

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman David Corbin at 10:40 a.m. on February 5, 2004, in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Mark Tallman, Kansas Association of School Boards
Mark Desetti, Kansas KNEA
Jim Menze, United School Administrators of Kansas
April Holman, Kansas Action for Children
Larry McElwain, Lawrence Chamber of Commerce
Lew Ebert, Kansas Chamber of Commerce
Bernie Koch, Wichita Area Chamber of Commerce
Karl Peterjohn, Kansas Taxpayers Network

Others attending:

See Attached List.

SB 403—Schools; school finance; education first plan

Mark Tallman, Kansas Association of School Boards, testified in support of **SB 403**. He commented that, although the Education First plan does not solve all the problems facing Kansas schools, it is a step in the right direction. He maintained that Kansas citizens must pay more taxes to make necessary improvements in the education of Kansas children. He followed with a short history of the 1992 School Finance Act, noting that it contained the largest tax increase in state history and that Kansas' continued strong national ranking in education was based on that investment. He pointed out that the reliance on the local option budget has continued to increase since 2001, and most school districts will face far more limited budgets unless more significant increases in the base state aid per pupil are provided in the future. He observed that the future workforce will be ill prepared for the future if the needs of students who have historically been "left behind" are not addressed. In this regard, he referred to a table attached to his written testimony which shows that many other states have raised their performance on individual tests more than Kansas. He contended that the major reason is that support for education in Kansas has lagged behind the national average. As to concerns that tax increases for education will take money out of the Kansas economy, Mr. Tallman noted that, when taxes are raised to increase funding for schools, virtually all of those dollars are spent on salaries, goods, and services in Kansas. As to the concern that a tax increase will cost jobs, he noted that school districts across Kansas have cut high-paying professional positions as well as support positions, and some communities have lost their schools as shown on a table attached to his testimony. As to concerns that Kansas does not use its education dollars effectively, he called attention to a memo on the latest national information on school expenditures. The memo shows that Kansas has increased spending on instruction and that Kansas non-instructional expenditures are in line with surrounding states. He emphasized that the memo also indicates that the highest achievement states are not necessarily those that spend more on instruction compared to other budget areas. In summary, Mr. Tallman said education is the key to economic development, to reducing the cost of other social needs, and to effective citizenship. He urged the Committee to support funding necessary to make it possible for Kansas schools to rank among the best. (Attachment 1)

Mark Desetti, KNEA, testified in support of **SB 403**, noting that KNEA supports Mr. Tallman's testimony. He commented that the Education First plan targets money to address the achievement gap between poor students and those who are better off financially. He noted that, among the states which use a weighting factor for at-risk funding, Kansas' weighting is the lowest. For those students who are already falling behind, quality

CONTINUATION SHEET

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at-risk intervention programs are essential, and additional funds are also critical in meeting the demands of the federal No Child Left Behind Act. Mr. Desetti further noted that the bill increases the bilingual weighting factor, which is a growing challenge for many school districts. He pointed out that a quality education for all Kansas students will improve the state's workforce which, in turn, will attract new business and industry. (Attachment 2) Senator Corbin commented that the return on investment in jobs is a topic often discussed. He requested that Mr. Desetti provide data showing the percent of teachers in the state's workforce and the average salary for teachers.

Jim Menze, United School Administrators of Kansas, testified in support of **SB 403**. He believes that the mix of sources in the bill for raising revenue for education is appropriate. He supports the increase in taxes because it will allow school districts to meet their obligations to students and to maintain an efficient educational system. He commented that, although these are challenging times for the state, quality education is an investment the state cannot overlook. (Attachment 3)

April Holman, Kansas Action for Children, testified in support of **SB 403**. Kansas Action for Children is appreciative of the Governor's efforts to support programs aimed at early childhood education, and it acknowledges the merits of maintaining a balanced tax system in Kansas comprised of property, income, and sales tax. However, Kansas Action for Children is concerned about the reliance on the sales tax, which is one of the most regressive Kansas tax sources. For this reason, Ms. Holman requested that **SB 403** be amended to mitigate the impact on lower income Kansas families either by increasing the Kansas food sales tax rebate or by increasing the percentage of federal earned income tax credit (EITC) allowed in Kansas. (Attachment 4)

Larry McElwain, Chairman of the Lawrence Chamber of Commerce, testified in support of **SB 403**. He noted that the Chamber strongly supports education. However, the Lawrence school board has been forced to cut \$7 million from its budget in the past three years, and it will be necessary to consider another \$2.1 million cut in the near future if a solution is not developed this legislative session. Mr. McElwain believes that the Governor's plan offers a foundation for a rational, tactical approach to solve a huge state problem. He went on to explain that, currently, the private sector provides almost 70% of the funds needed to create jobs in the Lawrence area. He noted that the weakening of the educational system in the area will have incalculable effects on future endeavors to attract jobs. The city is also concerned that compliance with unfunded mandates such as No Child Left Behind will create a drain on already stretched resources and budgets. (Attachment 5)

Senator Corbin called the Committee's attention to written testimony in support of **SB 403** submitted by Tom Hawk, a retired school administrator from Manhattan, who was unable to attend the meeting due to the weather. (Attachment 6)

Senator Corbin called the Committee's attention to the minutes of the February 3 Committee meeting and the minutes of the February 3 joint meeting of the Senate Education Committee and the Senate Assessment and Taxation Committee for an overview of the Governor's Education First plan.

Senator Donovan moved to approve the minutes of the February 3, 2004, meeting and the minutes of the joint meeting with the Senate Education Committee, seconded by Senator Buhler. The motion carried.

Lew Ebert, Kansas Chamber of Commerce, testified in opposition to **SB 403**. He noted that the Chamber has strongly supported Kansas education through the years and has backed tax increases to fund educational enhancements; however, the Chamber believes that there are unfortunate financial implications for the Kansas economy if the bill is funded in the manner suggested. Mr. Ebert argued that, because Kansas' economy has not yet recovered sufficiently, this is not the right time to further burden Kansas citizens or Kansas businesses with higher taxes. He contended that, instead of raising taxes, Kansas should be taking the initiative to become a competitive leader among states in the fight for jobs. For the Committee's information, he called attention to the Kansas Chamber Annual Competitive Index Executive Summary attached to his written testimony, noting that the Chamber hired an economist to prepare the summary. He discussed a table included in the summary summarizing the results from 13 business climate studies, noting that the average Kansas rank is 26-27th best out of the 50 states, or a C to C+ grade. (Attachment 7)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:40 a.m. on February 5, 2004, in Room 519-S of the Capitol.

Committee members questioned Mr. Ebert concerning the Chamber's Kansas Express Tour meetings he discussed which were held for the purpose of determining the Chamber's position on a tax increase to support education. Senator Goodwin requested that he provide a list of cities where the meetings were held. Mr. Ebert informed her that the list was published in the Wichita Business Journal, and a copy was distributed to every legislator. He agreed to provide a copy for each Committee member.

Bernie Koch, Wichita Area Chamber of Commerce, testified in opposition to **SB 403**. At the outset, he noted that the Wichita Chamber has supported tax increases that support growth and has been a strong proponent of educational improvement, recognizing the strong link between skilled workers and economic growth. However, the tax increases in the Governor's Education First plan are problematic for the Chamber's business members who are one of the segments hardest hit in the country by the 9/11 attacks. The Wichita area has not yet recovered. One out of every five manufacturing workers in the Wichita metropolitan area has lost their job. The tax increases as proposed in **SB 403** will create an added hardship for residents and businesses in the Wichita area as its economy responds slower to recovery than other regions in the state. Mr. Koch contended that the proposed five percent surcharge on individual income taxes hits small businesses disproportionately. In this regard, he called attention to an attachment to his written testimony which summarizes the Chamber's findings concerning the proposed tax plan. In conclusion, he indicated, although the Chamber does not support the tax increases in **SB 403**, it would welcome an opportunity to participate in the ongoing public discussion about how public education dollars are distributed. (Attachment 8)

Karl Peterjohn, Kansas Taxpayers Network, testified in opposition to **SB 403**. With regard to the proposed income tax surcharge, he noted that Kansas' maximum rate would move from nineteenth to sixteenth highest in the 50 states. He pointed out that a number of states provide deductions and tax options that do not exist in Kansas. He argued that an increase in sales tax would worsen the tax climate along the Missouri border. He pointed out that, if the proposed property tax hike is fully phased in, the rate will be 10 % higher than current law. He noted that federal data on school spending and national surveys for the five state region show that there is no factual justification for making the proposed significant increase in state spending on the Kansas public school system. He called attention to data which indicates that Kansas has been spending more per person than neighboring states for a number of years and more than the national average. He emphasized that Kansans cannot afford more taxes and cannot take the risk of job losses due to taxes. (Attachment 9)

There being no further time, the hearing on **SB 403** was continued to February 6.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for February 6, 2004.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 5, 2004

NAME	REPRESENTING
Jennifer Crow	Office of Governor
Adam Osley	Gov
Jeremy Anderson	"
GEORGE PETERSEN	Ks Taxpayers Network
Jim Menze	United School Adm.
Jeff Bottsborg	Polsinelli, Sh. Hon. Co. Ks
KEN DANIEL	NFIB/MIDWAY WHOLESALER
Sen Sellars	Sen. Butler
TERRI HOWREN	KS Farm Bureau
John Tralovich	Boeing
Kathleen Cotnam	Kansas Action for Children
GARY BRUNK	"
Cindy D'Ercole	KAC
April Holman	Kansas Action for Children
MARK DESSETT	KNETA
Heather Meece	Dameron + Associates
Bill Brady	SFFF
Ken Seiber	Ken Law Firm
Dusti Harrison	Little Govt Relations

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 5, 2004

NAME	REPRESENTING
BLAKE WEST	KANSAS NEA
Natalie Bright	Wichita Independent Bus Assoc.
Amy Aemye	Blatch School District
New Kittironhakornkul	Student GEHS
Jackie Clark	Hallmark
Bernie Koch	Wichita Area Chamber
Cew Ebert	The Kansas Chamber
Mark Carpenter	Kansas Chamber
LARRY R BAER	CKM
Joan Wagner	DDOR
Danielle Noel	Johnson County
STELBY - milt	USD 501
Tim Sullinger	KC STAR
Val deFover	Schools for Quality Education
Ann Birkus	DOB
Diane Gjerstad	Wichita Public Schools
Troy Tindley	Gov. Office



Testimony on
SB 403 – Governor’s Education First Plan

Before the
Senate Committee on Assessment and Taxation

By Mark Tallman, Assistant Executive Director/Advocacy
February 5, 2004

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear today as a proponent of **SB 403**, the governor’s *Education First* recommendations; and in particular, the revenue package. We commend Governor Sebelius for setting out the most significant proposal to address the financial needs of Kansas school districts in over a decade. We believe the *Education First* plan is a major step in the right direction, but we do not believe it solves the problems facing our schools. The governor’s proposal certainly does not contain everything we would hope for. It falls far short of the level of funding identified by the Legislature’s suitable cost study, conducted by Augenblick and Myers; short of the funding target endorsed by our membership; and short of the standard set by the district court in the current school finance litigation. However, we know that we cannot reach the ultimate goal until we take a first step. Before this committee, I will focus on the need to raise additional revenues for education, not the specifics of the school finance changes proposed by the governor.

Much has been said recently about the economic needs of our state. Business leaders have said that Kansas has three great economic development strengths: great public schools, a well-educated workforce, and a strong transportation infrastructure. Clearly two of those three strengths are a direct consequence of our public school system. That result flows from deliberate policy choices about what to invest in, and what we expect from, our schools. How do we sustain and build on that strength?

To make the improvements in public education we support, the people of Kansas will have to pay more. No one likes to pay more taxes; just as no one likes to pay more for anything - unless they are convinced of the need. But the real question is this: is the economic choice worth the cost? For example, if I want to be assured my children can go to college, I have to put money now in savings. If I want to try to insure a higher level of financial security in my retirement, I need to increase my savings now, even at the cost of some current spending. Both of these steps take money “out of my pocket” now, but I can be reasonably confident that it will be worth it for my family and me in the long term.

How the Legislature chooses to finance public education is what we, the people of Kansas, through our elected representatives, invest in our future, and the future of all our children.

Senate Assessment & Taxation
2-5-04
Attachment 1

A short history: the 1992 School Finance Act

In 1992, the Kansas Legislature was faced with serious concerns about upgrading the achievement level of our students; deep disparities in the ability of local communities to finance their schools, tied to a public frustration over property taxes; and a lawsuit that challenged the constitutionality of the school finance formula. In that year, Republicans and Democrats joined together to pass the School District Finance and Quality Performance Act.

That Act contained the largest tax increase in state history. At the same time, it created one of the largest property tax reductions in history, because it lowered mill rates for most school districts and significantly reduced the differences in what taxpayers across the state had to provide for comparable educational opportunities for their children. It raised budgets for most school districts, allowing for higher teacher pay, a longer school year, and more funding for children with special needs. It created local school site councils, mandated state curriculum standards and testing, and implemented a school accountability system based on results. In the wake of those changes, the Legislature increased admissions standards to our state university system, including requirements for technology. The federal government increased requirements for special education services.

It was an *increased* investment in education. As the attached Table I shows, at the beginning of the 1990s, total educational spending in Kansas from all sources represented about 4.6 percent of total Kansas personal income. In the first years of the new system, school spending rose to about 4.9 percent. Kansans spent more on education in the first years of the new system. What did Kansans receive on that investment?

The number of students completing advanced courses and taking college entrance tests rose, as did scores on the ACT and SAT. State assessments showed a slow but steady rise in most areas, leading to hopeful progress among those students who have traditionally been “left behind” academically. (Source: State Board Accountability Reports; state assessment results.) In short, the continued strong national ranking of Kansas in education we point to with pride today was based on that investment.

However, by Fiscal Year 2001, educational spending had fallen back to about 4.6 percent of personal income. It is also important to understand that the current level of school funding in Kansas has been made possible only by the action of local school boards and voters to rely increasingly on the local option budget. If the LOB were not included, total school funding would have fallen from 4.7 percent of personal income to less than 4.2 percent in FY 2001. The reliance on the LOB has continued to increase since 2001. In fact, school districts are now estimated to be using over 90 percent of all LOB authority available. Unless more significant increases in the base state aid per pupil are provided in the future, most school districts will face far more limited budgets.

Today’s Challenge

In 2004, the Kansas school system is again at a crossroads. The No Child Left Behind Act, President Bush’s initiative to get every single child in this nation to high standards of proficiency, sets a standard that goes beyond anything any state or nation have ever accomplished. Yet the students that have historically been “left behind” – the poor, children of immigrants, the disabled – are the very populations that are growing in this state. Unless we face up to the needs of those students, our future workforce and citizenry will be ill-prepared for the future. Like 1992, the burden of school funding is being shifted to unequal local tax bases, as wealthier districts turn to higher property taxes for capital outlay funding or seek local sales taxes to make up for what the state does not provide. Like 1992, the entire system of school funding is being challenged in court – and the status quo is losing.

Governor Sebelius has called for making our schools the best in the nation. That may not be easy, but unlike many states, it is within our reach. I have previously presented to this committee Table 2, which shows that Kansas ranks among the highest performing states on the combined results of national assessments in reading and math. But Tables 3 and 4 show that many other states have been raising their performance on individual tests more than Kansas. We believe that a major reason is that support for education in Kansas has lagged behind the national average. In 1992-93, Kansas funding per pupil was \$184, or 3.6 percent, below national average. In 2001, it had fallen to \$442, or nearly 6 percent, below the national average. Kansas average teacher salaries have dropped to 42nd in the nation. If our school system is going to remain one of our state's greatest assets, the Legislature must act.

Concerns about tax increases and school spending

One objection to raising taxes for education is that it will harm the state's economy. Table 5 is a table from a Legislative Research Department memo showing economic trends since 1965. The middle column shows Kansas per capita income in dollars, and as a percentage of the U.S. average. In 1992, the year the new taxes for school were enacted, Kansas actually rose slightly compared to the U.S. There was a slight decline in 1993 and 1994, then an increase through 1997. That was followed by a greater decline from 1997 to 2000, which were the years when the Legislature was *cutting* taxes.

Concerns have been raised that tax increases will take money out of the Kansas economy. When taxes are raised to increase funding for schools, virtually all of those dollars are spent on salaries, goods and services in Kansas. The money is spent on a different set of priorities, but it is still going to school district employees and business contractors, to be spent and invested in Kansas.

Another concern is that a tax increase will cost jobs. But school districts across Kansas have been cutting high-paying professional positions, as well as support positions. Some communities have lost, or are losing, their schools and even their districts. Table 6 shows reductions in school district certified employees for the past three years. (This table does not include classified employee positions, which are not tracked by the State Department of Education.) In particular, districts have made reductions in many administrative areas and student support areas.

Finally, there has been considerable concern that Kansas does not use its education dollars effectively. Much of that concern was based on a report from the Legislative Post Audit Division in 2001. My final attachment is a memo that looks at the latest national information on school expenditures. It shows that Kansas has increased spending on instruction; that Kansas "non-instructional" expenditures are actually very much in line with surrounding states, and perhaps most important, that the highest achievement states are not necessarily those that spend more on instruction compared to other budget areas.

Conclusion

We believe education is truly the key to economic development, to reducing the cost of other social needs, and to effective citizenship. We believe the state must invest much more in keeping our schools among the best in the nation and making them even better to reach those children that have been left behind. We urge this committee to support the revenue that will make this possible.

	Kansas Personal Income	Total USD Expenditures		Total LOB Expenditures	Expenditures Excluding LOB	Total Expend. Exc. LOB as % KPI
FY 2001	76,972,623	3,572,700	4.64%	373,547	3,199,153	4.16%
FY 2000	74,123,786	3,402,709	4.59%	320,464	3,082,245	4.16%
FY 1999	69,960,064	3,242,496	4.63%	279,849	2,962,647	4.23%
FY 1998	67,896,337	3,063,233	4.51%	232,643	2,830,590	4.17%
FY 1997	63,727,768	2,921,799	4.58%	206,114	2,715,685	4.26%
FY 1996	60,073,698	2,817,169	4.69%	187,142	2,630,027	4.38%
FY 1995	55,367,943	2,711,376	4.90%	168,659	2,542,717	4.59%
FY 1994	52,793,860	2,617,725	4.96%	146,712	2,471,013	4.68%
FY 1993	50,882,918	2,496,284	4.91%	97,950	2,398,334	4.71%
FY 1992	48,966,659	2,254,182	4.60%			
FY 1991	46,112,355	2,129,718	4.62%			
FY 1990	44,502,919	2,031,738	4.57%			

NATIONAL ASSESSMENT OF EDUCATION PROGRESS

	Total of tests in 2003	State	Expend per pupil 2000-01	Percent at or above proficient in:			
				Grade 4 math	Grade 4 reading	Grade 8 math	Grade 8 reading
1	162	Massachusetts	\$9,509	41	40	38	43
2	160	Minnesota	\$7,654	42	37	44	37
3	158	New Hampshire	\$7,286	43	40	35	40
4	156	Connecticut	\$10,127	41	43	35	37
5	153	Vermont	\$9,153	42	37	35	39
6	148	New Jersey	\$11,248	39	39	33	37
7	143	Kansas	\$6,925	41	33	34	35
8	141	Colorado	\$6,567	34	37	34	36
8	141	South Dakota	\$6,191	34	33	35	39
10	140	Iowa	\$6,930	36	35	33	36
	150.2	AVERAGE	\$8,159	39.3	37.4	35.6	37.9
10	140	Wisconsin	\$8,243	35	33	35	37
10	140	North Dakota	\$6,125	34	32	36	38
13	139	Wyoming	\$7,835	39	34	32	34
14	138	Montana	\$6,726	31	35	35	37
14	138	Virginia	\$7,281	36	35	31	36
16	136	Maine	\$8,232	34	36	29	37
17	135	North Carolina	\$6,346	41	33	32	29
18	134	New York	\$10,716	33	34	32	35
19	134	Ohio	\$7,571	36	34	30	34
19	134	Washington	\$6,750	36	33	32	33
	136.8	AVERAGE	\$7,583	35.5	33.9	32.4	35
21	133	Nebraska	\$7,223	34	32	32	35
22	132	Indiana	\$7,630	35	33	31	33
23	131	Pennsylvania	\$8,210	36	33	30	32
24	129	Oregon	\$7,528	33	31	32	33
25	127	Illinois	\$7,643	32	31	29	35
26	126	Missouri	\$6,657	30	34	28	34
26	126	Michigan	\$8,278	34	32	28	32
26	126	Utah	\$4,674	31	32	31	32
29	124	Maryland	\$8,256	31	32	30	31
30	121	Delaware	\$8,958	31	33	26	31
	127.5	AVERAGE	\$7,506	32.7	32.3	29.7	32.8
30	121	Idaho	\$5,725	31	30	28	32
32	115	Alaska	\$9,216	30	28	30	27
33	113	Florida	\$6,170	31	32	23	27
34	111	Kentucky	\$6,079	22	31	24	34
34	111	Rhode Island	\$9,315	28	29	24	30
34	111	Texas	\$6,539	33	27	25	26
37	108	South Carolina	\$6,631	32	26	26	24
39	102	Georgia	\$6,929	27	27	22	26
40	100	Arkansas	\$5,568	26	28	19	27
41	99	Oklahoma	\$6,019	23	26	20	30
	109.1	AVERAGE	\$6,819	28.3	28.4	24.1	28.3
42	98	West Virginia	\$7,534	24	29	20	25
43	97	Tennessee	\$5,687	24	26	21	26
44	94	Arizona	\$5,278	25	23	21	25
45	90	Alabama	\$5,885	19	22	27	22
45	90	California	\$6,987	25	21	22	22
47	84	Nevada	\$5,807	23	20	20	21
48	83	Hawaii	\$6,596	23	21	17	22
49	80	Louisiana	\$6,037	21	20	17	22
50	71	New Mexico	\$6,313	17	19	15	20
51	68	Mississippi	\$5,175	17	18	12	21
	85.5	AVERAGE	\$6,130	21.8	21.9	19.2	22.6
		Nation	\$7,367	22	28	25	30

4th Grade Math					8th Grade Math				
	% AT OR ABOVE IN 2003	STATE	% AT OR ABOVE IN 2000	CHANGE BETWEEN 2000 & 2003		% AT OR ABOVE IN 2003	STATE	% AT OR ABOVE IN 2000	CHANGE BETWEEN 2000 & 2003
1	43	New Hampshire	**	**	1	44	Minnesota	39	+ 5
2	42	Minnesota	33	+ 9	2	38	Massachusetts	30	+ 8
2	42	Vermont	29	+ 13	3	36	North Dakota	30	+ 6
4	41	Connecticut	31	+ 10	4	35	Connecticut	33	+ 2
4	41	Kansas	29	+ 12	4	35	Montana	36	- 1
4	41	Massachusetts	31	+ 10	4	35	New Hampshire	**	**
4	41	North Carolina	25	+ 16	4	35	South Dakota	**	**
8	39	New Jersey	**	**	4	35	Vermont	31	+ 4
8	39	Wyoming	25	+ 14	4	35	Wisconsin	**	**
10	36	Iowa	26	+ 10	10	34	Colorado	**	**
10	36	Ohio	25	+ 11	10	34	Kansas	34	+ 0
10	36	Pennsylvania	**	**	12	33	Iowa	**	**
10	36	Virginia	24	+ 12	12	33	New Jersey	**	**
10	36	Washington	**	**	14	32	Nebraska	30	+ 2
15	35	Indiana	30	+ 5	14	32	New York	24	+ 8
15	35	Wisconsin	**	**	14	32	North Carolina	27	+ 5
17	34	Colorado	**	**	14	32	Oregon	31	+ 1
17	34	Maine	23	+ 11	14	32	Washington	**	**
17	34	Michigan	28	+ 6	14	32	Wyoming	23	+ 9
17	34	Nebraska	24	+ 10	20	31	Indiana	29	+ 2
17	34	North Dakota	25	+ 9	20	31	Utah	25	+ 6
17	34	South Dakota	**	**	20	31	Virginia	25	+ 6
23	33	New York	21	+ 12	23	30	Alaska	**	**
23	33	Oregon	23	+ 10	23	30	Maryland	27	+ 3
23	33	Texas	25	+ 8	23	30	Ohio	30	+ 0
26	32	Illinois	20	+ 12	23	30	Pennsylvania	**	**
26	32	South Carolina	18	+ 14	27	29	Illinois	26	+ 3
28	31	Delaware	**	**	27	29	Maine	30	- 1
28	31	Florida	**	**	29	28	Idaho	26	+ 2
28	31	Idaho	20	+ 11	29	28	Michigan	28	+ 0
28	31	Maryland	21	+ 10	29	28	Missouri	21	+ 7
28	31	Montana	24	+ 7	32	27	Alabama	16	+ 11
28	31	Utah	23	+ 8	33	26	Delaware	**	**
34	30	Alaska	**	**	33	26	South Carolina	17	+ 9
34	30	Missouri	23	+ 7	35	25	Texas	24	+ 1
36	28	Rhode Island	22	+ 6	36	24	Kentucky	20	+ 4
37	27	Georgia	17	+ 10	36	24	Rhode Island	22	+ 2
38	26	Arkansas	14	+ 12	38	23	Florida	**	**
39	25	Arizona	16	+ 9	39	22	California	17	+ 5
39	25	California	13	+ 12	39	22	Georgia	19	+ 3
41	24	Tennessee	18	+ 6	41	21	Arizona	20	+ 1
41	24	West Virginia	17	+ 7	41	21	Tennessee	16	+ 5
43	23	Hawaii	14	+ 9	43	20	Nevada	18	+ 2
43	23	Nevada	16	+ 7	43	20	Oklahoma	18	+ 2
43	23	Oklahoma	16	+ 7	43	20	West Virginia	17	+ 3
46	22	Kentucky	17	+ 5	46	19	Arkansas	13	+ 6
47	21	Louisiana	14	+ 7	47	17	Hawaii	16	+ 1
48	19	Alabama	13	+ 6	47	17	Louisiana	11	+ 6
49	17	Mississippi	9	+ 8	49	15	New Mexico	12	+ 3
50	17	New Mexico	12	+ 5	50	12	Mississippi	9	+ 3
	31	Nation	22	+ 9		27	Nation	25	+ 2

4th Grade Reading					8th Grade Reading				
	% AT OR ABOVE IN 2003	STATE	% AT OR ABOVE IN 1998	CHANGE BETWEEN 1998 & 2003		% AT OR ABOVE IN 2003	STATE	% AT OR ABOVE IN 1998	CHANGE BETWEEN 1998 & 2003
1	43	Connecticut	43	+ 0	1	43	Massachusetts	38	+ 5
2	40	Massachusetts	35	+ 5	2	40	New Hampshire	**	**
3	40	New Hampshire	37	+ 3	3	39	South Dakota	**	**
4	39	New Jersey	**	**	3	39	Vermont	**	**
4	37	Colorado	33	+ 4	5	38	North Dakota	**	**
4	37	Minnesota	35	+ 2	6	37	Connecticut	40	- 3
4	37	Vermont	**	**	6	37	Maine	41	- 4
8	36	Maine	35	+ 1	6	37	Minnesota	36	+ 1
9	35	Iowa	33	+ 2	6	37	Montana	40	- 3
9	35	Montana	37	- 2	6	37	New Jersey	**	**
11	35	Virginia	30	+ 5	6	37	Wisconsin	34	+ 3
12	34	Missouri	28	+ 6	12	36	Colorado	30	+ 6
12	34	New York	29	+ 5	12	36	Iowa	**	**
12	34	Ohio	**	**	12	36	Virginia	33	+ 3
12	34	Wyoming	29	+ 5	15	35	Illinois	**	**
16	33	Delaware	22	+ 11	15	35	Kansas	36	- 1
16	33	Indiana	**	**	15	35	Nebraska	**	**
16	33	Kansas	34	- 1	15	35	New York	32	+ 3
16	33	North Carolina	27	+ 6	19	34	Kentucky	30	+ 4
16	33	Pennsylvania	**	**	19	34	Missouri	28	+ 6
16	33	South Dakota	**	**	19	34	Ohio	**	**
16	33	Washington	30	+ 3	19	34	Wyoming	31	+ 3
16	33	Wisconsin	34	- 1	23	33	Indiana	**	**
24	32	Florida	22	+ 10	23	33	Oregon	35	- 2
24	32	Maryland	27	+ 5	23	33	Washington	32	+ 1
24	32	Michigan	28	+ 4	26	32	Idaho	**	**
24	32	Nebraska	**	**	26	32	Michigan	**	**
24	32	North Dakota	**	**	26	32	Pennsylvania	**	**
24	32	Utah	28	+ 4	26	32	Utah	31	+ 1
30	31	Illinois	**	**	30	31	Delaware	23	+ 8
30	31	Kentucky	29	+ 2	30	31	Maryland	31	+ 0
30	31	Oregon	26	+ 5	32	30	Oklahoma	30	+ 0
33	30	Idaho	**	**	32	30	Rhode Island	32	- 2
34	29	Rhode Island	31	- 2	34	29	North Carolina	30	- 1
34	29	West Virginia	28	+ 1	35	27	Alaska	**	**
36	28	Alaska	**	**	35	27	Arkansas	23	+ 4
36	28	Arkansas	23	+ 5	35	27	Florida	23	+ 4
38	27	Georgia	24	+ 3	38	26	Georgia	25	+ 1
38	27	Texas	28	- 1	38	26	Tennessee	27	- 1
40	26	Oklahoma	30	- 4	38	26	Texas	27	- 1
40	26	South Carolina	22	+ 4	41	25	Arizona	27	- 2
40	26	Tennessee	25	+ 1	41	25	West Virginia	28	- 3
43	23	Arizona	22	+ 1	43	24	South Carolina	22	+ 2
44	22	Alabama	24	- 2	44	22	Alabama	22	+ 0
45	21	California	20	+ 1	44	22	California	21	+ 1
45	21	Hawaii	17	+ 4	44	22	Hawaii	19	+ 3
47	20	Louisiana	17	+ 3	44	22	Louisiana	17	+ 5
48	20	Nevada	20	+ 0	48	21	Mississippi	19	+ 2
49	19	New Mexico	21	- 2	48	21	Nevada	23	- 2
50	18	Mississippi	17	+ 1	50	20	New Mexico	23	- 3
	30	Nation	28	+ 2		30	Nation	30	+ 0

KANSAS TOTAL PERSONAL INCOME AND PER CAPITA INCOME*
(AND TWO MEASURES OF INFLATION)

Cal. Year	Total Personal Income			Per Capita Income			Exhibit: Inflation	
	Amount (Thousands)	Percent Increase	Percent of U.S. Total	Amount (Dollars)	Percent Increase	Percent of U.S. Average	GDP- PI/PCE ⁽¹⁾	CPI-U ⁽²⁾
1965	\$ 5,980,776	6.8	1.08	\$ 2,711	6.9	94.5	1.6	1.6
66	6,412,123	7.2	1.06	2,915	7.5	94.5	2.6	2.9
67	6,722,268	4.8	1.04	3,060	5.0	93.4	2.7	3.1
68	7,284,590	8.4	1.03	3,287	7.4	92.4	4.0	4.2
69	7,913,260	8.6	1.02	3,539	7.7	92.3	4.1	5.5
1970	8,531,957	7.8	1.03	3,796	7.3	93.2	4.7	5.7
71	9,254,258	8.5	1.04	4,120	8.5	95.3	4.5	4.4
72	10,342,820	11.8	1.05	4,586	11.3	97.7	3.5	3.2
73	11,857,756	14.6	1.08	5,237	14.2	100.7	5.4	6.2
74	12,885,343	8.7	1.07	5,682	8.5	100.3	10.1	11.0
75	13,999,756	8.6	1.07	6,144	8.1	101.0	8.1	9.1
76	15,341,555	9.6	1.06	6,674	8.6	99.9	5.7	5.8
77	16,767,811	9.3	1.04	7,234	8.4	98.9	6.6	6.5
78	18,671,605	11.4	1.03	8,004	10.6	97.9	7.3	7.6
79	21,490,824	15.1	1.05	9,155	14.4	100.8	9.0	11.3
1980	23,571,100	9.7	1.03	9,950	8.7	98.5	10.9	13.5
81	26,653,147	13.1	1.05	11,176	12.3	100.6	8.9	10.3
82	28,580,598	7.2	1.06	11,903	6.5	101.8	5.8	6.2
83	29,644,743	3.7	1.03	12,273	3.1	99.5	4.6	3.2
84	32,533,845	9.7	1.02	13,421	9.4	99.1	3.8	4.3
85	34,726,974	6.7	1.00	14,121	5.2	98.2	3.7	3.6
86	35,766,842	3.0	0.99	14,703	4.1	97.5	2.8	1.9
87	37,480,663	4.8	0.97	15,327	4.2	96.3	3.8	3.6
88	39,490,837	5.4	0.95	16,040	4.7	94.3	4.2	4.1
89	41,549,086	5.2	0.93	16,802	4.8	92.7	4.9	4.8
1990	44,502,919	7.1	0.93	17,940	6.8	93.6	5.1	5.4
91	46,112,355	3.6	0.93	18,500	3.1	94.3	4.2	4.2
92	48,966,659	6.2	0.93	19,464	5.2	94.8	3.3	3.0
93	50,882,918	3.9	0.93	20,075	3.1	94.7	2.6	3.0
94	52,793,860	3.8	0.92	20,672	3.0	93.9	2.4	2.6
95	55,367,943	4.9	0.92	21,547	4.2	93.9	2.3	2.9
96	60,073,698	8.5	0.92	22,977	6.6	94.7	2.0	2.7
97	63,727,768	6.1	0.92	24,182	5.2	95.2	3.6	2.9
98	67,896,337	6.5	0.92	25,519	5.5	94.9	4.8	1.8
99	69,960,064	3.0	0.90	26,121	2.4	93.7	4.9	1.6
00	74,123,786	6.0	0.88	27,537	5.4	92.5	4.5	2.2
01	76,972,623	3.8	0.89	28,565	3.7	93.7	2.5	3.4

* Estimates of the U.S. Department of Commerce: September 2002.

- 1) Gross domestic product chain-type price index for personal consumption expenditures (1996 equals 100); U.S. Department of Commerce, November, 2002.
- 2) Consumer Price Index-All Urban Consumers (1982-84 equals 100).

Certified Employees of USD's

Official data from the
Kansas State Department of Education

	2000-01	2001-02	2002-03	Number Change	Percent
Enrollment	445,918.9	443,650.1	442,812.8	-3106.1	-0.7%
USD's	304.0	304.0	303.0	-1.0	-0.3%
School Building	1,415.0	1,410.0	1,414.0	-1.0	-0.1%
Superintendents	278.5	278.0	274.3	-4.2	-1.5%
Associate/Assistant Superintendents	98.4	101.0	94.7	-3.7	-3.8%
Administrative Assistants	45.4	40.0	40.1	-5.3	-11.7%
Principals	1,270.3	1,273.8	1,254.9	-15.4	-1.2%
Assistant Principals	485.0	480.5	473.0	-12.0	-2.5%
Directors/Supervisors of Special Education	113.7	113.5	120.5	6.8	6.0%
Directors/Supervisors of Health	11.8	14.3	10.0	-1.8	-15.3%
Directors/Supervisors of Vocational Education	27.9	23.3	23.2	-4.7	-16.8%
Instructional Coordinators Supervisors	105.9	136.4	118.3	12.4	11.7%
Other Directors/Supervisors	170.8	192.4	189.6	18.8	11.0%
Other Curriculum Specialists	111.5	121.0	117.5	6.0	5.4%
Practical Arts/Vocational Education Teachers	1,025.0	1,093.2	1,113.7	88.7	8.7%
Pre-Kindergarten Teachers	261.2	326.3	336.3	75.1	28.8%
Kindergarten Teachers	1,167.9	1,199.4	1,199.6	31.7	2.7%
Other Teachers	26,325.3	26,380.8	25,952.2	-373.1	-1.4%
Library Media Specialists	1,002.4	974.9	950.1	-52.3	-5.2%
School Counselors	1,166.5	1,172.7	1,141.2	-25.3	-2.2%
Clinical/School Psychologists	368.6	369.3	341.9	-26.7	-7.2%
Nurses	452.7	446.0	448.8	-3.9	-0.9%
Speech Pathologists	509.0	518.3	495.8	-13.2	-2.6%
Audiologists	13.5	9.4	8.7	-4.8	-35.6%
Social Work Services	250.3	276.2	184.4	-65.9	-26.3%
Reading Specialists/Teachers	528.0	565.5	532.3	4.3	0.8%
Others	544.5	340.1	401.1	-143.4	-26.3%
Total	36,334.1	36,446.3	35,822.2	-511.9	-1.4%

School Districts Reducing Staff; Realigning Employees

Over the past three years, school districts in Kansas have eliminated over 500 administrative and regular education teacher positions.

The Kansas Association of School Boards says employment figures from the Kansas State Department of Education show school districts are being squeezed by state budget cuts, new requirements and higher expectations.

Reports from school districts show that full-time equivalent positions for certified staff, excluding special education teachers, dropped from 36,334.1 in 2000-01 to 35,822.2 in 2002-03. That reduction of 511.9 represents a 1.4 percent decrease; almost twice as much as the 0.7 percent drop in full-time equivalent student enrollment over the same period. Certified staff are those required to hold a license from the state: teachers, administrators and other professionals. Special education teachers are excluded because many of these teachers are employed by special education cooperatives instead of school districts.

KASB believes these cuts in personnel result from several factors. First, some are due to declining enrollment in many districts. Second, districts have been attempting to provide competitive increases in salaries and benefits every year. Third, the base budget per pupil set by the Kansas State Legislature has been less than the increase in inflation every year since 1992. It was reduced by \$7 per pupil this year and will be left unchanged next year. Fourth, the state and federal governments continue to add new program requirements and direct new dollars to those programs, rather than supporting regular education.

For example, districts are adding special education administrators and teachers not included in these numbers to provide services required by state and federal law. Because state and federal funding does not cover the cost of these requirements, districts must shift funding from regular education to special education.

In addition, districts added 75.1 pre-kindergarten teachers since the state created a new program for at-risk four-year-olds, and 31.7 kindergarten teachers as more districts have implemented all day kindergarten programs. Districts also added 88.7 practical arts and vocational education teachers in response to student interest in those areas.

All other teaching positions were reduced by 373.1, or 1.4 percent. However, because several large districts in the state have been increasing in enrollment and adding staff, the net effect on most of the rest of the state is greater. Just three rapidly growing districts in Johnson County – Blue Valley, De Soto and Olathe – added 198.6 positions, while two-thirds of Kansas districts reduced positions, including 32 districts that had increased enrollment.

Although teachers represent over 80 percent of certified staff positions, school districts have also been cutting administrative staff. Two school districts were consolidated this year, dropping the number of school districts from 304 to 303. The number of full-time superintendent positions dropped from 278.5 to 274.3 as more districts share superintendents and assign them multiple duties. Associate/assistant superintendent and administrative assistant positions were also reduced.

Not only are there fewer school superintendents than there are school districts, there are also considerably fewer building principals than there are school buildings. Since 2000-01, there has been a net reduction of just one school building in Kansas, from 1,415 to 1,414. But principal positions were reduced by 15.1, from 1,270 to 1,254.9. Many principals serve more than one building, or hold multiple positions in a school district. Assistant principal positions were reduced by 12, from 485 to 473.

School districts have also had net reductions in health directors, vocational education directors, library media specialists, counselors, psychologists, nurses, speech pathologists, audiologists, social workers and others.

School districts have added positions for instructional coordinators and supervisors, curriculum specialists and reading specialists. KASB points out that the growth in these positions responds to the continuing demands for more accountability, testing, teacher training, and assuring that students are reading at grade level.

TO: Senate Ways and Means Subcommittee on Department of Education
 FROM: Mark Tallman, Assistant Executive Director,
 Kansas Association of School Boards
 DATE: January 30, 2003

Instructional Spending in Kansas and other states

In 2001, the Legislative Post Audit Division issued a report addressing legislative concerns that Kansas ranked very low in the percent of total spending dedicated to instruction, compared to surrounding states. Those figures were from the 1998 National Center for Education Statistics *National Public Education Financial Survey*.

Figures from NCES for 2000-01, the most recent information available, show a somewhat different story. This report shows that the percentage of budget spent on instruction rose in Kansas, while the percentage spent on instruction in each of the surrounding states fell. Instead of ranking last in that category, Kansas would now be tied with Iowa in the middle.

Kansas and Surrounding States – Percent of Budget Spent on Instruction:

	<i>1998</i>	<i>2001</i>	<i>Change</i>
Nebraska	62.9%	62.4%	-0.5
Missouri	61.3%	60.7%	-0.6
Iowa	61.3%	58.6%	-2.7
Oklahoma	59.3%	57.9%	-1.4
Colorado	57.8%	57.2%	-0.6
Kansas	57.6%	58.6%	+1.0

The Post Audit report looked only at instructional vs. non-instructional spending. In the most recent NCES report, there are three categories: instruction, support and non-instruction. Support programs include spending on programs that support teachers and students. The category of non-instruction includes spending that might generally be thought of as “administration.” Non-instructional spending is a much smaller part of the budget than either instruction or support. In the 2001 report from NCES, Iowa, Nebraska and Oklahoma spent considerable more of their budget on non-instructional items than Kansas. Only Colorado spent more than Kansas on support.

Spending on Instruction, Support and Non-Instruction, 2001

	<i>Instruction</i>	<i>Support</i>	<i>Non-instruction</i>
Colorado	57.2%	39.2%	3.6%
Iowa	58.6%	34.0%	7.5%
Kansas	58.6%	36.7%	4.6%
Missouri	60.7%	35.0%	4.4%
Nebraska	62.4%	30.2%	7.4%
Oklahoma	57.9%	35.7%	6.4%

Finally, what might be most important for consideration is the relationship between expenditure areas and academic results. There were eleven states that had combined scores in reading and math on the 2003 National Assessment of Education Program that were in the top half of the nation, but had a budget per pupil less the national average. These states, in other words, are getting the most with the least. Kansas is among that group.

If spending the maximum amount on instruction is the most efficient way to achieve academic results, then one would assume these states would rank very high on instructional spending and very low on non-instructional spending. However, of these 11 states, six spent a lower percentage of their budget on instructional than the national average, and seven spent a higher percentage on non-instruction than the national average. In other words, more than half of these high achieving, low spending states did the opposite of what conventional wisdom would predict.

	Instruction	Support	Non-instruction
<i>National Average</i>	61.5%	34.3%	4.2%
New Hampshire	65.0%	31.8%	3.2%
Kansas	58.6%*	36.7%	4.6%**
Colorado	57.2%*	39.2%	3.6%
South Dakota	59.3%*	35.5%	5.2%**
Iowa	58.6%*	34.0%	7.5%**
North Dakota	59.5%*	32.2%	8.3%**
Montana	61.7%	34.2%	4.1%
Virginia	61.7%	34.4%	3.9%
North Carolina	63.4%	31.0%	5.6%**
Washington	59.4%*	35.8%	4.9%**
Nebraska	62.4%	30.2%	7.4%**

*Spent a lower percentage on instruction than the national average.

**Spent a higher percentage on instruction than the national average.

We believe this information demonstrates that Kansas school boards and administrators are using the resources provided by the taxpayers of Kansas efficiently and effectively. Simply putting more money into instruction, without providing adequate support to teacher and students, and without appropriate supervision and evaluation, does not guarantee improved results. In fact, the opposite may be true.

Table 4. Percentage distribution of current expenditures for public elementary and secondary schools, by function and state: School year 2000–01

State	Within-state percentage distribution		
	Instruction	Support services	Noninstruction
United States ¹	61.5	34.3	4.2
Alabama	61.7	31.5	6.8
Alaska	57.5	39.1	3.4
Arizona	57.1	36.3	6.6
Arkansas	61.1	33.3	5.6
California	62.2	34.0	3.8
Colorado	57.2	39.2	3.6
Connecticut	63.9	32.4	3.7
Delaware	60.8	34.6	4.6
District of Columbia	49.7	47.5	2.8
Florida	58.3	36.8	4.9
Georgia	63.4	31.4	5.1
Hawaii	60.2	33.9	5.9
Idaho	61.3	34.3	4.4
Illinois	59.7	37.0	3.3
Indiana	61.6	34.4	4.0
Iowa	58.6	34.0	7.5
Kansas	58.6	36.7	4.6
Kentucky	61.3	33.4	5.3
Louisiana	60.3	33.2	6.6
Maine	66.9	29.7	3.4
Maryland	61.3	33.8	5.0
Massachusetts	66.3	30.1	3.5
Michigan	58.4	38.6	3.0
Minnesota	62.1	33.7	4.1
Mississippi	60.4	33.1	6.5
Missouri	60.7	35.0	4.4
Montana	61.7	34.2	4.1
Nebraska ¹	62.4	30.2	7.4
Nevada	62.5	34.3	3.2
New Hampshire	65.0	31.8	3.2
New Jersey	59.3	37.7	3.0
New Mexico	55.6	39.5	4.8
New York	67.9	29.4	2.7
North Carolina	63.4	31.0	5.6
North Dakota	59.5	32.2	8.3
Ohio	58.5	38.0	3.5
Oklahoma	57.9	35.7	6.4
Oregon	58.8	37.8	3.4
Pennsylvania	62.4	33.8	3.8
Rhode Island	64.5	32.9	2.6

South Carolina	59.8	34.7	5.5
South Dakota	59.3	35.5	5.2
Tennessee	64.4	30.6	4.9
Texas	60.4	34.6	5.0
Utah	64.7	29.3	6.0
Vermont	64.8	32.5	2.7
Virginia	61.7	34.4	3.9
Washington ¹	59.4	35.8	4.9
West Virginia	61.4	32.7	5.8
Wisconsin	62.0	34.8	3.2
Wyoming	60.5	36.2	3.4
Outlying areas			
American Samoa	40.7	39.7	19.6
Guam	—	—	—
Northern Marianas	76.8	12.2	5.7
Puerto Rico	69.9	20.6	9.5
Virgin Islands	62.7	31.9	5.3

—Not available.

¹Distribution affected by redistribution of reported values to correct for missing items.

NOTE: Detail may not sum to totals because of rounding. National figures do not include outlying areas.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2000-01.



Mark Desetti, Testimony
Senate Assessment and Taxation Committee
February 5, 2004

Mr. Chairman, members of the Committee, I thank you for the opportunity to appear before you today and address some of the issues in Senate Bill 403.

Kansas NEA believes that this bill represents a move in the right direction in school funding. While we, like others in the education community, believe that the funding levels in this proposal do not go far enough in addressing the needs of our schools, we do think that some of the targets addressed in the bill are the right targets to pursue.

Much has been said about the achievement gap in Kansas. Our public schools do a marvelous job of meeting the needs of a large majority of our students and, as a result, Kansas consistently performs among the top ten states in the nation on overall student achievement. But we know that we are not hitting the mark for some of our students – particularly students in poverty and English language learners. If we want to make our schools even better, we must work hard to address this achievement gap between our poor students and those who are better off financially.

The plan outlined in SB 403 targets money to this very problem.

First, students in poverty often come to our schools unprepared or under-prepared to succeed. The Governor has placed a great emphasis on early childhood education to bring these children up to their peers. The voluntary all-day kindergarten program contained in SB 403 when combined with the Governor's "Smart Start" program will give our students a boost as they first enter our school system. We all know that early intervention is best. We should not be waiting until a child demonstrates a lack of achievement on state assessments or classwork before we intervene. All-day Kindergarten is one way to attack this problem and, hopefully, close the gap.

*Senate Assessment + Taxation
2-5-04
Attachment 2*

For those students who are already in our system and falling behind, quality at-risk intervention programs are essential. Data provided to the legislature in a State Department of Education budget appeal shows that among the states that use a weighting factor for at-risk funding, the Kansas weighting is the lowest. One state, Nebraska, has a lower weighting for some students but operates on a sliding scale that goes as high as .30. About 25% of our students generate at-risk funds yet state assessments show that a larger percentage are behind academically and would benefit from at-risk intervention programs. If we wish to meet the demands of the federal No Child Left Behind Act and the needs of these students, additional funds are critical.

Finally, SB 403 increases the bilingual weighting factor which benefits our English language learners. This is a growing population in Kansas and a challenge to many schools. Our goal is to fully integrate immigrant and limited English proficient students into our society and the demands of teaching those children English while maintaining their academic studies puts a great strain on district resources. We can meet the needs of these children and bring them along but, as with at-risk funding, it takes resources for smaller class sizes, additional staff, additional materials, and specialized professional development. The increase in bilingual weighting will help meet these needs.

We all know that the achievement gap exists. We all agree that we must address it if we are to provide all Kansas with a quality education, improve our workforce to attract new business and industry, and keep Kansas as a model for other states to look to.

James L. Menze
Executive Director
jmenze@usa-ks.org

M. Katharine Weickert
Director of
Administrator Services
kweickert@usa-ks.org

SB 403: Governor's Proposed Education First Bill

**Testimony presented before the Senate Assessment and
Taxation Committee**

by

**Mr. Jim Menze, Executive Director
United School Administrators of Kansas**

**Mister Chairman and
Members of the Senate Assessment and Taxation Committee:**

I am Jim Menze, Executive Director of the United School Administrators of Kansas. Please know that the United School Administrators of Kansas support Senate Bill 403. We wish to address the revenue piece of the bill because without the revenue increases in that portion of the bill the rest of the proposals in the bill will be very difficult to achieve.

Much discussion has taken place on how much money is actually raised by this bill. We feel the mix of sources for raising the revenue for this bill is appropriate. The property tax, including local option budgets, is now approximately 31.5% of the total taxes while sales tax represents about 28% and income tax represents about 21.8%. With this proposal there will be a more equal dependency on all three sources of revenue.

We support this modest increase in taxes for education that would allow school districts to meet their obligations to our students and maintain an efficient and effective educational system. We recognize that these are challenging times for the state. We believe, however, that a strong and quality education is an investment that the State of Kansas cannot overlook. Additional resources are required for the kids of Kansas to stay ahead of their counterparts in other states in achievement and opportunities.

We applaud the Governor for making a bold statement in support of the kids of Kansas and their hard working teachers. It is time for us to begin to catch up.

Thank you Mr. Chairman. I will stand for questions.

*Senate Assessment & Taxation
2-5-04
Attachment 3*



Kansas Association of
Elementary
School Principals
(KAESP)

Kansas Association of
Middle School
Administrators
(KAMSA)

Kansas Association of
School Administrators
(KASA)

Kansas Association of
School Business
Officials
(KASBO)

Kansas Association for
Supervision and
Curriculum Development
(KASCD)


Kansas Association of
Special Education
Administrators
(KASEA)

Kansas Association of
Secondary School
Principals
(KASSP)

Kansas Council of
Career and Technical
Education Administrators
(KCCTEA)

Kansas School
Public Relations
Association
(KanSPRA)

FISCAL FOCUS

Budget and Tax Policy in  Perspective

Legislative Testimony

April Holman, Kansas Action for Children
Senate Committee on Assessment and Taxation
SB 403
February 5, 2004

Chairman Corbin and Members of the Committee:

On behalf of Kansas Action for Children, I would like to thank you for this opportunity to share our support of Senate Bill 403, the Governor's Education First Plan.

We understand that the spending portion of the bill will be discussed at hearings in the Senate Education Committee, so my testimony will focus on the portion of the bill generating the revenue necessary to fund the Governor's education initiative. However, I would share with you that we are very appreciative of the Governor's efforts to support programs for children, especially those aimed at early childhood education such as Smart Start and funding for full day kindergarten.

Kansas Action for Children has recently begun a new initiative called Fiscal Focus. The purpose of Fiscal Focus is to improve the economic security of Kansas children and their families and ensure a balanced and fair tax system and budget process that protects the well-being of children and families and a stable system of state revenue.

In this year of tight budgets and modest state revenues nationwide, it is difficult to propose a revenue increase. We commend the Governor for the resolve she displayed in putting forth the Education First Plan.

We acknowledge the merits of maintaining a balanced tax system in Kansas comprised of property, income and sales tax. In order to protect against economic downturns, it is important to have a diverse tax system. If the state relies too heavily on one particular source of revenue it becomes vulnerable to fluctuations in that sector of the economy. A diverse tax system also ensures that no single group of taxpayers is responsible for paying the majority of taxes.

Another important feature of a good tax system is tax equity, or fairness along with the related concepts of progressive versus regressive taxes. When a tax is progressive, the amount of tax

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levied increases based on the taxpayer's financial resources. When a tax is regressive, the amount levied results in a larger percentage of financial resources being paid by taxpayers with fewer resources.

While we appreciate the diversity of the revenue sources used in the Governor's Education First Plan, we are concerned about the reliance on the sales tax, which is one of the more regressive Kansas tax sources. For this reason, we would request that Senate Bill 403 be amended to mitigate the impact on lower income Kansas families either by increasing the Kansas Food Sales Tax Rebate or by increasing the percentage of the federal Earned Income Tax Credit (EITC) allowed in Kansas.

The EITC percentage could be increased with a minimal cost relative to the Governor's current proposal by slightly increasing the income tax surcharge. Please see the attached table for more details on the proposed amendment.

Thank you for this opportunity to testify in support of the Governor's Education First Plan. We would ask for your support of Senate Bill 403 with an amendment to mitigate the impact of the proposal on low and moderate income working Kansas families.

Income Tax Reform Options for Kansas								
All Kansas Taxpayers, 2003								
2003 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	State Tax Change \$
Income	Less Than	\$14,600 -	\$28,900 -	\$46,900 -	\$73,000 -	\$131,700 -	\$305,600 -	
Range	\$14,600	\$28,900	\$46,900	\$73,000	\$131,700	\$305,600	Or More	
Average Income in Group	\$9,400	\$21,500	\$37,100	\$58,300	\$93,600	\$180,300	\$746,900	
5% Surcharge								
Tax Change as a % of Income	+0.0%	+0.1%	+0.1%	+0.1%	+0.2%	+0.2%	+0.2%	
\$ Average Tax Change	\$ +3	\$ +15	\$ +43	\$ +87	\$ +181	\$ +398	\$ +1,842	\$ +109,600
5.5% Surcharge and 20% Refundable EITC								
Tax Change as a % of Income	-0.2%	-0.0%	+0.1%	+0.2%	+0.2%	+0.2%	+0.3%	
\$ Average Tax Change	\$ -19	\$ -8	\$ +45	\$ +96	\$ +200	\$ +438	\$ +2,027	\$ +108,500
6.0% Surcharge and 25% Refundable EITC								
Tax Change as a % of Income	-0.4%	-0.1%	+0.1%	+0.2%	+0.2%	+0.3%	+0.3%	
\$ Average Tax Change	\$ -42	\$ -30	\$ +47	\$ +105	\$ +218	\$ +478	\$ +2,211	\$ +107,400
	1	2	3	4	5	6	7	



Kansas Senate Tax and Education Committee

February 5, 2004

Mr. Chairman and members of the Committee:

My name is Larry McElwain and I am currently the Chairman of the Lawrence Chamber of Commerce. Thank you for the opportunity to give you some of our thoughts on SB 403 as well as Kansas's educational challenges.

Lawrence strongly supports education from elementary to secondary to higher education. The Lawrence Chamber of Commerce, which consists of over 1600 members, has consistently expressed strong support for education. We met with our local delegation on January 6th of this year to give them our thoughts on education and other crucial issues.

We know that we live in difficult times and that our state faces many challenges. We feel that educational funding is as critical a need as we have for our future. We know that in Lawrence, KS, our school board has been forced to cut \$7 million dollars from their budget in the past three years. They are looking at another \$2.1 million in cuts in the near future, if there is not a solution developed in this session. We know that our Board of Education is cutting into the meat of our educational system. This cannot continue indefinitely.

We know that no bill or method of funding is flawless. We know that you face some very difficult issues and that we are still in the beginning stages of an economic recovery from the past three-year recession. Although initially the issue of Special Education was a trouble spot for Lawrence, we have been told that it has been addressed by the Governor's office. There may still be changes needed. The Governor's plan offers us a foundation for a rational, tactical approach to solving a huge state problem. We do not

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come to you with a list of new problems & new solutions, but we do have some points that we would like for you to consider.

- We think there is merit in SB 403 with the Governor's approach to a problem that we think is serious and needs attention to—this session. We admire her leadership and courage to put a proposed solution on the table to address this problem. We know that there will hopefully be debate and amendments to the bill. To sit by idly while school districts and students struggle is not a solution and not a key to providing our kids the best opportunity for an education that will take them far into the 21st Century. They are living in a world of tremendous change. The basics of education will never be diminished, but the enhancements that modern technology has brought to us are very crucial to their ability to find their place in this world. Kansas not only needs our students to be the best, but America does also. As we look at the reality of companies looking offshore to outsource their work, it weakens our state and our country.

We see that Economic Development and Education are inextricably linked to one another. We know in Lawrence, KS that because we have had a strong public school system and a university with an excellent reputation, that we have gained new employers and employees. Each company that has come to our town in the last three decades have sought the answer to the questions, "How good is your educational system?" "What can my family expect to gain from your school system?" "What are the strengths and weaknesses of your system?" New prospects in the industrial and technical sectors still ask those questions.

We are concerned that if we do not continue to expand our economic base and provide jobs for our kids to move into, we will continue to shift the tax burden more and more to the residential side of our economy and our schools and infrastructure will suffer. Because we are already concerned that this is happening, we undertook the Excellence By Design campaign early last year to

raise \$1.2 million in money from the private sector to strengthen our economic development partnership with the City of Lawrence and Douglas County.

Currently, the private sector provides almost 70% of the funds needed to create jobs in our area. The weakening of our education system will have incalculable effects on our future endeavors of attracting jobs and workers, no matter how much money we raise to recruit.

We think that the proposed bill to launch our state into the Bioscience arena is a stroke of genius on the part of our legislature. Kansans need a new focus and a way to set our economy and us apart in the new century. It becomes another leg to the economic table of agriculture, aircraft production, industry and small business in our state's economy. This will not only create jobs for researchers & scientists, it will allow for new positions for technicians & workers that our people can be trained for. With this proposal, we will need a continued commitment to funding of our higher education institutions. This proposal offers real promise of both urban and rural economic development.

In Lawrence, our city & county governments have put forth a joint resolution that states we need an additional 1000 acres of land for industrial development in the near future. In an area that is increasingly urbanized, this is a huge task. I am sure that you see and hear of this in many other counties that you either represent or know of. If we do not have the complimentary educational system to go with this goal for our future, it will set us up for failure.

- We see our state's entry into the bioscience arena will increase the job opportunities for our kids and many who have been under-employed for some time. This will demand not only a good educational foundation in elementary and high school, but also other training and even work-force training programs. Currently, the Eudora, KS school district has implemented some training

programs and the Lawrence district is dreaming of the same. We will need to think ahead and adequately fund our educational system to make all of this potential, a reality.

- Another huge area of concern for us is the unfunded mandates that stretch and strain our educational systems. The compliance issues of the No Child Left Behind mandate, and other programs place a cloud over the system and its future. It will be a drain on already stretched thin resources and budgets.

In closing, I would like to say that as a business person, I could not successfully prosper my business if all that I could look to balance my budget was to cut expenses, employees and programs. I could not succeed if my physical plant was deteriorating because of lack of a capital expenditure budget. We need the balance of finding a way to make the best with what we have, but at the same time enhance the revenue to achieve better results.

We know that you have the ability to put things in place that will help solve this problem. We ask you to look at SB 403 closely and debate it hard... It is already short about \$700,000 of what we have been told is needed to adequately fund education in Kansas. Please try to close the gap. Please find a way to make it work for all Kansans.

Thank you for your attention today.

Correction
\$700,000,000

Senate Assessment and Taxation Committee
Testimony, Tom Hawk, Retired School Administrator, Manhattan
Position: Supportive of SB 403
February 5, 2004

Chairperson Corbin, Vice Chair Donovan, Senators Oleen, Taddiken, and Pugh representing my corner of the state, and esteemed Committee Members:

I know you have already heard testimony outlining the provisions of SB 403 and no doubt have already begun to study the various costs and provisions of this bill.

I stand in support of this bill and want to outline five central points for increased revenue for Kansas Education. It is our responsibility to resist short term solutions and to consider a long term plan. There is an established connection between education and economic vitality in our state.

Point 1: *Rural Kansas* is facing a serious population decline. For five consecutive years, more than 60% of school districts have experienced a decline in enrollment. Kansas has 105 counties: 54 have less population than they had 100 years ago. Dr. John Keller, a speaker at the state administrator's convention, stated last week in Wichita that over 40% of the counties in the Great Plains states show a decline in population over the past 50 years. Once a town is lost, it may never come back, or may take 15 to 20 years to recover. We are a rural state and we must think seriously about how to support and maintain the towns that have a chance to survive. This is not a popular political reality.

Point 2: *Teacher and Professional Loss.* We are losing too many young teachers in the first 3 to 5 years of their career. Recent data shows a 33% attrition rate for beginning teachers. Thirty-five percent of our Kansas teacher workforce is over age 50. We are facing a crisis. Why? I believe our new teachers do not see a stable economic future. Our starting salary for a beginning teacher in Manhattan is \$26,985. It takes 20 years and a MS degree to get to \$40,975. Generally Manhattan is in the middle of the pack on salary averages statewide. It is an economic struggle for a young teacher to pay off their student loan, pay rent, utilities, car, food and insurance. To continue progressing in the profession, they need to earn a graduate degree. Often there is no money for tuition or other extras. We are losing many of the smart, energetic young professionals that will motivate and educate our children.

Point 3: *Keeping people in your towns and in Kansas.* Why would people want to come to your town? My guess is they want to know that your town has a future. ...that the economy has a future. They want good schools, and above all else they want competent, enthusiastic professional teachers and principals. They want top-notch programs in math, science, the arts, and athletics. They also want jobs, affordable housing and affordable child care. Working families need a wide variety of supports to raise their children. They know that the economic vitality of their community and this state is tied to a world class education system-early childhood thru higher education. If we let our schools go to seed....if we let our towns go to seed, will anyone want to stay,

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or even come to our state?

Point 4: Costs. Why does it cost so much to educate today? It is not uncommon to see several special education students mainstreamed into regular classrooms. I have recently seen young teachers doing excellent work balancing the engagement of regular students with special students, aided by a paraprofessional. Mainstreaming and at risk student programs cost extra money now, but they are the right idea. There is far greater demand for advanced teaching skills than there was twenty years ago. Not all students come to school ready to learn, but we must be ready to teach all who come. Professional development, flexible programs and paraprofessional support is essential.

Costs have also skyrocketed for schools, just as for other businesses: Supplies, textbooks, computer technology, utilities, food, and gasoline. Federal and court mandates and local demand for additional programs (e.g. before and after school) all add to the budget and cost burden. But the largest escalating cost that relates to recruitment and retention is Health Insurance. Below is an example of how this cost has increased in Manhattan.

Family Health Insurance Cost Increases USD #383

Year	99-2000	2000-01	2001-02	2002-03	2003-04
Family Plan Cost	\$328.23	\$692.66	\$811.44	\$1131.48	\$1,301.79.
Dollar Increase from Base	\$59.79	\$364.43	\$483.21	\$803.25	\$973.56
% Increase to Base Yr.		111%	14.7%	244.7%	296.6%
% Yearly Increase	22.3%	111%	17.1%	39.4%	15.1%

Point 5: Fund or Merge. If schools in your community are not supported at a fair, suitable level (Augenblick and Myers legislative study), what is the alternative? I believe that you will be faced with telling your constituents that they need to begin planning to merge their schools, close some buildings and combine administrative structures. The economic vibrancy of some of your small towns is at risk. Failure to fairly tax at the state level has not saved the taxpayer at the local level. It has simply moved the taxes to the LOB and to the more regressive local property taxes. Now, nearly every district in the state has maximized their LOB. We are moving rapidly toward crisis and some very hard decisions. Will we plan for them or just let them happen?

Good luck to each of you in the difficult deliberations ahead. If I can be helpful to you or the Committee, please feel free to call me or e-mail me at any time.

**Kansas Chamber of Commerce
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Topeka, Kansas
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February 5, 2004
Kansas Senate Assessment and Taxation Committee
SB 403

By Lew Ebert, President & CEO
The Kansas Chamber

Mr. Chairman and members of the Committee:

My name is Lew Ebert, of The Kansas Chamber of Commerce. As many of you know, The Kansas Chamber has for years strongly supported Kansas education. The Kansas Chamber has gone on the record in the past backing tax increases to fund educational enhancements. And the organization continues to work toward the best possible economic future for our families and for the children of Kansas.

There are aspects of the Education First package that are worthy of further consideration, including the proposal for auditing the efficiency of the state's school districts. Efficiency in government is a concept that The Chamber strongly endorses.

Regrettably, there are unfortunate financial implications for the Kansas economy if SB403 is funded in the manner that has been suggested. Consequently, The Kansas Chamber of Commerce opposes the across the board increases in taxes put forward to fund this package.

The economy of Kansas is not yet recovering sufficiently. Year-to-year there are still more than 65,000 Kansans who can't find a job to support themselves and their families – some 14,000 in Wichita and more than 21,000 in the Kansas City areas.

Now is surely not the right time to further burden the citizens of Kansas with more taxes. Now surely is not the right time to further burden our Kansas

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businesses with higher taxes. Business is already working hard to survive in challenging times that have gone on for far too long.

The Chamber agrees with the editorial writers at The Wichita Eagle who wrote this past Sunday, "The states that get noticed by corporate site selectors are the states that have business-friendly tax and regulatory environments, and Kansas currently isn't among them. Fixing that problem -- and in the process, helping stem the state's loss of population -- will mean hard choices and big changes."

They went on to urge lawmakers to get serious about the costs of doing business in Kansas. The Kansas Chamber and many of you are working hard to lower the cost of doing business in the state and improving our competitive position. We must create a business climate that permits Kansas employers to grow their businesses, create new jobs and that enables the state to attract potential new employers.

In order to do that, business costs in the state of Kansas must be reduced. Raising income taxes, raising property taxes, and raising sales taxes hurt citizens in general and small businesses in particular. Instead of raising taxes, Kansas should be taking the initiative to become a competitive leader among states in the fight for jobs.

We can improve our competitive position. We must improve our competitive position. We are in a fight for new jobs and to keep the jobs we still have in Kansas. I would be happy to stand for questions.

The Kansas Chamber is the statewide business advocacy group, with headquarters in Topeka. It is working to make Kansas more attractive to employers by reducing the costs of doing business in Kansas. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have nearly 7,500 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.

Kansas Chamber Annual Competitive Index

EXECUTIVE SUMMARY

(January 2004)

For the past 25 years, economists have been doing empirical studies and surveys that conclude "taxes and business climate do matter." In short, a competitive state tax climate matters in relation to both a healthy business climate and prosperous economic growth.

States are in competition: States are currently in competition with each other for jobs and other measures of state economic growth.

The "two decade plus" survey of the tax and business climate literature looks at the bigger picture. As states change their tax positions, in relation to other states, those states that "lower their relative tax burdens" and become "lower taxing bodies" appear to be the top winners over the past 25 years.

In addition, other business costs matter to Kansas' competitive position. Costs such as workers compensation, unemployment compensation, health care and tort reform can make Kansas an advantageous place to locate a business or put Kansas at a competitive disadvantage. Now that numerous studies document that state/federal tax policy do matter as well as other business taxes, *How do these costs relate to business climate, state taxes and growth in Kansas?*

Current Comparisons of Kansas and its Business Climate:

According to the most recent studies and surveys, by most business climate measures, Kansas ranks in the middle of the pack. This means Kansas is an "average" state. But at the same time, many of the neighboring states are "above average." This makes it even harder for Kansas to grow. To really compete for economic growth, Kansas will need to pay attention to its neighbors as well as all other states.

The following Table summarizes the results from the 13 business climate studies included in this paper. From the work done by the Tax Foundation (1), through the study done by the University of Kansas (13) – the results are fairly stable. The average Kansas rank is 26-27th best out of the 50 states, or a grade of "C" to "C+".

Summary of Business Climate Studies and Kansas Rankings

<i>Study</i>	<i>Kansas Ranking</i>
1) Tax Foundation	36 th best
2) Ohio University Study	36 th best
3a) Corp of Enterprise Development	19-23 average
3b) Corp of Enterprise Development	"C" Grade
4) US Chamber – Liability Systems	15 th best
5) Small Business Survival Index	32 nd
6) Health Grades	"As Expected"
7) Personal Health Care Expenditures	25 th highest
8) Business Health Care Costs	"Average"
9) Site Selection Magazine	25 th best
10) Business Tax Burden Study	NA
11) CFO 2004 State Tax Survey	"average"
12) New Hampshire Econ Development	27 th highest
13) University of Kansas 2003 Update	"competitive within the region"
AVERAGE	26-27 th best out of 50
KANSAS RANK	or a C to C+ grade

Taxes and business climate matter in the 50 United States. Kansas needs to be aware of its position, relative to the other states, and take the necessary steps to make sure that it strives to become "above average." Only then can Kansas expect to win the battle for more jobs and other measures of economic growth.



February 5, 2004

***Testimony on Senate Bill 403
Senate Assessment and Taxation Committee
Bernie Koch
Wichita Area Chamber of Commerce***

Good morning Mr. Chairman and members of the Committee. I'm Bernie Koch with the Wichita Area Chamber of Commerce. Thank you for the opportunity to testify on Senate Bill 403.

Let me start by saying that chambers of commerce are not anti-tax organizations. We are pro-growth organizations. In the past, we have supported tax increases that support growth. These have included tax increases for education.

The Wichita Area Chamber of Commerce has been a strong proponent of educational improvement for many years, recognizing the strong link between skilled workers and economic growth.

We were the first organization to call for a Wichita School District bond issue, and we supported its successful passage. We were also supportive of the District's plan to increase the local option budget because the district demonstrated measurable improvement in student learning.

Back in 1986, we established business-education programs that were meaningful beyond what was common for business organizations. While some were content with adopt-a-school programs, our chamber was concerned with meaningful improvement and education standards. In fact, it was the Wichita Area Chamber that suggested to the Senate Education Committee in 1992 that statewide standards in math, science, social studies, and communications be incorporated into the new school finance formula.

These actions resulted in additional taxes on our business members, which our volunteer policy advisory committee and Board of Directors felt were justified.

Quite honestly, the Governor's Education First Plan finances some positive programs which we have supported for years: full-day kindergarten, better funding for children at risk, and effective staff development programs.

However, the tax increases are problematic for our organization and our nearly 1900 business members. We were one of the hardest-hit local economies in the country by the 9/11 attacks. Frankly, we have not yet recovered. We have an unemployment rate of 6.1 percent in the City of

Wichita and nearly 14-thousand unemployed workers in Sedgwick County, but that doesn't tell the whole story.

Manufacturing is the engine that drives our economy, and one out of every five manufacturing workers lost their jobs in the Wichita metropolitan area. Nonfarm wage and salary manufacturing employment in the area was 73,700 in August of 2001. Last month it was 58,600, a drop of over 15-thousand workers, or 20 percent. Just in manufacturing.

Last year, we lost 3,600 manufacturing jobs.

The Wichita State University Center for Economic Development and Business Research projects we will lose another 2,000 manufacturing jobs in 2004.

In all industries in nonfarm wage and salary employment, we had 6-thousand 6-hundred fewer jobs last month than we had in August of 2001. The WSU projections do not include an economic recovery this year. Obviously, these tax increases are an added hardship on our residents and businesses as our economy responds slower to recovery than other regions of the state and the country.

These taxes hit small businesses disproportionately because of the proposed five percent surcharge on individual income taxes. A considerable amount of the state individual income tax is paid on business income. This information has been generally overlooked since the work of the 1995 Governor's Tax Equity Task Force.

The Task Force did an analysis of 1993 Kansas individual tax returns and found that 12 percent included business income, which represented 17.8 percent of the revenue collected from the individual income tax. This amount was considerably more than what was collected from the corporate income tax filings.

The report concluded:

"No longer can changes discussed in the individual income tax ignore the impact on the business community given the extent to which business income is taxed through the individual income tax."

Since that 1995 task force report, federal income tax changes have driven more businesses to report their income through the individual income tax. Our analysis of federal returns for 2001 in Kansas indicates that 20 percent of individual income tax returns contain business income. We have concluded that, under Senate Bill 403, a larger part of the burden of financing the Education First plan falls on small business, which generally does not file the corporation income tax form. Our information about our own chamber indicates at least 60 percent of our members would pay the 5

percent income tax surcharge on their business income. We believe these would largely be the two-thirds of our membership that have fewer than 25 employees.

Other factors we considered in reviewing this plan included how tax increases affect our efforts to create new jobs.

Our volunteers also felt this plan adds more money to a flawed distribution formula while not enough is done to fix the formula.

An independent survey of our members was conducted from January 22 to the 27th which indicated 90 percent of those responding are opposed to tax increases.

Consequently, the Wichita Area Chamber of Commerce believes tax increases, as proposed in Senate Bill 403, would be damaging to our members as well as the immediate and long-term recovery of the economy in our region. We do not support them, but we welcome the opportunity to participate in the ongoing public discussion about how public education dollars are distributed.

Thank you again for the opportunity to appear today.

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Bill Graves, Governor

Report of the
**Governor's Tax Equity
Task Force**



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reduces their overall income tax burden regardless of the differences that may exist at the state level.

Business Income. In most policy discussions, the impact of the individual income tax on business income is ignored. A perception exists that all business income tax liability is attributed to the corporation income tax and that liability for the individual income tax is generated through wages, interest income and taxable benefit payments (such as retirement income). Analysis of the returns from tax year 1993 indicates that this is clearly not the case. Of the 1,001,817 resident individual income taxes that were filed for 1993, 120,111 returns included business income. This is 12.0 percent of the total returns filed. Included on these returns is an estimated \$5,215,550,045 in Kansas Adjusted Gross Income. The effective tax rate on this income is estimated at 3.20 percent, slightly higher than the overall effective tax rate for the individual income tax of 2.99 percent.

Kansas Adj. Gross Income	% of Returns	% of KAGI	% of Liability	Effective Tax Rate
\$0 - \$15,000	16.30	2.03	0.30	0.47
\$15,001 - \$25,000	25.10	10.01	4.66	1.49
\$25,001 - \$50,000	33.24	27.94	20.28	2.32
\$50,001 - \$100,000	19.51	29.97	31.22	3.33
\$100,001 and up	5.85	30.04	43.56	4.64
Total	100.00	100.00	100.00	3.20

Table 8

Table 8 presents a vertical distribution of the returns that included business income. Total tax liability on these returns was \$166.9 million. This is 17.8 percent of the total liability for tax year 1993 of \$938.0 million for resident taxpayers. To put the impact of the individual income tax on business in perspective, in process year 1993, 32,746 corporate income tax returns were filed. This is roughly 27 percent of the number of individual income tax returns that included business income. These returns had a net tax liability of \$142.9 million, or 85.6 percent of the liability included on the individual income tax returns. This has clear implications for policy makers. No longer can changes discussed in the individual income tax ignore the impact on the business community given the extent to which business income is taxed through the individual income tax.

The Impact on Representative Taxpayers

The previous analysis of the burden of the income tax has been based on classification of income levels, including all taxpayers, regardless of their household situations, availability of deductions, or use of credits. Effective tax rates are presented as averages for all taxpayers in these income classes. This is not unusual, as all research reviewed during preparation of this paper has utilized this methodology. Such analysis, while useful, masks the actual impact or burden of the individual income tax on actual taxpayers and families. The remainder of the analysis in the paper is designed to highlight the impact of the individual income tax on representative actual taxpayers and to compare their tax burden with similarly situated taxpayers in the surrounding states. Clearly, the selection of representative taxpayers has limitations, as not all situations can be evaluated without presenting the tax burden of each taxpayer. Hopefully, the combination of aggregated and representative impacts will provide a useful tool for policy makers evaluating the current structure of the individual income tax in Kansas.

Kansas Taxpayers. Table 9 presents a summary of the 1993 individual income tax return information for 16 actual taxpayers. Eight of the taxpayers are single filers and eight of the taxpayers

**Analysis of Tax Year 2001 federal tax returns filed in Kansas
Original numbers from IRS**

1,225,868 Federal Income Tax returns for Kansas in Tax year 2001

Of those returns:

178,375 reported business or professional net income

63,673 were farm returns

Total = 242,048 returns with business, professional or farm income

OR

19.74% of all Kansas Federal individual income tax returns were for business, professional or farm income.

There were 47,424 corporation income tax returns.

Add 242,048 individual returns with business, professional or farm income

Total = 289,472 total returns with business or professional, farm, or corporation designation

Divide 242,048 (total returns from business, profession or farm income) by 289,472 (Total returns from all kinds of business) = .836

Therefore, since state and federal individual income taxes are coupled in Kansas,

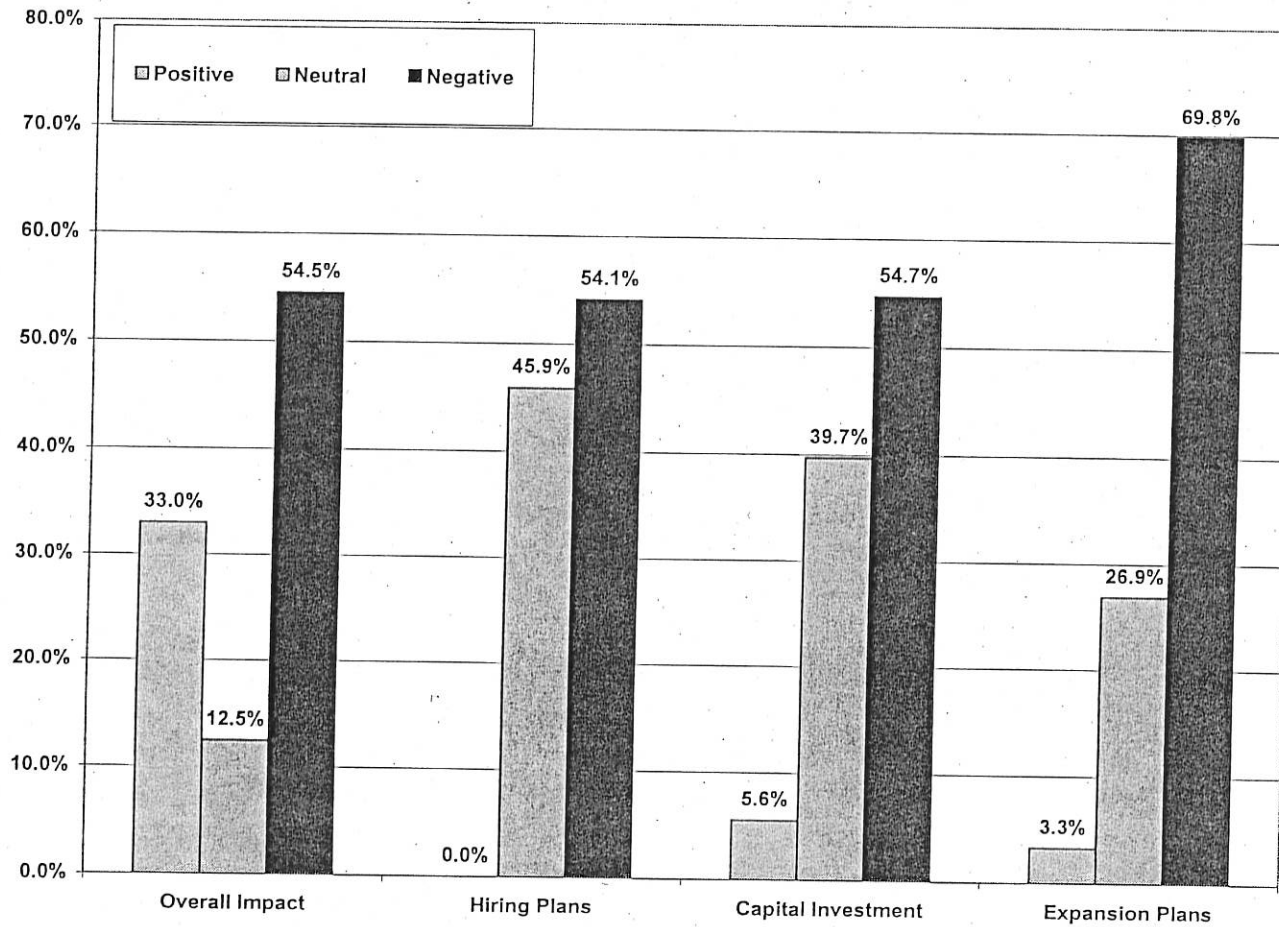
about 83% of all business returns are filed using the individual income tax forms.

If the proposed 5% income tax surcharge had been in effect, these 83% of business taxpayers would be affected.



Summary Of Findings

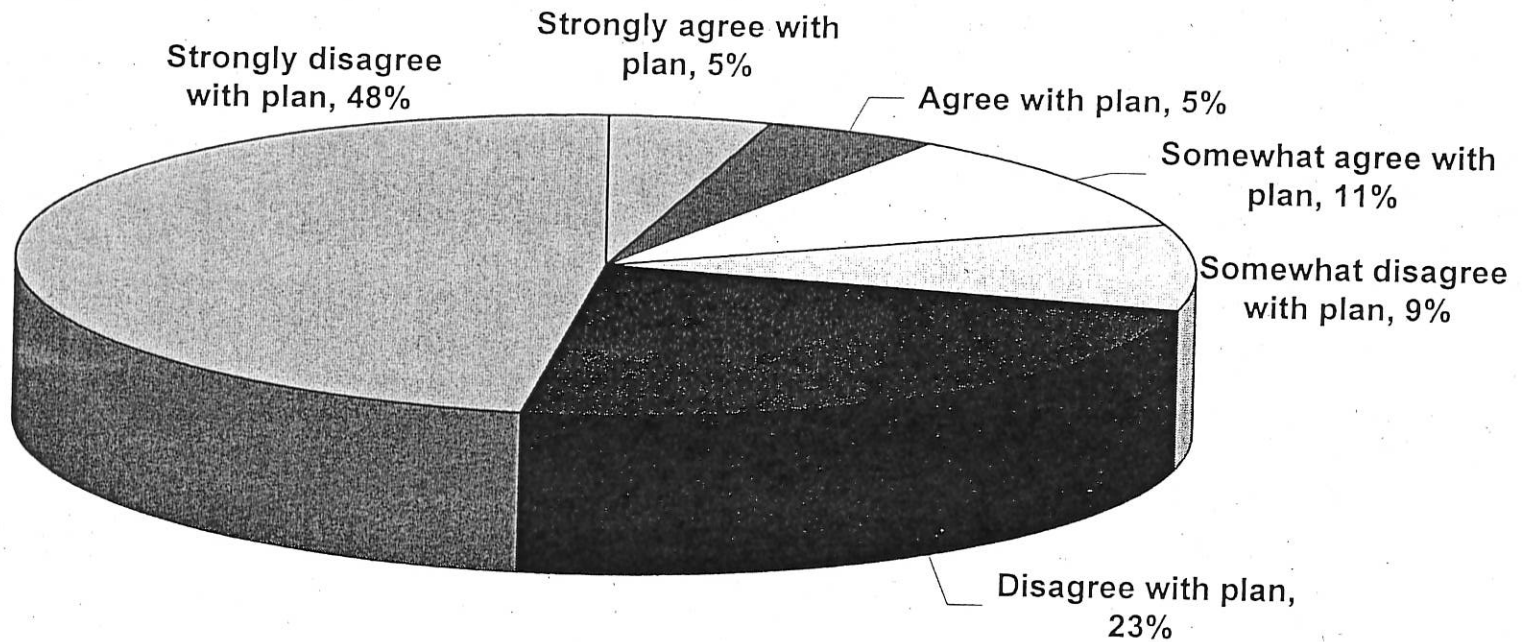
- More than half, 60%, of respondents were from non C-Corporations.
 - How will the tax plan affect these individually owned companies?





Summary Of Findings

- C-Corporations felt this way about the tax plan





Summary Of Findings

- All participants were asked this question:
 - *Please choose the top action you believe Governor Sebelius and the state legislature should take in addressing the funding challenges faced by Kansas Public Schools.*

Raise additional taxes statewide, as proposed, to fund the current distribution system and school system design	10%
Develop and implement a statewide school system consolidation plan that would lead to greater economies of scale and a more efficient use of school tax monies	47%
Fix the present funding distribution formula and live within the means provided by the current level of school tax dollars	43%

Testimony Opposing SB 403

Karl Peterjohn/George Petersen

Kansas has a lousy tax climate. SB 403 would make the lousy Kansas tax climate worse. Here's how we can make our uncompetitive tax climate worse under the tax hikes contained within SB 403

1) The Income Tax Surcharge

SB 403 contains a 5 percent surcharge on the state income tax. Here's how Kansas taxes rate with our four neighboring states and their maximum rates under current law and SB 403:

	Current <u>Maximum</u>	SB 403 5% <u>Surcharge</u>
Kansas (current)	6.45%	6.7725%
Colorado	4.63%	
Missouri	6.00%	
Nebraska	6.68%	
Oklahoma	7.00%	

Oklahoma's rate is currently the highest in our five state region and was recently raised to the 7 percent level. Under SB 403 Kansas' maximum rate would move from 19th to 16th highest in the 50 states (source: SBSC Small Business Survival Index 2003, p. 13). It is important to note that a number of these states provide deductions and tax options that do not exist in Kansas. Missouri allows deductions for social security, medicare, and the first \$10,000 of federal income taxes while the fastest growing state in our region, Colorado, not only has the lowest income tax rate but has a sales tax deduction that can reduce the effective maximum rate well below the nominal maximum level.

The 2003 annual report from Kansas Inc. reported that average income in Kansas is now over 6 percent below the U.S. average. Raising taxes on income would be a mistake and this tax hike should be rejected.

2) Sales Tax Hike

SB 403 proposes multiple step increases in the current sales tax rate and making permanent the existing surcharges that were put in place on this state's sales tax rates during the 2002 and 2003 legislative sessions. It is important for this committee to remember that the 2002 sales tax hike was supposed to set a permanent rate at 5.0 percent. A temporary .3 percent hike was added to the base rate increase by the 2002 legislature.

SB 403 contains three increases in the state sales tax over several years. The current phase back to the 5.0 percent level would be eliminated immediately. Here's how Kansas sales tax rates compares with our four neighboring states and their statewide rates under current law, base Kansas rate, and SB 403:

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Attachment 9*

	<u>Current</u> <u>Maximum</u>	<u>SB 403 5%</u> <u>Surcharge</u>	<u>Base Rate</u>
Kansas (current)	5.3%	5.7%	5.0%
Colorado	2.9%		
Missouri	4.225%		
Nebraska	5.5%		
Oklahoma	4.5%		

While Kansas would surpass Nebraska and have the highest sales tax rate under SB 403, it is probable that Kansas already has this dubious distinction of high taxation. Nebraska and Colorado both exempt groceries from their sales tax. Missouri's state rate on groceries is only 1.225% too. Since Oklahoma and Kansas are the only states in our five state region that fully tax groceries, our maximum rate is understated when compared with our neighbors that exempt a significant portion of these retail sales. KTN firmly believes that current sales tax rates are already excessive in Kansas.

When fully phased in, SB 403 would raise the state's sales tax rate 7 percent over the current rate and 14 percent above the current base rate. Kansas' maximum rate would be 3 percent higher than the next highest state in our region. Kansas' rate would be 16 percent higher than the rate in this state as late as June 30, 2002.

Two years ago the Kansas Taxpayers Network testified in opposition to the 2002 sales tax hike proposal and other excise tax increases and called it, "The western Missouri Retail Development Act of 2002." SB 403 would worsen the tax climate along our densely populated eastern border with Missouri and provide out-of-state retailers with another significant advantage over their Kansas competitors. SB 403 should be called, "The western Missouri Retail Development Act of 2004," as long as this sales tax hike is contained within this bill.

3) Raising Property Taxes Statewide

SB 403 stays within the constitutional boundaries and only proposes a 1 mill tax hike on the statewide mill levy. The Kansas Supreme Court has ruled that the legislature's hands cannot be tied for over two years in placing a statewide property tax levy. The governor's proposal includes two 1 mill property tax hikes in addition to the continuing, automatic tax hikes occurring through the property tax appraisal process. If the governor's proposed property tax hike is fully phased in the rate will be 10 percent higher than current law. Raising Kansas property taxes should be rejected by the legislature and this committee.

4) Spend, Spend, Spend

SB 403 would significantly increase state spending on the Kansas system of public schools. There is no factual justification for making this increase when you compare Kansas spending on K-12 public schools with the surrounding states. This is a fact that can be verified by federal data on school spending and national surveys for our five state region.

Federal data (see Census data: www.census.gov/govs/state/01stataess.xls) showed that despite Kansans having lower income we have already been spending more per person than all of our neighbors for a number of years. We have also been spending more than the U.S. average. Here's the spending per person (please note, this not per pupil):

	2001 per capita <u>School Dollars</u>
Kansas	\$1,485.64
U.S. Avg.	\$1,315.35
Colorado	\$1,193.31
Missouri	\$1,141.19
Nebraska	\$1,211.20
Oklahoma	\$1,434.90

At the beginning of 2004 Education Week posted a nationwide survey of public schools that included a spending component and an equity of funding component. Here's how Kansas rated in this survey and in our five state region:

	<u>Funding Adequacy</u>	<u>Funding Equity</u>
Kansas	80	80
Colorado	71	70
Missouri	75	71
Nebraska	87	68
Oklahoma	76	81

Education Week scored this survey with 93-100=A; 90-92=A-; 87-89=B+; 83-86=B; 80-82=B-; 77-79=C+; 73-76=C; 70-72=C-. For an article on this report see the Wichita Eagle, January 8, 2004, P. 1.

Kansas scored second highest in our five state region in both adequacy and equity. This is despite the two legislative post audit reports indicating that Kansas scored rather poorly in actually getting the massive amount of tax funds spent on K-12 into Kansas public school classrooms (see LPAC 02-04 and February 2002 update).

The Augenblick and Myer report on school finance and the Bullock opinion both fail to compare Kansas spending on public schools with our neighboring states. If a comparison had been made, the conclusions reached by both documents would be invalidated. Any comparison of the recent public school spending data will show that the spending in Kansas is well above most of our neighboring states.

5) The Total Impact

SB 403 expands taxes and state spending at a time that this state is trying to recover from a major economic downturn. This bill would make our bad economic situation worse. The Flint Hills Center for Public Policy indicates that passage of the income and sales tax hike components of SB 403 would cost Kansas close to 4,000 jobs according to their economic model. Kansans and Kansas cannot afford more taxes. Kansas cannot take the risk of job losses due to taxes.

Americans are over taxed. If you doubt this claim look at Oregon where 60 percent of the voters on February 3, 2004 voted to reject \$800 million in higher income and other taxes in a statewide tax referendum.