

MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 1:40 p.m. on February 3, 2004 in Room 123-S of the Capitol.

All members were present except:
Senator Anthony Hensley (excused)

Committee staff present:
Kathie Sparks, Legislative Research
Theresa Kiernan, Office of the Revisor of Statutes
Judy Steinlicht, Committee Secretary

Conferees appearing before the committee:
Dr. Sylvia Robinson, Office of the Governor
Joan Wagon, Secretary, Department of Revenue

Others attending:
See Attached List

Joint Meeting with Assessment & Taxation Committee

Chairman Umbarger welcomed members of the Assessment and Taxation Committee and also the members of Senator Allen's committee on Election and Local Government who were present.

Overview on the Governor's School Finance Plan (Education First Plan)

Dr. Sylvia Robinson gave an outline of the Governor's School Finance Plan in **SB403**, known as Education First Plan. The plan emphasizes continued and enhanced investments in early learning, K-12 and postsecondary education. **SB403** recognizes only the K-12 school finance portion of the Governor's Education First Plan. **SB403** in the next three years will, 1) increase the base state aid per pupil by \$250.00; 2) increase the at-risk weighting factor from 10% to 25%; 3) increase the bilingual weighting factor from 20% to 25%; 4) lower the threshold to receive correlation weighting from 1725 to 1700 students; 5) equalize capital outlay resolutions up to 4 mills under the state bond and interest state aid formula; 6) increase funding for optional all-day kindergarten using an incremental plan based on the percentage of students eligible for free and reduced price lunches; and 7) by July 1, 2007 require all school districts to provide a health care benefits program for all employees with districts paying the cost of a single membership for participants.

Dr. Robinson advised that **SB403** does not include the additional resources for Parents-as-Teachers, teacher mentoring, and school efficiency reviews, but additional funds are being requested for these areas and these items will be addressed as budgetary issues. The Governor has recommended a new initiative, School Efficiency Reviews, to perform business audits and encourage best business practices for school districts across the state. Resources saved as a result will go back into the classroom.

Dr. Robinson told the Committee that special education funding was not included as part of the base budget as initially proposed. Funding for special education will remain as recommended in the current K-12 service budget. They believe there are a variety of models to more adequately fund special education. This issue requires more intense review and they have requested Representative Decker and the Select Joint Committee on School Finance to investigate and hear testimony regarding alternative methods for the distribution of special education funds and make a recommendation to be included in future funding formulas.

Dr. Robinson said the priorities identified in **SB403** and the Education First Plan were greatly influenced by the work of the Education Policy Team in 2003. They recognize this is still a challenging economic time for the state, but believe that an investment in quality education continues to be the best economic investment Kansas can make. (Attachment 1)

Dr. Robinson introduced Secretary of the Department of Revenue, Joan Wagon, to outline the revenue

CONTINUATION SHEET

MINUTES OF THE SENATE EDUCATION COMMITTEE at 1:40 p.m. on February 3, 2004 in Room 123-S of the Capitol.

plan needed to support this enhanced K-12 plan.

Secretary Wagon used handouts to explain the tax portion of the Education First Plan. The first handout shows the proposed changes in tax rates and amounts to be raised. The Governor recommended a package of tax increases that total \$314.7 million dollars to fund the Education First Plan. The rate of sales tax would increase from the current 5.3% to 5.5% in FY 05; 5.6% in FY 06; and 5.7% in FY 07. This would raise a total of \$159.7 in new tax dollars.

In addition to sales taxes, Kansas would add a 5% surcharge to the individual income tax that would collect an additional \$105.0 million dollars beginning in FY 05 and forward.

The mill levy for schools would increase by one mill in FY 06 and another mill in FY 08, for a total of \$50 million from property taxes.

Secretary Wagon advises that Kansas tries to keep the three main taxes, property, income and sales tax in balance, roughly one-third each. Property tax at this time is the largest share at 31.57% and income tax being the smallest portion of the three at 21.8%. The Education First tax package will adjust taxes to even out the three taxes to approximately one-third each. In constructing the new tax package, the Governor did not want to single out any particular segment of the tax paying public, such as business, but preferred to use taxes everyone pays, because everyone benefits from education.

Secretary Wagon told the Committees that if the Legislature changes the mix of taxes, Governor Sebelius would work with the Legislature as long as the burden falls fairly. It is the Legislature's decision on how to structure the tax plan and the Department of Revenue will work with anyone exploring the options and would make information available to them. The Governor believes the size of this tax package will meet the constitutional requirement of providing a "suitable" education and the No Child Left Behind federal mandate. (Attachment 2)

The floor was opened for questions. The question was asked whether the Legislature should appeal Judge Bullock's ruling or should the Legislature approve a plan, whether it be the Governor's plan or another plan, when both the plaintiff and defense attorneys say the Governor's plan does not meet the judge's ruling. Secretary Wagon & Dr. Robinson believe the Governor's plan does address the Judge's opinion. It was added in discussion that it was believed that Judge Bullock would not require this to be done in one year; that he would work with the Governor's proposal, that the Judge was not tied to one billion dollars in one year; and that there would be some flexibility.

It was asked if the Governor's proposed tax increase was encompassed in **SB403** and it was answered that it was. It was asked if the Governor was concerned with having two subjects in one bill and violating the constitution. The answer was that it has been done before and the subject is all education. Secretary Wagon said the question should be directed to the Revisor's office. The bill includes a property tax increase of 1 mill in 2006 and 1 mill in 2008, over a period 4 years when the Constitution limits a property tax levy to a 2 year period of time. Secretary Wagon said the Governor felt it was important to lay out a three year plan and she realized it would have to be re-enacted.

After question & discussion about where the definition for "suitable" education originated, it was determined that the Legislature defined "suitable" education for purposes of the Augenblick & Myers Study. They did not define "suitable" education for purposes of the K-12 education system in Kansas. The Legislative Education Planning Committee then recommended some embellishment of the definition in terms of school counselors, librarians, nurses, etc. The Legislative Coordination Council approved that total definition and that is what A&M used for their study.

The Revisor's office provided a handout of the section of the Kansas Constitution containing the definition of what a suitable education is and the provision for financing education in Kansas. (Attachment 3)

Chairman Umbarger thanked Dr. Robinson and Secretary Wagon for their presentation and the

CONTINUATION SHEET

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Assessment & Taxation Committee and the Election and Local Government for joining in the meeting.

Adjourned at 2:30 p.m. The next meeting is scheduled for February 4, 2004.

SENATE EDUCATION COMMITTEE GUEST LIST

DATE - 2-3-04

NAME	REPRESENTING
Charles Hahn	Hein Law Firm
Ympy Duskes	DOB
Kent Kusan	USA
Bill Wagner	KS BOE
Connie Morris	KSBOE
Sue Gombke	KSBOE
Stuart Little	Shannon Mission #512
Danielle Noel	Johnson County
Jordan Brastrom	Axtell Junior High
James Shaughnessy	Axtell Junior, Senior High
Nathan M. Hallis	Axtell Jr. High School
Steve O'Neil	Axtell Jr.-Sr. High School
Trent Ludwig	Sen Pres Off
Dan Kerr	"
Sam Sellers	Sen. Publisher
Jeremy Anderson	Governors Office
Gavin Young	Secy of Administration
Pat Rehman	BKCF
April Holman	Kansas Action for Children
TERRY HOWREN	KS Farm Bureau
Ashley Sherard	Lenexa Chamber of Commerce
Jan Scoggins-WHITE	Rep. 118 th Dist
BILL Brady	SFFF

SENATE EDUCATION COMMITTEE GUEST LIST

DATE - 2/3/2004

NAME	REPRESENTING
ERIC SEXTON	WSU
Denise Apt	USD #500
Bernie Kach	Wichita Area Chamber
JOYCE CASSIMANNO	Ks Children's Cabinet
Wes Ashton	Overland Park Chamber
Mark Desetti	KNEA
Val DeFever	Schools for Quality Ed.
Mary George	Olathe District Schools
Dodie Weelshel Johnson	Patrick Hurley Co.
Heather Deric	Damon + Associates
Bob Vancouver	USD 229 Greater KC Chamber
Cathy Bennett	Greater KC Chamber
Mark Tallman	KASB
Scott Rishchid	Lawrence Journal-World
Ric Anderson	Topeka Cap-Journal
John Milburn	HP
KEN RANJES	KS Building Industry Assn.
Raul Petrojohu	KS Taxpayers Network



K A N S A S

OFFICE OF THE GOVERNOR

KATHLEEN SEBELIUS, GOVERNOR

Testimony on Governor's Education First Plan Joint Senate Tax and Education Committees February 3, 2004

Mr. Chairman and members of the Committee:

Thank you for the opportunity to appear before you to outline the provisions provided for in Senate Bill 403.

As you know, the key to unlocking the door to the American dream is a progressive, quality education system, where every child enters school ready to succeed and leaves on a path to a productive future. Gone are the days when our children could drop out of school or obtain a high school diploma and secure a job in an industrial economy that allowed them to adequately support themselves and their families. We have quickly moved into what is now known as a knowledge-based economy, which requires higher levels of proficiency and education than ever before in the history of our country. It is not an overstatement to say that the very future of our Kansas economy is dependent on the preparation of our students today. We believe, therefore that investing in our children's future is the best long-term economic development strategy a state can have.

The Education First Plan as outlined in the Governor's January 12 State of the State address, advocates for a system of education in Kansas which recognizes that development begins at birth and continues through postsecondary education. The Education First Plan emphasizes continued and enhanced investments in early learning, K-12 and postsecondary education. However, this bill, SB403 represents only the K-12 School Finance portion of the Governor's Education First Plan.

SB403 will do the following over the next three years:

- Increase the Base State Aid Per Pupil by \$250.00
- Increase the At-risk Weighting factor from 10% to 25%
- Increase the Bilingual Weighting factor from 20% to 25%
- Lower the threshold to receive Correlation Weighting from 1,725 to 1,700 students
- Equalize Capital Outlay resolutions up to 4 mills under the state bond and interest state aid formula

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Senate Education
2-3-04
Attachment 1

- Increase funding for Optional All-day Kindergarten using an incremental plan based on the percentage of students eligible for free and reduced price lunches
- By July 1, 2007 require all school districts to provide a Health Care Benefits program for all employees with districts paying the cost of a single membership for participants

This bill does not include the additional resources targeted for Parents –as- Teachers, Teacher Mentoring, and School Efficiency Reviews. However, we are requesting additional resources for these areas, which will be addressed as budgetary issues. Initiatives such as Parents-as-Teachers and Teacher Mentoring provide benefits for all children regardless of their level of income by providing the necessary support for parents and teachers involved in the education of our students. Given that 30% of new teachers in Kansas leave the profession within the first three years of teaching, teacher-mentoring programs are critical to maintaining a quality workforce as required by NCLB. In addition, we have recommended a new initiative, School Efficiency Reviews, to perform business audits and encourage best business practices for school districts across the state. Resources saved as a result of the reviews will go back into the classrooms. These audit teams will be located in the division of budget and will use protocols developed by an outside team of professionals.

In addition, you will notice that special education funding has not been included as part of the base budget as initially proposed. Instead, funding for special education will remain as recommended in the current K-12 service budget. Our intent was to spur discussion as to whether it was time to move from funding based on teachers, to funding based on the number of students. As you know there are a variety of models one could use to more adequately fund special education. However we have determined that this issue requires more intense review and have therefore, requested of Representative Decker, that the Select Joint Committee on School Finance investigate and hear testimony regarding alternative methods for the distribution of special education funds and make a recommendation to be included in future funding formulas.

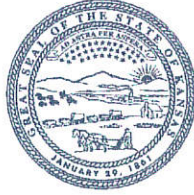
It is important to emphasize that the priorities identified in this bill and the Education First Plan were greatly influenced by the informed work of the Education Policy Team (EPT) and the subsequent priorities identified by the public this fall. The twenty-seven member Education Policy Team was appointed by the Governor in January, 2003 and met twice a month from February through June. The team reviewed state and national data in the areas of student performance, leadership development and cost and efficiencies to identify education priorities to insure Kansas remained a leader in education nationally. In September 2003, eight regional meetings were held across the state to seek public input related to

the EPT priorities. The recommendations offered by the EPT and forum participants provide the framework for the Governor's Education First plan.

This plan also focuses on areas impacted by the No Child Left Behind (NCLB) legislation and its emphasis on greater levels of accountability for the academic performance of all students. When data were reviewed related to student performance, we found that overall Kansas's students score very well on achievement tests. However, when data were disaggregated, we saw a different picture based on the level of income and race and ethnicity of the student. For, instance, recent fourth grade reading scores (NAEP) revealed that 45% of those eligible for free or reduced lunch scored below basic. Similar alarming results were noted based on minority group representation. Federal legislation requires us to bring the level of performance of all students to proficient and above. Therefore, this plan is recommending increased funding for at-risk and bilingual students. We also believe this plan to be a proactive approach to pending decisions based on recent litigation.

We recognize that these are still challenging economic times for the state. However, we strongly believe that an investment in quality education opportunities continues to be the best economic investment Kansas can make. Within the scope of existing resources, we are able to provide new money for Smart Start, the majority of K-12 funding, and Postsecondary Education funding such as targeted resources to begin a three-year completion of the 1999 SB345 commitment and additional resources to fund vocational-technical schools, university operating grants, and student financial aid programs are all included as part of the current services budgets. However, if we are to make the necessary improvements in K-12 education, additional resources will be required. Secretary Wagon will outline the revenue plan needed to support this enhanced K-12 plan.

I appreciate this opportunity to testify and look forward to your support of SB403.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

Testimony on Governor's Education First Plan
Joint Senate Committees on Education and Assessment & Taxation
February 3, 2004

On behalf of the Governor, I'd like to thank you for arranging this special briefing on her Education First Plan. As Dr. Robinson said, my responsibility is to explain the tax portion of the plan. Please turn to the first handout, marked Education First Plan, (#1) that shows the proposed changes in tax rates and amounts to be raised.

The Governor is recommending a package of tax increases that total \$314.7 million dollars to fund the Education First plan. The rate of sales tax would increase from the current 5.3% to 5.5% in FY 05; 5.6% in FY 06, and 5.7% in FY 07. This would raise a total of \$159.7 in new tax dollars.

In addition to sales taxes, Kansas would add a 5% surcharge to the individual income tax that would collect an additional \$105.0 million dollars. This would apply to FY 05 and forward.

Finally, the mill levy for schools would increase by one mill in FY 06 and another mill in FY 08, for a total of \$50 million from property taxes.

Next, I'd like to give you some information about the mix of taxes currently imposed in Kansas to help show why this particular mix of taxes was chosen. (There are a number of charts and tables in your packet which I'll refer to by number.)

Most of you are familiar with Kansas Tax Facts, compiled by Legislative Research. Certainly the tax committees, and most legislators, know that Kansas tries to keep the three main taxes, property, income and sales in balance – roughly one-third each. The most recent Tax Facts shows that property taxes are an increasingly larger share, (31.57% in FY2003) with income taxes being the smallest portion of the three (21.81%).

2. Combined State and Local Tax Revenue (from Tax Facts, 2003)
3. Bar Graph: Property, Sales and Income Taxes as a Percent of Total Kansas State and Local Taxes, Fiscal Years 2000 and 2003

The next bar graph illustrates how the Education First tax package will impact those relationships among sales, income and property. Property taxes come down a little, sales taxes go up a little as does income tax. In order to get a distribution to approach 1/3 for each, income taxes would have to be a much more sizeable portion of the mix.

4. Bar Graph: Property, Sales and Income Taxes as a Percent of Total Kansas State and Local Taxes, Fiscal Years 2000, 2003 and 2007 Proposed

The next set of charts is from the Kansas Department of Revenue's FY2003 Annual Report.

5. Individual Income Tax Amount to the State General Fund after Refunds

The income tax has actually declined in the past 2 years. This happened in 46 states in the same period. Such a drop hasn't occurred since World War II, according to the Federation of Tax Administrators.

Sales taxes haven't grown much either. You can see how bad the recession was in FY2002, and you can also see the impact of the first tax increase in several years.

6. State Retailers Sales and Compensating Use Taxes Amount to the State General Fund.

Then by way of reference, you can see the relative proportions of all taxes collected.

7. Total Department of Revenue Collections by Source

Last, I'd like to show you the effect of tax cuts and tax increases over the past 10 years.

8. Estimated Effect of Tax Reductions and Increases since 1995

Tax reductions since FY1995 have reduced the state's income by \$891.3 million for FY 04. This reduction has been offset by tax increases in FY 03 of \$295 million, leaving a net reduction for FY 04 of \$596.3 million. Pay particular attention to property tax reductions, credits and exemptions which have been granted – all of which narrow the tax base.

These state reductions in both mill levy and demand transfers have allowed or forced local governments to raise property taxes, which are now too large a portion of the tax mix. Also, Local Option budgets for schools have grown substantially when the base budget was not raised. In fact, in 12 funding years the Base State Aid per Pupil increased only \$263, in contrast to the Governor's proposal to raise it an additional \$250 in 3 years. In that same 12 year period the mill levy dropped from 32 to 20 mills and a \$20,000 exemption for residential property was enacted in 1997.

9. School District Finance and Quality Performance Act; Primary Funding Program

In constructing the tax package we present today, the Governor expressly didn't want to single out any particular segment of the tax paying public, such as business, preferring instead to use taxes everyone pays, because everyone benefits from education. Hence, her decision not to include business taxes such as corporate income tax, or repealing some of the business exemptions gained in recent years. She also didn't want to adjust the income tax rates, and make the current income tax fall more heavily on any certain group, such as adding an extra upper bracket to the income tax.

To see how to calculate the income tax surcharge, turn to the K-40 in the income tax booklet. Line 12 is the TOTAL KANSAS TAX. We will add an extra line: Education First Surcharge where taxpayers multiply line 12 by 0.05 or 5%. Credits for Food Sales tax refunds, Earned Income Tax credits, etc. will still apply.

This package of taxes is balanced, and consistent with current taxing philosophies. It fully funds the elements of the plan which is also balanced and responsive to education needs. However, if

you want to change the mix of taxes, Governor Sebelius will work with you as long as the burden falls fairly.

How to structure the tax package is the legislature's decision. Certainly the Department of Revenue will work with anyone who wishes to explore other options. We have all the numbers and will be happy to share them!

Finally, the size of this tax package is tied to the constitutional requirement of "suitability." The Governor looked closely at what schools needed to provide a suitable education and meet constitutional requirements as well as those of the No Child Left Behind federal mandate. You heard Dr. Robinson described the lengthy public input process that led to its development. Governor Sebelius believes this plan, funded as set forth today, will treat all children equitably and provide sufficient funds for a suitable education.

We will all stand for your questions. Thank you for your time and attention.

Education First Plan

Dollars are in Millions

Revenue Enhancements/ Economic Growth	FY2005	FY2006	FY2007	FY2008	TOTAL
Sales Tax Increase**	\$61.1	\$45.8	\$42.0	\$10.8	\$159.7
Income Tax Education Surcharge***	\$97.5	\$2.5*	\$2.5*	\$2.5*	\$105.0
School Mill Levy Increase****		\$23.0	\$1.0*	\$26.0	\$ 50.0
Annual Revenue	\$158.6	\$71.3	\$45.5	\$39.3	\$314.7

*Indicates change in revenue associated with economic growth.

**Sales Tax Rate increases from the current 5.3% to 5.5% in FY 05, 5.6% in FY06, and 5.7% in FY07.

***Income Tax Education Surcharge is 5% on personal income only.

****School mill levy will increase by one mill in FY06, then one more mill in FY08.

Combined State and Local Tax Revenue

Kansas state and local government net tax revenue totaled \$8.774 billion in FY 2003, which equated to \$3,230 per capita and to 11.20 percent of Kansas personal income in CY 2002. Following are the tax levies or collections, combining state and local tax revenue, in descending order of importance for FY 2003.

Table 1
Kansas State and Local Taxes

	FY 2001	FY 2002	FY 2003	% of FY 03 Total	% increase from FY 02
General Property (a)	\$ 2,412,906	\$ 2,657,197	\$ 2,770,327	31.57%	4.26%
Sales and Use (b)	2,292,765	2,349,090	2,436,316	27.77	3.71
Income and Privilege	2,221,298	1,976,778	1,913,226	21.81	(3.21)
Motor Fuels	358,899	374,701	411,619	4.69	9.85
Various Vehicle (a) (c)	237,628	255,275	274,146	3.12	7.39
Unemployment Comp.	176,337	186,054	220,628	2.51	18.58
Vehicle Registration	147,726	148,779	165,351	1.88	11.14
Cigarette and Tobacco	52,876	52,342	133,760	1.52	155.55
Insurance Premiums	77,210	96,894	108,189	1.23	11.66
Liquor and Beer	77,531	81,380	83,791	0.96	2.96
Severance	109,180	59,871	78,253	0.89	30.70
Mortgage Registration	32,729	42,340	49,758	0.57	17.52
Estate/Inheritance	41,196	48,082	46,952	0.54	(2.35)
Corporation Franchise	16,927	18,519	31,089	0.35	67.88
Transient Guest	18,439	18,768	18,744	0.21	(0.13)
Motor Carrier Property	17,920	18,068	15,729	0.18	(12.95)
Intangibles (a)	5,022	4,779	4,258	0.05	(10.90)
Parimutuel	3,973	3,813	3,875	0.04	1.63
All Other (d)	6,253	5,896	7,828	0.09	32.77
Total	\$ 8,306,815	\$ 8,398,626	\$ 8,773,839	100.0%	4.47%

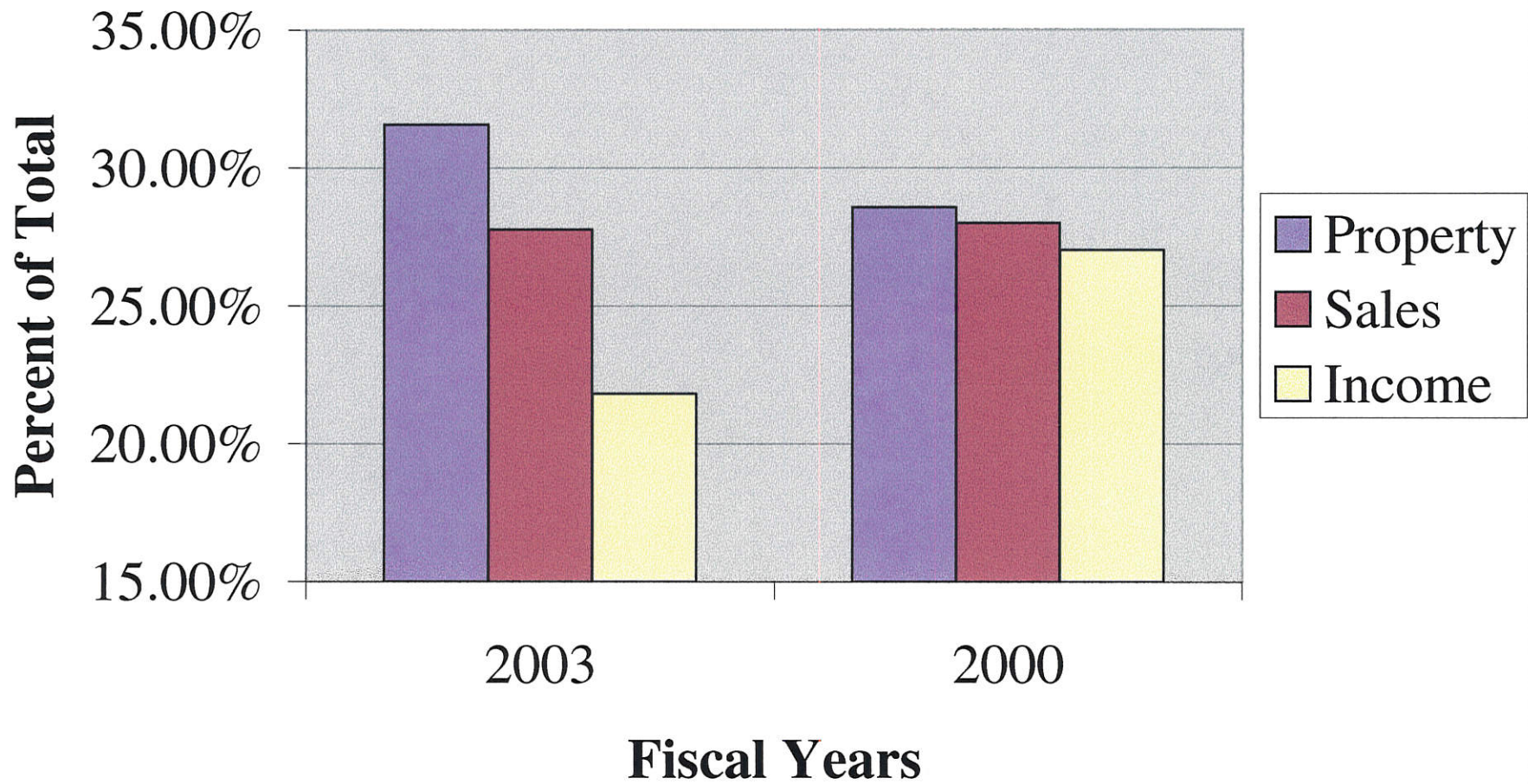
(a) Taxes levied for collection during the fiscal year.

(b) Includes state, county, city and municipal university sales and use taxes.

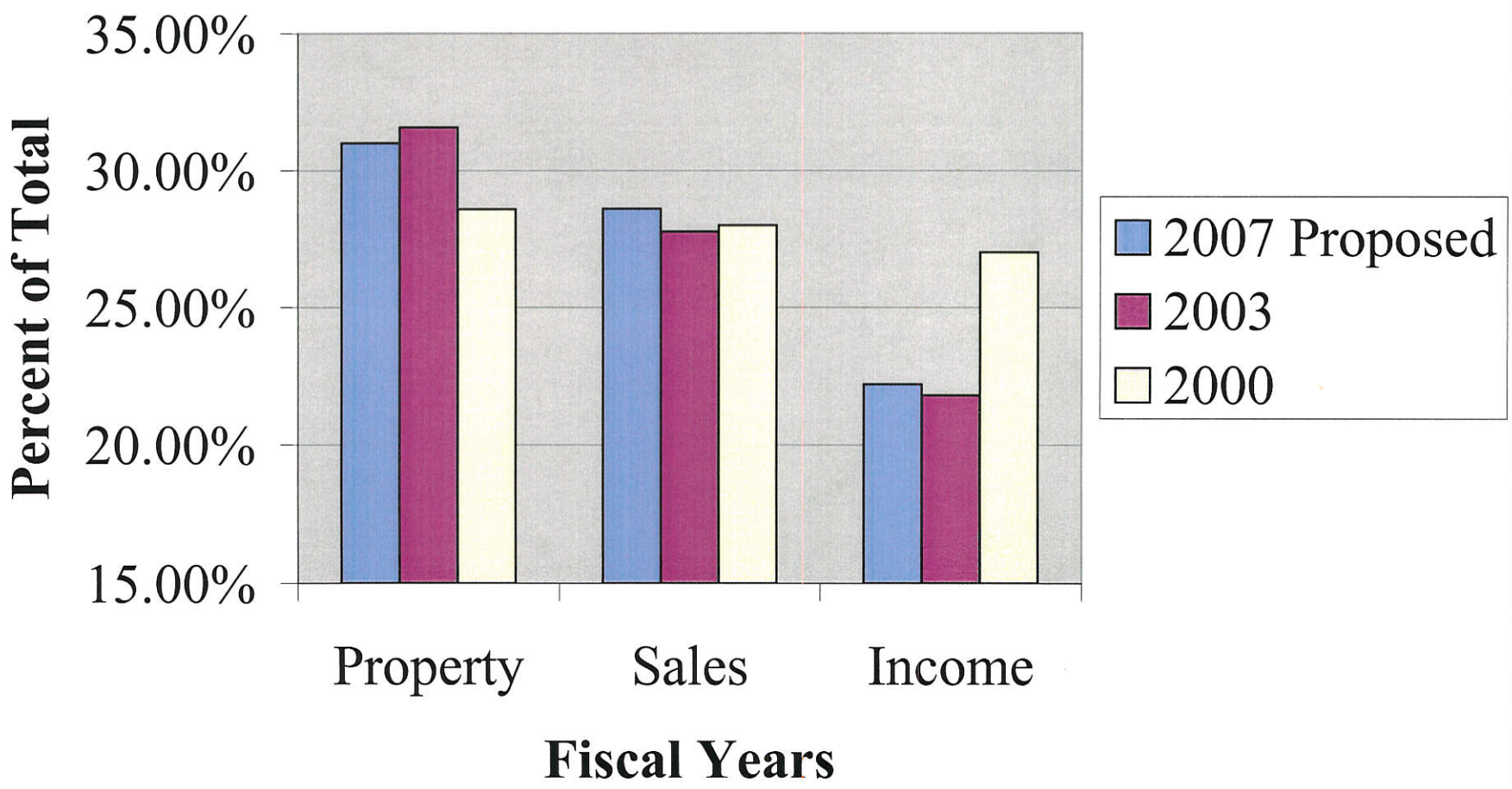
(c) Includes motor vehicle, recreational vehicle, 16m and 20m "tagged" vehicles, and rental car excise taxes.

(d) Total revenue from eight taxes, the largest of which for FY 2003 was the clean water drinking tax at \$2.760 million.

Property, Sales and Income Taxes as a Percent of Total Kansas State and Local Taxes



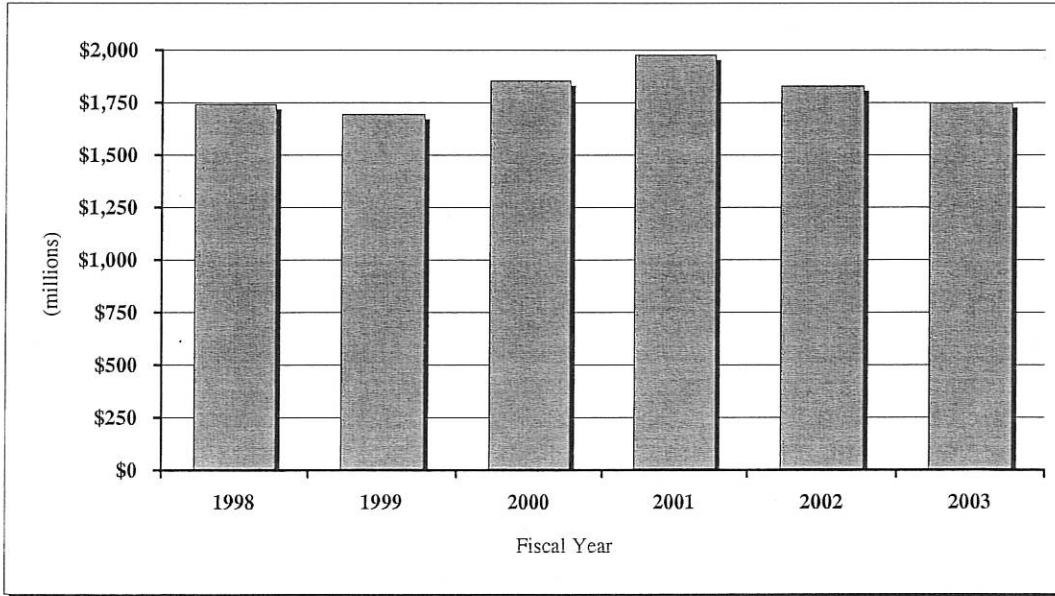
Property, Sales and Income Taxes as a Percent of Total Kansas State and Local Taxes



Individual Income Tax Amount to the State General Fund after Refunds

Individual income tax collections in Fiscal Year 2003 decreased 4.3% compared to Fiscal Year 2002.

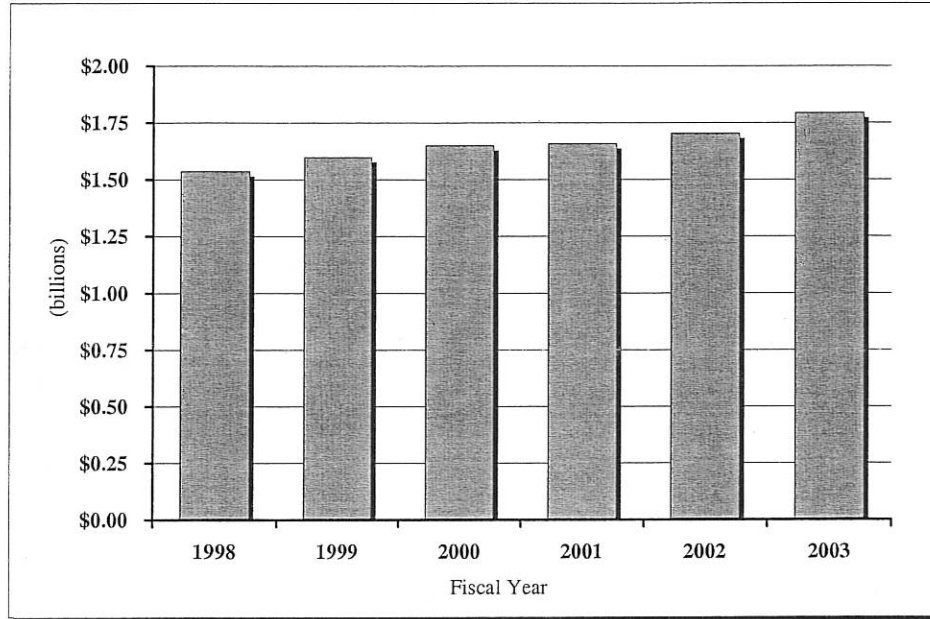
Kansas individual income tax rates by income brackets and filing status can be found on the Tax Rates table in this Annual Report.



<u>Fiscal Year</u>	<u>Amount Collected</u>	<u>Percent Change</u>
1998	\$1,742,284,575	14.2%
1999	\$1,694,832,146	(2.7%)
2000	\$1,854,725,737	9.4%
2001	\$1,977,341,638	6.6%
2002	\$1,829,611,161	-7.5%
2003	\$1,750,054,137	-4.3%

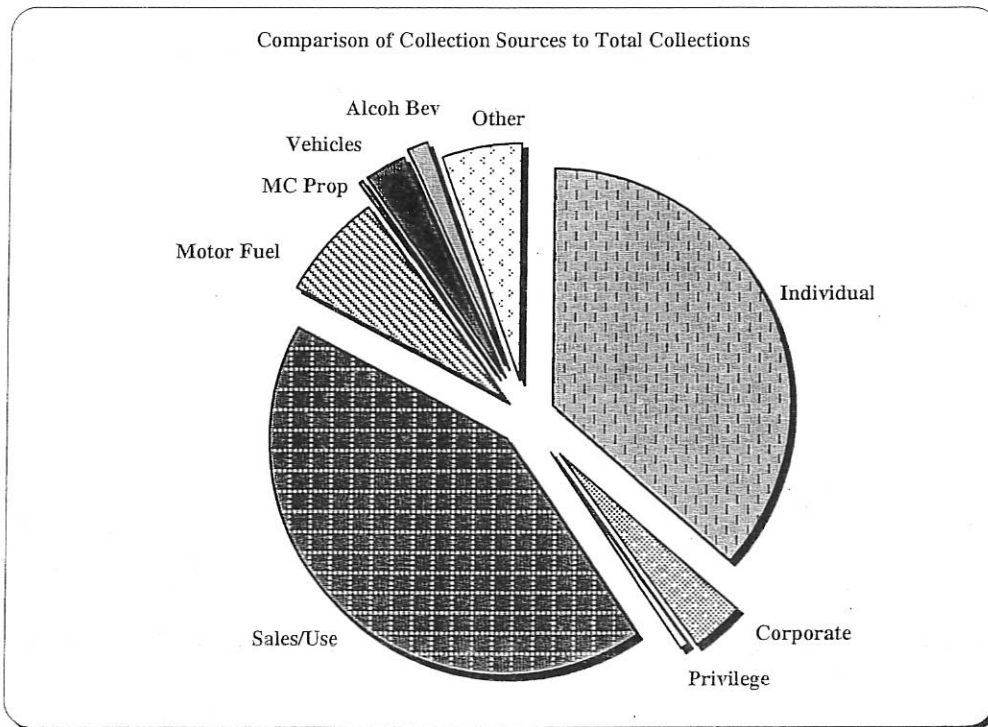
State Retailers' Sales and Compensating Use Taxes Amount to State General Fund

Statewide retailers' sales and compensating use taxes are applied to the sale of tangible personal property, and to specified services at retail. The compensating use tax includes consumers' use, retailers' use, and auto lease tax. The present state retailers' sales and compensating tax rate is 5.3%, effective July 1, 2002.



<u>Fiscal Year</u>	<u>State Sales</u>	<u>State Use</u>	<u>State Total</u>	<u>Percent Change</u>
1998	\$1,351,590,569	\$185,088,031	\$1,536,678,600	5.3%
1999	\$1,398,527,376	\$200,015,052	\$1,598,542,428	9.7%
2000	\$1,440,295,399	\$209,966,001	\$1,650,261,400	4.0%
2001	\$1,423,059,270	\$235,893,258	\$1,658,952,528	3.2%
2002	\$1,470,606,510	\$233,603,728	\$1,704,210,238	0.5%
2003	\$1,567,721,762	\$225,923,323	\$1,793,645,085	5.2%

Total Department of Revenue Collections by Source



Source	Fiscal Year 2002	Fiscal Year 2003	Percent Change	Percent of FY2003 Total
Individual Income Taxes	\$2,143,795,185	\$2,101,042,052	-2.0%	36.4%
Corporate Income Taxes	\$205,584,982	\$204,725,286	-0.4%	3.5%
Privilege Taxes	\$29,206,367	\$33,137,296	13.5%	0.6%
State and Local Sales and Use Taxes	\$2,358,382,659	\$2,442,600,272	3.6%	42.3%
Motor Fuel Taxes	\$381,593,249	\$417,801,358	9.5%	7.2%
Property Taxes: Motor Carrier	\$18,586,770	\$16,382,410	-11.9%	0.3%
Division of Vehicles	\$147,437,232	\$159,683,489	8.3%	2.8%
Alcoholic Beverage Control	\$84,219,315	\$87,032,088	3.3%	1.5%
Other Taxes and Fees	<u>\$207,472,215</u>	<u>\$316,775,215</u>	52.7%	5.5%
Total	\$5,576,277,974	\$5,779,179,466	3.6%	100.0%

Note: FY 2002 "Other Taxes and Fees" revised.

Other taxes and fees include: bingo; drycleaning; transient guest; cigarette; tobacco; controlled substances; estate; minerals; gas oil and sand royalties; car line; bonds; licenses; and fees.

Estimated Effect of Tax Reductions and Increases
Enacted since 1995
Dollars are in Millions

2-11

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Property Taxes:											
Car Tax Reductions	--	\$ 26.7	\$ 68.9	\$ 95.5	\$ 96.6	\$ 104.9	\$ 106.5	\$ 108.1	\$ 109.6	\$ 111.8	\$ 114.0
General Property Tax Reduction	--	--	\$ -	\$ 115.6	\$ 267.5	\$ 326.2	\$ 338.9	\$ 362.3	\$ 378.4	\$ 393.5	\$ 409.3
Property Tax Subtotal	\$ --	\$ 26.7	\$ 68.9	\$ 211.1	\$ 364.1	\$ 431.1	\$ 445.4	\$ 470.4	\$ 488.0	\$ 505.3	\$ 523.3
Income Taxes:											
Endangered Species Tax Credit	--	--	--	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ -	\$ -		
Tax Credit for Adoptions	--	--	--	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2
Single Income Rate Reductions	--	--	--	\$ 16.3	\$ 39.3	\$ 49.3	\$ 51.5	\$ 53.8	\$ 56.2	\$ 58.7	\$ 61.4
Increase Standard Deduction	--	--	--	\$ -	\$ 18.4	\$ 14.4	\$ 14.6	\$ 14.8	\$ 15.0	\$ 15.2	\$ 15.4
Increase Personal Exemption	--	--	--	\$ -	\$ 36.3	\$ 28.8	\$ 29.7	\$ 30.6	\$ 31.6	\$ 32.6	\$ 33.7
Tax Credit for Business Machinery	--	--	--	\$ -	\$ 7.0	\$ 10.8	\$ 13.0	\$ 18.0	\$ 22.0	\$ 24.0	\$ 25.0
Earned Income Tax Credit	--	--	--	\$ -	\$ 21.0	\$ 21.0	\$ 21.0	\$ 21.0	\$ 31.0	\$ 31.0	\$ 31.0
Food Sales Tax Rebate	--	--	--	\$ -	\$ 26.0	\$ 26.0	\$ 26.0	\$ 26.0	\$ 33.0	\$ 34.0	\$ 35.0
Oil Property Tax Credits	--	--	--	\$ -	\$ 1.5	\$ 4.8	\$ 2.8	\$ -	\$ -		
Alternative Fuel Credits	--	--	--	\$ -	\$ -	\$ 0.2	\$ 0.2	\$ -	\$ -		
Education Savings Program	--	--	--	\$ -	\$ -	\$ -	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0
Agriculture Loan Privilege Tax Credit	--	--	--	\$ -	\$ -	\$ -	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8
Farm Loss Carrybacks	--	--	--	\$ -	\$ -	\$ -	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4
Income Tax Subtotal	\$ --	\$ --	\$ --	\$ 19.1	\$ 152.3	\$ 158.1	\$ 166.8	\$ 169.6	\$ 194.2	\$ 201.0	\$ 206.9
Replace Inheritance Tax with Estate Tax	--	--	--	--	\$ 30.5	\$ 63.3	\$ 66.4	\$ 69.7	\$ 73.2	\$ 76.9	\$ 80.7
Sales Tax Exemptions for:											
New Construction Services	\$ 2.1	\$ 17.7	\$ 18.5	\$ 19.4	\$ 20.3	\$ 21.2	\$ 22.1	\$ 22.6	\$ 23.2	\$ 23.9	\$ 24.5
Utilities Consumed during the Production Process	\$ -	\$ 12.4	\$ 13.0	\$ 13.6	\$ 14.3	\$ 14.9	\$ 15.5	\$ 15.8	\$ 16.3	\$ 16.7	\$ 17.2
Residential Remodeling	\$ -	\$ -	\$ -	\$ -	\$ 14.7	\$ 16.6	\$ 17.3	\$ 17.7	\$ 18.2	\$ 18.7	\$ 19.2
Major Component Parts Exemption	\$ -	\$ -	\$ -	\$ -	\$ 1.4	\$ 1.6	\$ 1.7	\$ 1.7	\$ 1.8	\$ 1.8	\$ 1.9
Grain Storage and Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.1	\$ 0.8	\$ -	\$ -	\$ -	\$ -
Property Consumed in One Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Health Clinic Exemptions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2
Integrated Plant Exemptions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.9	\$ 4.0	\$ 4.1	\$ 4.2	\$ 4.3
Various Other Exemptions	\$ -	\$ 1.8	\$ 1.9	\$ 2.0	\$ 9.7	\$ 10.7	\$ 11.0	\$ 11.2	\$ 11.6	\$ 11.9	\$ 12.2
Sales Tax Subtotal	\$ 2.1	\$ 31.9	\$ 33.4	\$ 35.0	\$ 60.4	\$ 66.8	\$ 73.0	\$ 73.8	\$ 75.8	\$ 77.9	\$ 80.0
Severance Taxes:											
Production Exemptions	--	--	--	\$ -	\$ 2.7	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6
Insurance Premiums Taxes	--	--	--	\$ 1.5	\$ 21.6	\$ 26.6	\$ 28.6	\$ 24.1	\$ 19.6	\$ 15.0	\$ 12.0
Privilege Taxes					\$ 8.4	\$ 8.8	\$ 9.2	\$ 9.7	\$ 10.2	\$ 10.6	\$ 11.0
Total Tax Reductions	\$ 99.5	\$ 162.4	\$ 213.0	\$ 386.5	\$ 764.2	\$ 759.3	\$ 794.0	\$ 821.9	\$ 865.6	\$ 891.3	\$ 918.6
Cumulative Reductions	\$ 99.5	\$ 261.9	\$ 474.9	\$ 861.4	\$ 1,625.6	\$ 2,384.9	\$ 3,178.8	\$ 4,000.7	\$ 4,866.4	\$ 5,757.6	\$ 6,676.2
Tax Increases											
Cumulative Increases									\$ 252.0	\$ 295.0	\$ 304.0
Net Tax Reductions	\$ 99.5	\$ 162.4	\$ 213.0	\$ 386.5	\$ 764.2	\$ 759.3	\$ 794.0	\$ 821.9	\$ 613.6	\$ 596.3	\$ 614.6

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SCHOOL DISTRICT FINANCE AND QUALITY PERFORMANCE ACT Primary Funding Program
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Below is a summary of the substantive school finance amendments the Kansas Legislature has adopted since the new school funding formula's initial passage in 1992.

Base State Aid Per Pupil (BSAPP)

Following is a history of BSAPP:

School Year	BSAPP
1992-93	\$ 3,600*
1993-94	3,600
1994-95	3,600
1995-96	3,626
1996-97	3,648
1997-98	3,670
1998-99	3,720
1999-00	3,770
2000-01	3,820
2001-02	3,870
2002-03	3,863**
2003-04	3,863**

* In 1992-93, some school districts did not benefit fully from BSAPP at \$3,600.

** In 2002-03 and 2003-04, the statute states that the BSAPP is \$3,890; however, \$3,863 was funded.

Decreasing Enrollments

1993: An amendment provided that districts with declining enrollments could add one-half of the number of pupils by which the district had decreased. A cap was placed at all declines in enrollment of 4% or more.

1997: Replaced 1993 amendment, providing that a district with declining enrollment could use the enrollment of the preceding school year. Under this provision, the low enrollment and correlation weights of the preceding year are used. All other weights are determined on a current year basis.

1999: Augmented 1997 decreasing enrollment amendment, allowing school districts to average the current school year and the two immediately preceding school years when determining the district's general fund budget should this method yield an enrollment greater than either the current or the immediately preceding school year.

2002: Disaster amendment adopted. If the SBOE determines a disaster (flood, earthquake, tornado, wind, drought, blight, or infestation) had contributed to an enrollment decrease, the enrollment of the district in the second school year following the disaster will be determined on the basis of a four-year average of the current school year and the preceding three school years.

Low Enrollment Weight.

1995 Amendment: Changed application of the low enrollment weight from all school districts with under 1,900 enrollment to all districts under 1,800 enrollment, to be phased in over a four-year period, as follows: under 1,875 in 1995-96, 1,850 in 1996-97, 1,825 in 1997-98, and 1,800 in 1998-99 and thereafter.

1997 Amendment: Accelerated the foregoing schedule so that as of July 1, 1997, the low enrollment weight provision was applicable to school districts with under 1,800 enrollment. The law since has been amended in both 1998 and 1999. (See table below.)

School Year	Low Enrollment Weight Threshold
1992-93	under: 1,900
1993-94	1,900
1994-95	1,900
1995-96	1,875
1996-97	1,850
1997-98	1,800
1998-99	1,750
1999-00	1,725
2000-01	1,725
2001-02	1,725
2002-03	1,725
2003-04	1,725

The formula for computing the low enrollment weight for those districts to which the weight applies has not changed. (For districts of 1,725 to 1,899 enrollment, low enrollment weight was replaced by the "new" correlation weight (discussed below).)

Correlation Weight.

All changes in correlation weight and the amendments passed were in direct relation to the amendments passed altering the definition of low enrollment weight. Any change in the low enrollment weight and district qualifications is reflected in the changes administered to the correlation weight (see table below).

School Year	Correlation Weight Threshold	Correlation Weight (Percent)
1992-93	None	0.0
1993-94	None	0.0
1994-95	None	0.0
1995-96	1,875 and over	0.9031
1996-97	1,850	1.8062
1997-98	1,800	3.6121
1998-99	1,750	5.4183
1999-00	1,725	6.3211
2000-01	1,725	6.3211
2001-02	1,725	6.3211
2002-03	1,725	6.3211
2003-04	1,725	6.3211

General Fund Property Tax Rate

1997 Amendment: Provided for exemption of \$20,000 of the appraised valuation of residential property from application of that levy. Subsequent legislation in 1998, 1999, and 2001 extended this provision through the 2003 school year.

All other amendment altering the General Fund Property Tax Rate are shown below.

History of Uniform General Fund Mill Rate

Tax Year	Rate (Mills)
1992	32
1993	33
1994	35
1995	35
1996	35
1997	27*
1998	20*
1999	20*
2000	20*
2001	20*
2002	20*
2003	20*
2004	20*

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* Plus \$20,000 residential property appraised valuation exemption.

At-Risk Pupil Weight.

2001 Amendment: Directed that an amount equal to 0.01 be used by the district for achieving mastery of basic reading skills by completion of the third grade in accordance with standards established by the State Board of Education.

All other shifts in At-Risk Pupil Weight are shown below.

School Year	At-Risk Pupil Weight (Percent)
1992-93	5.0
1993-94	5.0
1994-95	5.0
1995-96	5.0
1996-97	5.0
1997-98	6.5
1998-99	8.0
1999-00	9.0
2000-01	9.0
2001-02	10.0*
2002-03	10.0*
2003-04	10.0*

* 1.0 percent is targeted at mastery of third grade reading skills.

Funding For Consolidated Districts

2002 Amendment: Provided that a school district which was enlarged due to disorganization of one district and its attachment to the enlarged district would be entitled to State Financial Aid (school district general fund budget) in the current school year equal to the State Financial Aid of the districts as they were defined in the year preceding the disorganization and attachment. For the next three school years, the district will be entitled to the amount of State Financial Aid it received in the preceding year under this provision or the amount of State Financial Aid the district would receive under operation of the school finance formula in that year, whichever was greater.

Constitutional provisions relevant to school finance litigation:

Kan. Const. Article 6:

“Section 1. Schools and related institutions and activities.
The legislature shall provide for intellectual, educational, vocational and scientific improvement by establishing and maintaining public schools... which may be organized and changed in such manner as may be provided by law.”

“Section 2. State board of education and state board of regents.
(a) The legislature shall provide for a state board of education which shall have general supervision of public schools... and all the educational interests of the state, except educational functions delegated by law to the state board of regents.”

“Section 5. Local public schools. Local public schools under the general supervision of the state board of education shall be maintained, developed and operated by locally elected boards...”

“Section 6. Finance. ... (b) The legislature shall make suitable provision for finance of the educational interests of the state. No tuition shall be charged for attendance at any public school to pupils required by law to attend such school, except such fees or supplemental charges as may be authorized by law...”

Section 1 of the Kansas Bill of Rights:

“All men are possessed of equal and inalienable natural rights, among which are life, liberty and the pursuit of happiness.”

Senate Education
2-3-04
Attachment 3