A · S  
**WINE & SPIRITS**  
WHOLESALE ASSOCIATION, INC.

February 27, 2001

To: Senate Committee on Assessment and Taxation

From: R.E. "Tuck" Duncan  
Kansas Wine & Spirits Wholesalers Association

RE: Taxes on Beverage Alcohol

**KWSWA strongly opposes any increase in beverage alcohol taxes.**

Excise Taxes are Taxes - An increase in excise taxes is just as much a tax increase as an increase in the personal income tax or any other type of tax. This is the case whether they are argued on the basis of so-called "user fees" or for program enhancement (such as education). The fact is that excise taxes are taxes.

Excise Taxes are Regressive - Excise taxes weigh most heavily on low and middle income families making the tax structure less progressive or fair. Studies by the Coalition Against Regressive Taxation (CART) show that increased excise taxes negate the benefits of the 1986 Tax Reform Act for lower income people.

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Current Excise Taxes are Important to State and Local Governments

The alcohol beverage industry now contributes to the state and local governments through excise taxes. Increases in beverage alcohol taxes may decrease current state revenue sources and would further hamper state fiscal options. The National Conference State Legislatures released a study in March of 1989 which estimates that the states lost revenue in the amount of \$3.7 billion as a result of increases in federal alcohol, tobacco and gasoline taxes in 1983 and 1985.

Excise Taxes are Unfair and Discriminatory - An increase in the beverage alcohol taxes for the purpose of bridging the state's revenue shortfall or supplementing education would be unfair and arbitrary. Whatever the merits of the particular outlays to be financed, it is clear that all Kansans have a stake in them, not just individuals who consume certain products. There is no justification for making one group of taxpayers finance government activities which affect everyone. Earmarking taxes is bad public policy.

For the reasons summarized above and discussed in further detail herein, the Kansas Wine and Spirits Wholesalers Association respectfully requests that the committee report Senate Bill 312 unfavorably.

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Tax Burden and Incidence As part of the overview of Kansas state and local taxes, the Kansas Tax Review Commission in 1985 was interested in which taxpayers, by income group, actually bear the burden of Kansas taxes. That is, what is the economic incidence of the Kansas tax burden after all tax shifting and tax exportation are taken into account.

Dr. Darwin Daicoff, Professor of Economics at the University of Kansas, had done considerable research in this area and presented some of this information to the Commission, extracted from his November, 1978 study, Who Pays Kansas Taxes?

(A report to the Special Committee on Assessment and Taxation, Legislative Coordinating Council, State of Kansas; Darwin W. Daicoff and Robert H. Glass, Institute for Economic and Business Research, the University of Kansas, Lawrence, Kansas, November, 1978.)

The following Table OR-5 contains effective tax rates for 1978 by money income classes for each of the Kansas local and state taxes and fees. The effective tax rate represents total taxes paid divided by income. It serves as a measure of tax burden. If the effective rate increases as income increases, the tax structure is said to be "progressive." Conversely, if the effective rate decreases as income increases, the tax is said to be "regressive." An effective tax rate which is constant throughout the entire range of income is known as "proportional." As shown, **alcohol taxes are very regressive.**

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TABLE OR-5

EFFECTIVE TAX RATE BY INCOME CLASS, KANSAS LOCAL, STATE AND FEDERAL TAXES, EXPRESSED AS A PERCENTAGE OF INCOME, TRADITIONAL MODEL

Source	Income Class*												TOTAL
	Under 3,000	3,000- 3,999	4,000- 4,999	5,000- 5,999	6,000- 6,999	7,000- 7,999	8,000- 9,999	10,000- 11,999	12,000- 14,999	15,000- 19,999	20,000- 24,999	25,000 & Over	
<b>Kansas Local Taxes</b>													
Property	12.35	8.36	7.75	7.60	6.55	6.33	5.83	5.71	5.66	5.23	5.55	5.17	5.62
Inheritance	.01	.01	.01	.01	.01	.01	.01	--	--	.01	--	--	--
Sales	.39	.25	.22	.20	.18	.18	.17	.16	.15	.14	.12	.09	.14
Vehicle Registration	.03	.02	.02	.02	.02	.02	.01	.02	.01	.01	.01	.01	.01
Mortgage Registration	.12	.08	.08	.08	.07	.06	.06	.06	.06	.05	.06	.05	.06
Intangibles	.07	.09	.09	.08	.10	.08	.06	.04	.04	.04	.07	.11	.07
Other	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total Local Taxes</b>	<b>13.00</b>	<b>8.83</b>	<b>8.18</b>	<b>8.01</b>	<b>6.94</b>	<b>6.69</b>	<b>6.14</b>	<b>5.98</b>	<b>5.92</b>	<b>5.48</b>	<b>5.82</b>	<b>5.44</b>	<b>5.91</b>
<b>Kansas State Taxes</b>													
Property	.21	.14	.14	.13	.11	.11	.10	.09	.09	.09	.09	.09	.10
Motor Carrier	.04	.03	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02
Individual Income	.20	.50	.69	.92	1.10	1.33	1.38	1.59	1.58	1.73	2.09	1.80	1.68
Corporate Income	.80	.71	.65	.64	.69	.61	.51	.43	.41	.43	.52	.69	.55
Financial Institutions	.07	.07	.06	.06	.07	.06	.05	.04	.04	.05	.05	.07	.06
Inheritance	.14	.17	.16	.16	.19	.15	.10	.07	.07	.08	.12	.05	.09
Sales and Use	7.45	4.77	4.01	3.93	3.51	3.34	3.13	2.94	2.76	2.52	2.33	1.71	2.50
Cigarette and Tobacco	.82	.73	.59	.53	.57	.53	.46	.40	.35	.26	.20	.12	.28
Motor Fuel	1.84	1.44	1.40	1.45	1.47	1.40	1.30	1.22	1.00	.94	.75	.54	.89
Vehicle Registration	1.10	.84	.80	.76	.65	.63	.54	.46	.41	.36	.36	.37	.43
Liquor and Beer	.35	.31	.23	.31	.20	.25	.27	.24	.22	.20	.21	.14	.20
Corporate Franchise	.03	.03	.03	.03	.03	.02	.02	.02	.02	.02	.02	.03	.02
Insurance	.37	.23	.22	.19	.20	.22	.23	.24	.24	.23	.23	.25	.24
Unemployment Compensation	.60	.62	.67	.82	.93	.90	.79	.66	.57	.47	.44	.40	.53
Other	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total State Taxes</b>	<b>14.05</b>	<b>10.60</b>	<b>9.69</b>	<b>9.97</b>	<b>9.76</b>	<b>9.60</b>	<b>8.93</b>	<b>8.45</b>	<b>7.79</b>	<b>7.41</b>	<b>7.45</b>	<b>6.31</b>	<b>7.59</b>
<b>Total State and Local Taxes</b>	<b>27.05</b>	<b>19.44</b>	<b>17.86</b>	<b>17.98</b>	<b>16.70</b>	<b>16.28</b>	<b>15.07</b>	<b>14.43</b>	<b>13.71</b>	<b>12.89</b>	<b>13.26</b>	<b>11.75</b>	<b>13.50</b>

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\*Money Income - 1978

Source: Daicoff & Glass, Who Pays Kansas Taxes?, The University of Kansas, November, 1978



The alcohol beverage industry is a major source of federal, state and local money. A significant percentage of the price a consumer pays is for taxes.

The 1977 session of the Kansas legislature saw fit to raise the gallonage tax in Kansas from \$1.50 to \$2.50 per gallon. Unfortunately the legislature also elected to "ear-mark" a portion of the tax money raised for the treatment and prevention of alcoholism.

Any student of good government knows that "tagged" funds to government agencies can result in inefficiencies. We are not suggesting that the tax be lowered, or that alcoholism is not worthy of the attention and concern of all. We are advocating, however, that this committee recommend a change in the law to the legislature as it applies to the "ear-marked" tax dollars and that no additional revenues be "earmarked". It would be far more advisable to place that money in the state general fund for distribution in accordance with legislatively determined priorities.

The industry bears an exorbitant and totally discriminatory tax burden. The theory of diminishing returns threatens the industry. As Chief Justice John Marshall pointed out, "The power to tax is the power to destroy."

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TAX ON AN AVERAGE \$10.49 LITER

Federal excise tax \$13.50 100 proof gal. 80 proof liter 10.80 x .264172	=	2.85
State Gallonage tax = 2.50 vol. gal. \$2.50 x .264172	=	.66
Enforcement Tax at 8%	=	.84
TOTAL TAX OR	=	4.35 41.5%

10% DRINK TAX

33 DRINKS PER BOTTLE AVERAGE DRINK AT \$3.50 = \$115.50 @ 10%	=	\$11.55
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TOTAL FEDERAL & STATE TAXES COLLECTED = \$15.90

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Elasticity of demand: The Kansas Legislative Research Department during previous discussions of beverage alcohol taxes has stated: "Increases in prices will, other things remaining equal, decrease the quantity sold. Increases in taxes which lead to increases in prices of goods or services, may as a result of a decrease in the base, lead to less than proportional increases in receipts...thus, proposals to increase taxes by a substantial amount will probably result in significantly less revenue than might be projected on the assumption of zero elasticity of demand (that price will not effect demand)."

Experience tells us when there has been an increase in the federal excise tax, collections are not have not increased proportionally. See the charts that follow showing federal experience following FET increases.

CROSS BORDER PURCHASES: Further we believe that higher taxes on beer, wine and spirits would result in an "elasticity of demand" dilemma as well as shift in sales across the border to Missouri. Taxes are lower in surrounding states such as Missouri and Colorado. Missouri is a particular problem because of the metropolitan area on the state line. An increase in taxes will cause

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# EXCISE TAX COLLECTIONS

## DISTILLED SPIRITS

YEAR	TAXES COLLECTED	\$ INCREASE/ DECREASE	% INCREASE/ DECREASE	100 PROOF GALLONS	INCREASE/ DECREASE	% INCREASE/ DECREASE
------	-----------------	-----------------------	----------------------	-------------------	--------------------	----------------------

\*Tax rates on distilled spirits: \$10.50 per 100 proof gallon from November 1, 1951 through September 30, 1985

1984	\$3,566,482,000			339,664,952		
1985	\$3,520,697,000	(\$45,785,000)	-1.28%	335,304,476	(4,360,476)	-1.28%

\*Tax rates on distilled spirits: \$12.50 per 100 proof gallon from October 1, 1985 through December 31, 1990

1986	\$3,731,368,000	\$210,671,000	5.98%	298,509,440	(36,795,036)	-10.97%
1987	\$3,799,226,000	\$67,858,000	1.82%	303,938,080	5,428,640	1.82%
1988	\$3,844,421,000	\$45,195,000	1.19%	307,553,680	3,615,600	1.19%
1989	\$3,862,326,000	\$17,905,000	0.47%	308,986,080	1,432,400	0.47%
1990	\$3,850,266,000	(\$12,060,000)	-0.31%	308,021,280	(964,800)	-0.31%

\*Tax rates on distilled spirits: \$13.50 per 100 proof gallon from January 1, 1991

1991	\$3,764,405,000	(\$85,861,000)	-2.23%	278,844,815	(29,176,465)	-9.47%
1992	\$3,889,720,000	\$125,315,000	3.33%	288,127,407	9,282,593	3.33%
1993	\$3,797,200,000	(\$92,520,000)	-2.38%	281,274,074	(6,852,973)	-2.38%

— The Tax Collection figures are for the fiscal years ended September 30

— Source of information: U.S. Department of Treasury — Bureau of Alcohol, Tobacco and Firearms

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# EXCISE TAX COLLECTIONS

## DISTILLED SPIRITS

YEAR	TAXES COLLECTED	\$ INCREASE/ DECREASE	% INCREASE/ DECREASE	100 PROOF GALLONS	INCREASE/ DECREASE	% INCREASE/ DECREASE
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— The Tax Collection figures are for the fiscal years ended September 30

— Source of information: U.S. Department of Treasury — Bureau of Alcohol, Tobacco and Firearms

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Kansans to go across the border to make purchases, reducing sales (but not necessarily consumption).

Currently spirits are taxed at \$2.50 per gallon in Kansas. Missouri is at \$2.00 and Colorado is at \$2.28. Beer is currently taxed at 18 cents in Kansas and 8 cents in Missouri. The bill proposes increasing spirits to \$3.00 and beer to 98 cents aggravating the difference. In addition to the tax per gallon, Kansas also imposes an 8 percent excise tax.

According to the 2001 Beverage Marketing Directory, which tracks the U.S. market, Kansas is 33rd in malt-beverage consumption, 39th in wine consumption and 34th in spirits consumption.

**The beverage alcohol industry in Kansas with the combination of federal and state excise taxes now levied plus the 10 per cent drink tax in addition to all other business taxes paid, cannot bear these proposed increases.**

We respectfully request that you reject SB 312. Thank you for your attention to and consideration of these matters.

-- Tuck Duncan  
K.W.S.W.A.

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**KANSAS TAXPAYERS NETWORK**

**P.O. Box 20050**

**Wichita, KS 67208**

**29 March 2001**

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**316-684-0082**

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**Taxpayers Oppose Graves/Umbarger Tax Hike Proposals**

**By Karl Peterjohn, Exec. Dir.**

It should be no surprise to anyone on the house tax committee that the Kansas Taxpayers Network has regularly opposed all efforts to raise Kansas taxes.

However, for the first time I can recall I will testify not only against raising existing taxes but also against a new tax: carbonated beverages AKA soft drinks. This tax would be added to existing sales taxes on this product and would provide a double taxation which is another example of why Kansas is a high tax state in our region.

The proposals being placed before the legislature to raise taxes are flawed for the following reasons:

- 1) The Graves and Umbarger proposals would both provide Kansas (when fully phased-in) with the highest sales tax rate in our five state region. This is especially true because of the rate disparity between three of our neighboring states and Kansas on groceries.
- 2) The so-called "sin" tax portion of the Umbarger tax hike proposal will promote the purchase of alcohol and tobacco products in western Missouri because of the rate disparity. Both the Graves and Umbarger proposals will shift sales out of Kansas and into lower tax areas which will also include Indian reservation sales as well as out-of-state purchases.
- 3) Missouri will expand its retail sales to Kansans by providing lower state taxes on wine, beer, hard alcohol, cigarettes, gasoline, and retail sales. While the geographical impact of this disparity with another one of our neighboring states might not be as crucial, with the large number of Kansans living only a few miles from Missouri this is already having a negative impact on Kansas state tax revenue growth.

Kansas state taxes have already made us a high tax point on the prairie. Governor Graves and Senator Umbarger have both put forth proposals which will harm this state's economic competitiveness and will not generate the projected revenues.

Raising Kansas taxes while both Republicans and Democrats are bringing forth tax cutting proposals in Washington is a sign that leadership in this state is out-of-step with the economic situation in this state as well as within this country.

The Tax Foundation's February, 2001 Special Report examined tax growth with personal income growth for all 50 states. While personal income grew an average of 3 percent annually between 1989-1999 according to this study Kansas taxes grew at 3.9 percent during this period.

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This was the 7<sup>th</sup> fastest of all 50 states. This occurred despite the broadbased tax cuts enacted in 1995, 1997, and 1998.

In this same Tax Foundation survey, Kansas per capita taxes, while ranked in the middle among all 50 states for FY 1999, were well above the per capita state tax rates in our surrounding states.

These numbers are: Kansas, \$1,734; Colorado, \$1,492; Missouri, \$1,570; Nebraska, \$1,600; and Oklahoma, \$1,618.

Kansas is going against the trends in our neighboring states. Colorado enacted cuts in income (both personal and corporate) and sales taxes last year. Oklahoma's Governor Frank Keating has proposed dramatic cuts in that state's personal income tax this year. It is KTN's opinion that Missouri's recent phase down of their state sales tax on food is having a significant and negative impact on Kansas sales tax receipts.

For these reasons we strongly urge this committee and the entire Kansas legislature to reject the fiscally irresponsible proposals to raise Kansas taxes.

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KPPI

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For Immediate Release:  
Contact: Bob L. Corkins

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### New Study Examines Practical, Fundamental School Finance Reforms

TOPEKA — As Kansas lawmakers reassess their financial approach this week for supporting elementary and secondary schools, an independent nonpartisan research firm today released a study that examines several ideas for achieving excellence in public K-12th grade education.

Amid talk of overhauling the state's school finance formula, critics charge that Kansas underfunds K-12, unfairly distributes state aid to 304 local school districts, and lacks the right incentives for making public schools accountable.

The Kansas Public Policy Institute addresses each of these points today in its report entitled "A Real Student-Centered Focus for Kansas K-12 Finance."

Authored by Bob L. Corkins, president of KPPI and veteran of the 1992 legislative debate on school finance, the study begins by documenting the average price of \$7,447 per student earmarked last year for Kansas' public K-12 system. Other published reports of lower spending per pupil, he explains, have two factors in common: they fail to count *all* public school funds and they show Kansas' funding as quite competitive compared to other states.

On an intra-state basis, full funding per pupil differs between Kansas school districts in a range from \$5,396 up to \$12,914 with the median being at \$7,699. The study lists the per pupil revenue figure for each of the state's 304 school districts.

The study argues for a commitment to the 1992 Legislature's intent of providing a student-centered approach to school funding. "The idea is for financing to recognize the intrinsic needs of students rather than school facilities," Corkins explains. "If the dollars were applied properly, there would be no need for spending increases which hundreds of studies conclude to have no effect on education quality anyway."

Additional funds for infrastructure or other priorities, Corkins contends, should be raised exclusively at the local school district level, limited by what the local taxpayers will allow.

Other policy options discussed include an open admissions policy for public schools, such as that embraced by Colorado, and the potential of charter schools to provide innovative learning environments. KPPI's study identifies Kansas among 37 states that permit charter schools, but with only one of those states having an enabling law that is more restrictive than Kansas' to charter school growth.

For broader reform, Corkins elaborates on the practical application of a universal education tax credit. The approach is uniquely designed to offer families with little or no taxable income a real choice between public and independent schools — without taking away tax dollars that public schools need.

For immediately addressing a shortage of teachers in the state, the study recommends reform of the KPERS retirement program into a 401(k)-styled plan. Last year Florida, with support from that state's teachers associations, enacted such a change in order to gain a meaningful recruiting tool to address its own teacher shortage.

# # #

*Bob L. Corkins is president of the Kansas Public Policy Institute, an independent, nonpartisan, nonprofit research organization based in Topeka, espousing the constitutional principles of limited government, personal responsibility and free markets. Full study and text of this release available in digital format upon request.*

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House Taxation



## Executive Summary

Controversies about the extent and methods of public kindergarten through 12<sup>th</sup> grade finances occur annually, often dominating all Kansas public debate. Today amid talk of an overhaul of the state's school finance formula, critics charge that Kansas underfunds K-12, unfairly distributes state aid to 304 local school districts, and lacks the right incentives for making public schools accountable. Answering each of these points requires thought about the value and price of public education.

The average price per student last year in Kansas' public K-12 system was \$7,447. Other published reports of lower spending per pupil have two factors in common: 1) they neglect to count *all* public school funds; however, 2) they still show Kansas school funding to be quite competitive when compared to other states. On an intrastate basis, full funding per pupil differs between Kansas school districts and ranges from \$5,396 to \$12,914 with the median being \$7,699. The ultimate legal issue is whether public funding satisfies the Kansas Constitution's requirement to make *suitable provision* for financing the state's educational interests.

Beyond the constitutional basics, policymakers are free to consider what will make the quality of Kansas public education even higher. Excellence will not result from infusing more tax dollars into the traditional public system. Only competition can bring a sustainable drive for quality in education.

The school finance formula can pave the way for competition. Reform toward a student-centered approach will make the price of public education more obvious, more personally relevant, to parents and taxpayers. Student-centered funding recognizes the intrinsic characteristics of students and would replace Kansas' current bricks-and-mortar focus. Extra funds for infrastructure or other priorities should be raised exclusively at the local school district level, limited by what the local taxpayers will allow.

Policy changes complementary to the formula would introduce public education to competition. For example, an open admissions policy for public schools should replace government-assigned facilities. Parents could more freely choose between public schools within their district or within any other district. Charter schools, one choice among public schools, are particularly innovative and show great potential. Kansas is among 37 states that permit charter schools, but only one of those states has an enabling law that is more restrictive than Kansas to charter-school growth.

For broader reform, the most promising competitive idea is for a universal education tax credit. The approach is uniquely designed to offer families with little or no taxable income a real choice between public and independent schools — without taking away tax dollars that public schools need.

Consumer choice is the necessary tool for creating all the right incentives to assure accountability, quality, and competitive pricing for any product or service. This principle will apply equally to education if Kansas concentrates more on *providing* for a strong public service rather than *producing* it.