

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 11, 2006 in Room 519-S of the Capitol.

All members were present except:
Representative Nile Dillmore - excused

Committee staff present:
Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
Dr. Art Hall, Kansas University

The Chairman called for bill introductions.

Representative Decker requested that a House Concurrent Resolution be introduced which would provide a constitutional amendment that would freeze property values at the current level only allowing them to increase at the rate of inflation until the property is sold. Representative Goico made the motion to introduce the HCR and Representative Kinzer seconded the motion. The motion carried.

Representative Treaster moved to introduce a Committee bill that would grant Reno county the authority to raise their local sales tax to build a jail. Representative Kirk seconded the motion and the motion carried.

Representative Siegfried made a motion regarding an act relating to property tax exemption for certain commercial and industrial machinery and equipment. Representative Goico seconded the motion. The motion carried.

Representative Siegfried moved to introduce a bill regarding an exemption and partial credit regarding certain digital television and radio equipment. Representative Wilk seconded. The motion carried.

Representative Huff introduced his intern, Heather O'Hara, a student at the University of Kansas.

The Chairman introduced Dr. Art Hall, The Center for Applied Economics, School of Business, University of Kansas.

Dr. Art Hall, presented a report on Local Government and the Kansas Productivity Puzzle (Attachment 1). The productivity puzzle was discovered a year ago, at the Center for Applied Economics. Through the puzzle, it was determined that the state economy of Kansas lagged behind both the nation and the region in terms of productivity growth.

He explained comparable data on the seven Plains states: Kansas, Missouri, Iowa, Nebraska, Minnesota and the Dakotas, in trends of economic growth and labor productivity. He explained why Kansas has low productivity and suggested three important considerations for the Committee's perusal:

- Productivity growth is a process that requires continual trial and error on the part of individual businesses.
- State leaders should focus on creating a policy environment that allows for maximum business experimentation at the least possible cost.
- More investigation is required to determine if the overall policy mix in Kansas deters capital investment and new business starts.

CONTINUATION SHEET

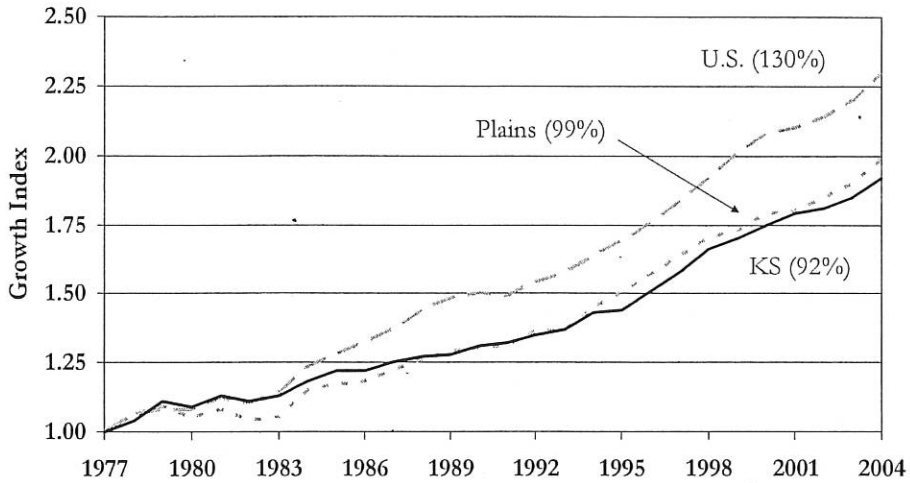
MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 11, 2006 in Room 519-S of the Capitol.

He explained several driving forces that attracted businesses to Kansas and an anatomy of the growth of State and Local Government. He responded to Committee questions concerning the best capital investments to be made for Kansas and differences between his data and other reports. Due to the volume of remaining questions from the Committee, the Chairman suggested that Dr. Hall would be invited back for further discussion.

The meeting adjourned at 10:30 A.M. The next meeting is January 12, 2006.

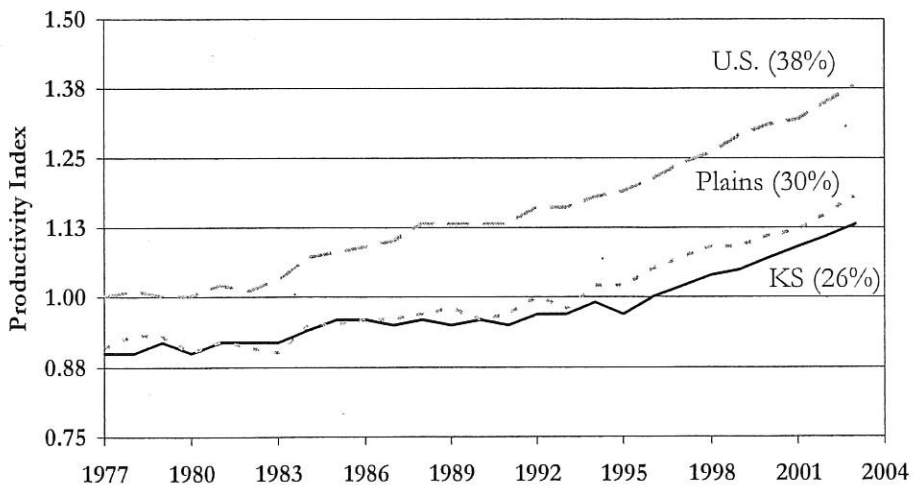
Trends in Economic Growth (GSP)

Kansas Lags the U.S. and the Plains States



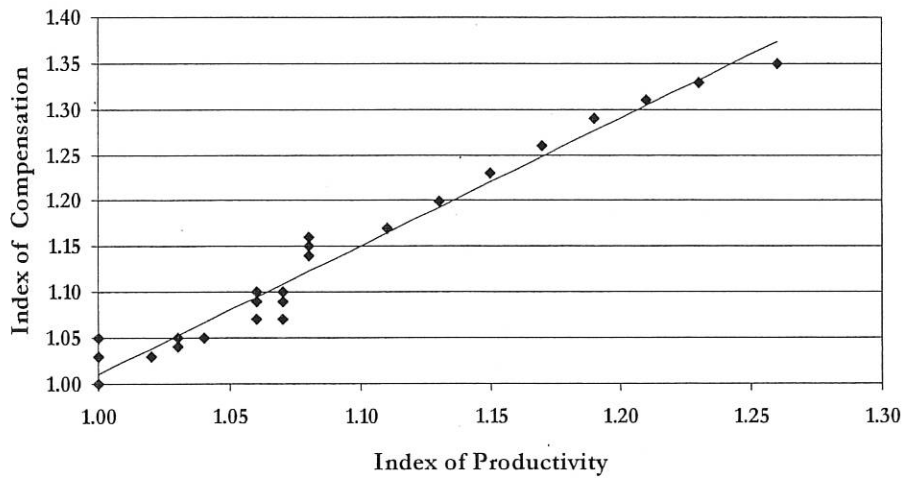
Trends in Labor Productivity

Kansas Lags the U.S. and the Plains States



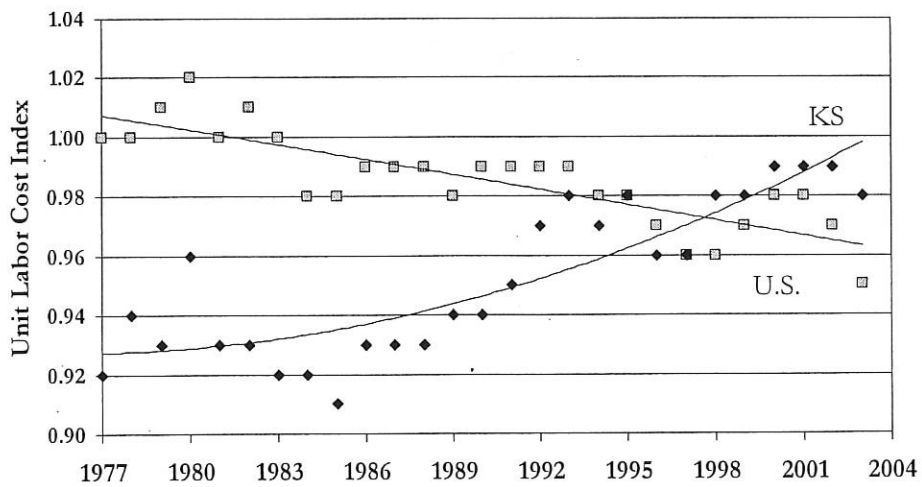
Productivity Drives Wages

98% Correlation in KS: 1977 to 2003



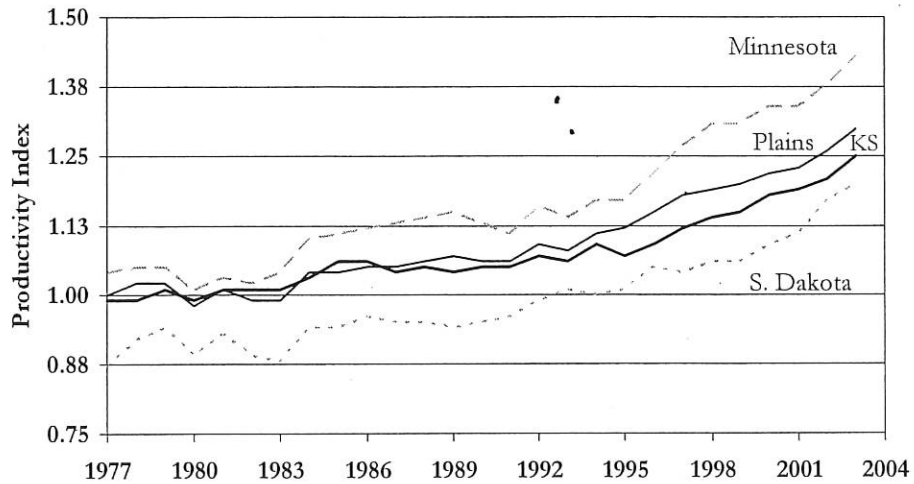
Kansas Has Lost Its Cost Advantage

Unit Labor Cost = Compensation/Productivity



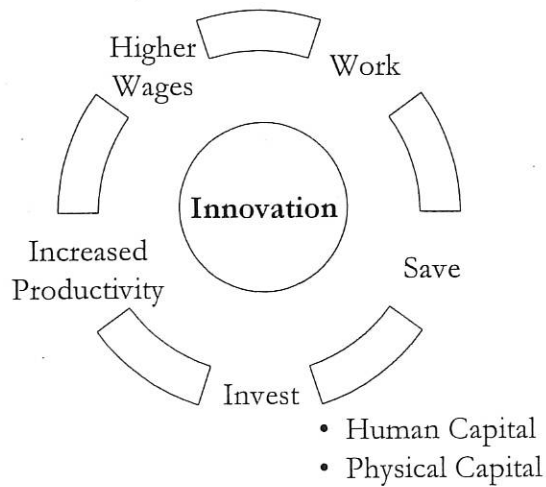
Productivity in the Plains

Convergence and Divergence



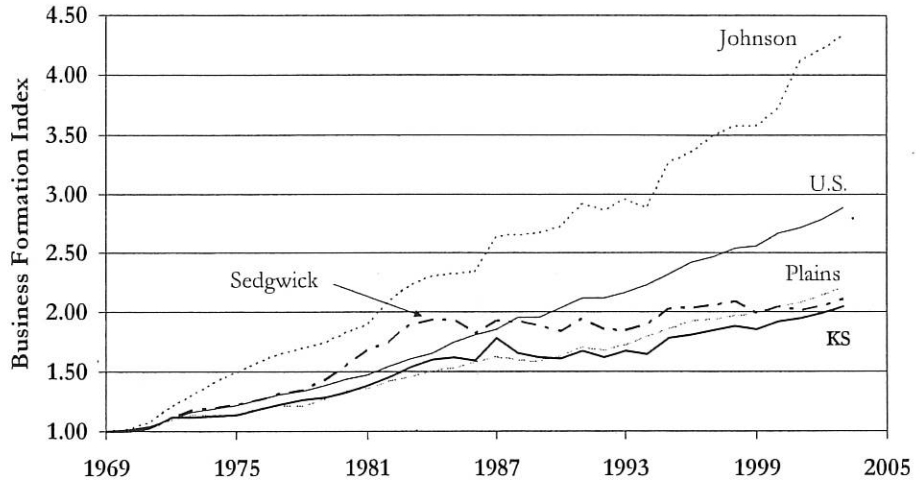
Why Does KS Have Low Productivity?

The Economic Growth Process



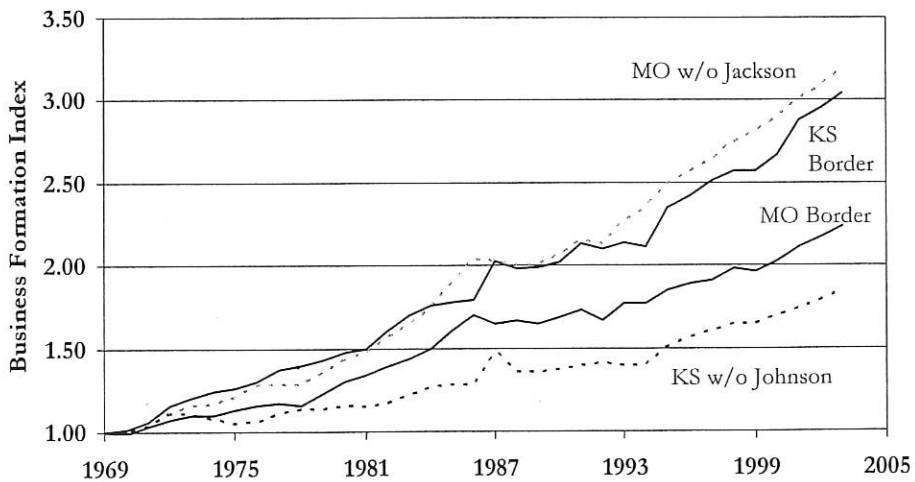
Rate of New Business Formation

Does Kansas Have a Poor Investment Climate?



New Businesses Along the KS-MO Border

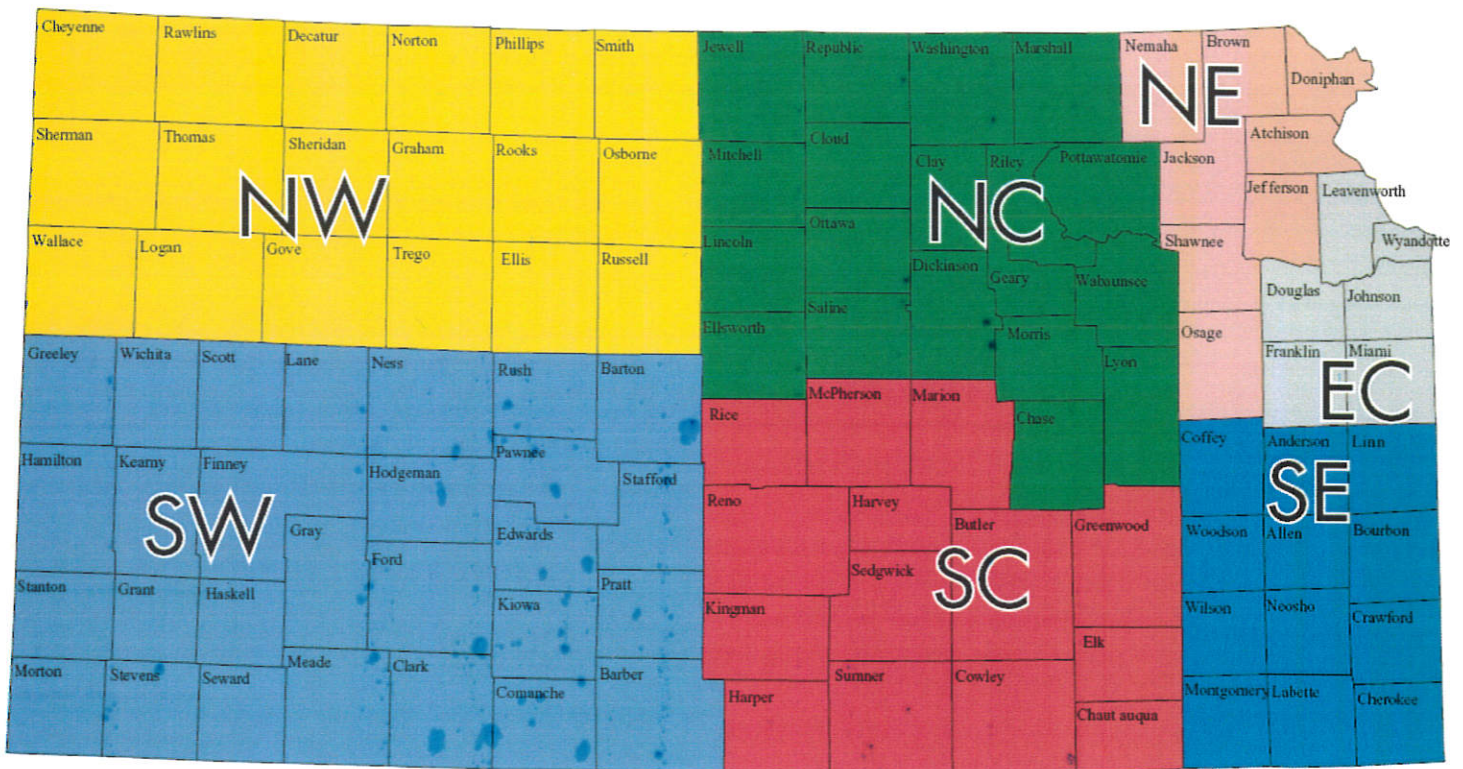
Does Kansas Have a Poor Investment Climate?



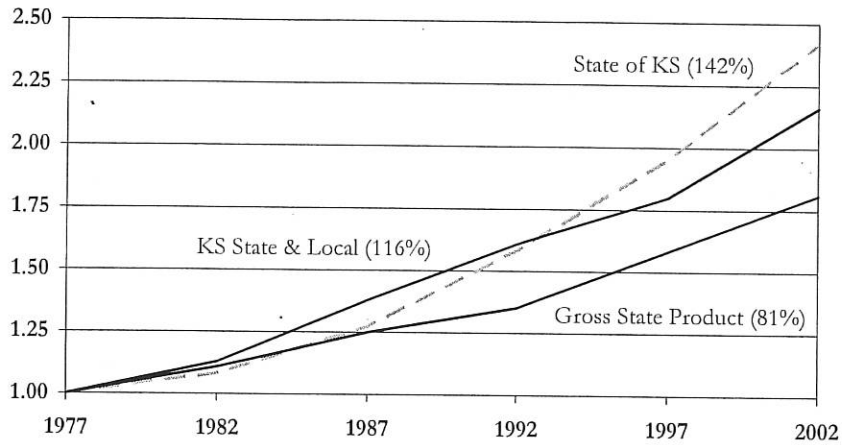
Important Considerations

- Productivity growth is a **process** that requires continual trial and error on the part of individual businesses.
- State leaders should focus on creating a policy environment that allows for maximum business experimentation at the least possible cost.
- More investigation is required to determine if the overall policy mix in Kansas deters capital investment and new business starts.

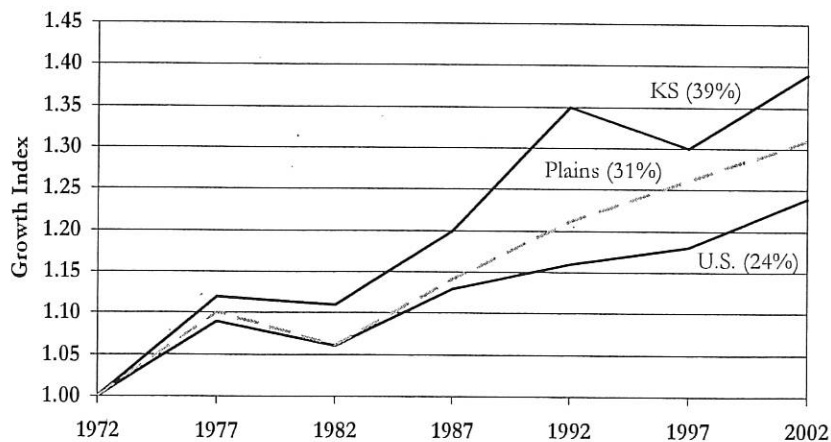
Kansas Department of Commerce Economic Development Regions



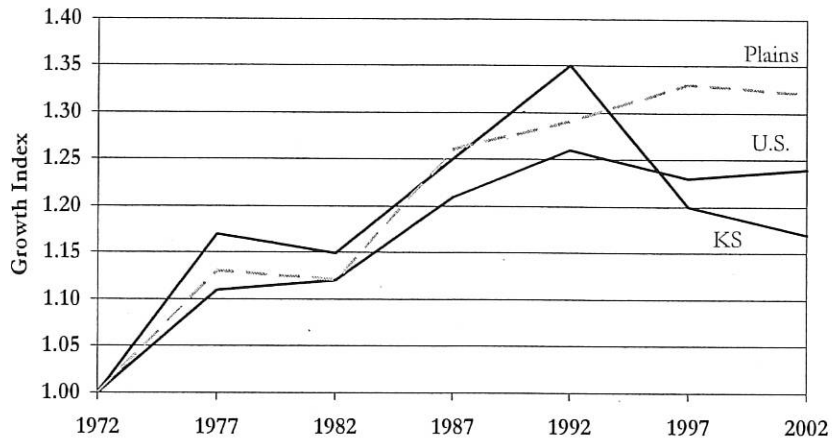
Real KS Government Spending (Federal Funds Omitted)



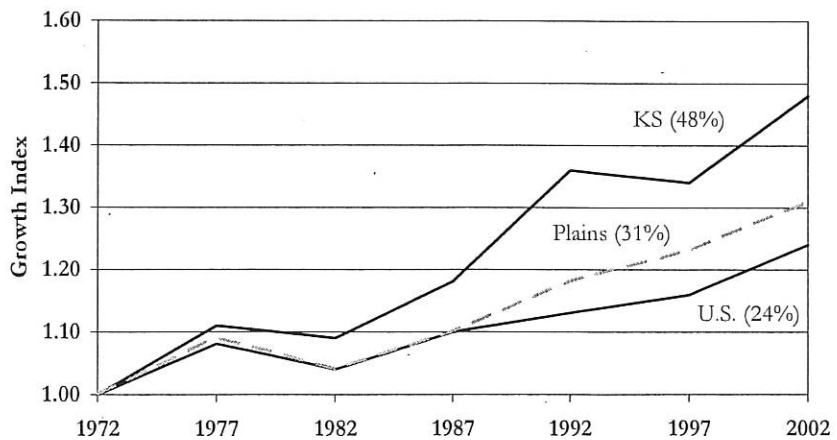
S-L Government Growth Trends: FTEs as a Share of Population



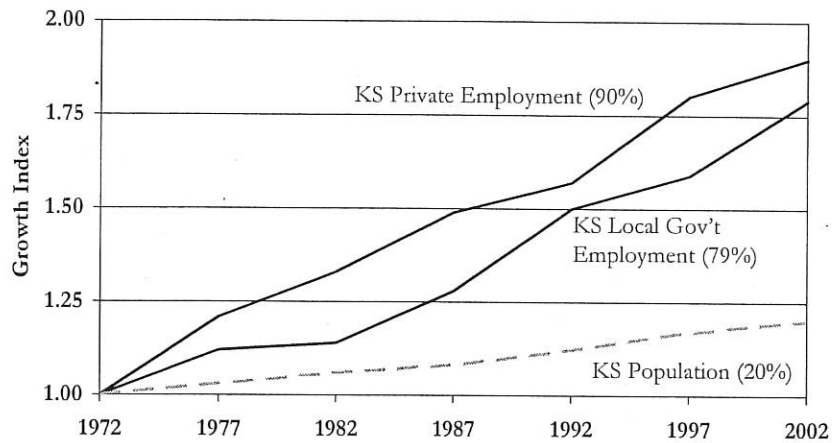
State Government Growth Trends: FTEs as a Share of Population



Local Government Growth Trends: FTEs as a Share of Population



Private vs Local Gov't Employment



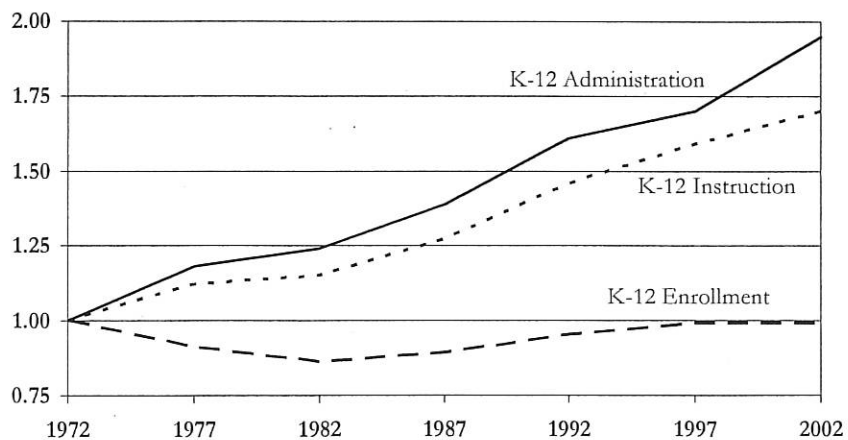
30-Year Growth (72-02) of: Local FTEs, Private Employment, Population

Region	Local Gov't FTEs	Private Employment	Population
Kansas	79%	90%	20%
East Central	112	184	52
North Central	62	59	0
North East	75	56	7
North West	37	43	- 17
South Central	56	73	25
South East	59	34	- 5
South West	68	53	12

Allocation of KS Local Gov't FTEs

Function	1972	2002
K-12 Instruction	39%	39%
K-12 Administration	15	18
Transportation	7	5
Public Safety	9	11
Health	7	8
General Administration	10	6
Other	12	14

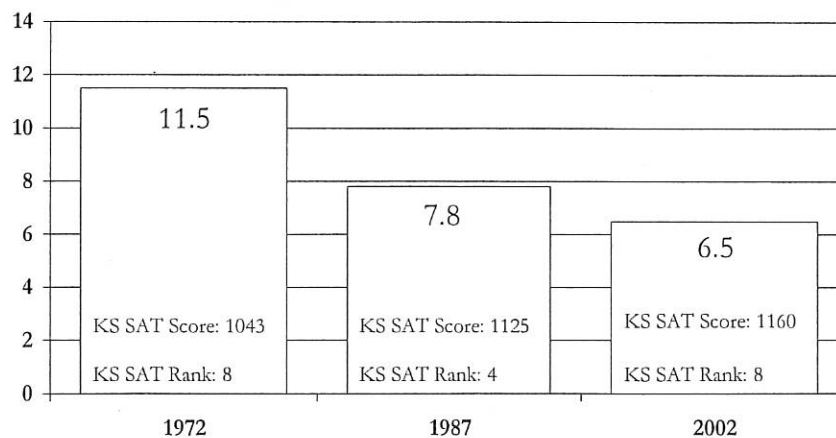
Kansas K-12 FTEs and Enrollment



30-Year Growth (72-02) of: K-12 FTEs and Enrollment

Region	K-12 FTEs Instruction	K-12 FTEs Administration	K-12 Enrollment
Kansas	70%	95%	- 1%
East Central	102	127	19
North Central	61	89	- 16
North East	58	114	- 14
North West	28	46	- 37
South Central	69	72	- 1
South East	51	109	- 6
South West	61	87	7

K-12 Students per K-12 FTE



Cost to KS Taxpayers of K-12 Student-to-FTE Ratio

Region	K-12 Students per K-12 FTEs	Dollar Cost of KS Difference*
Kansas (2002)	6.46	n/a
United States	7.70	\$363 Million
Plains States	6.92	\$151 Million
Contiguous States	7.40	\$286 Million
Kansas in 1987	7.82	\$391 Million
Kansas in 1972	11.51	\$985 Million

* Estimated 2002 cash compensation for K-12 FTE in KS was \$30,801.

Cost to KS Taxpayers of Non K-12 FTE-to-Population Ratio

Region	Non K-12 FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	2.08	n/a
United States	1.74	\$303 Million
Plains States	1.36	\$641 Million
Contiguous States	1.37	\$753 Million
Kansas in 1987	1.73	\$316 Million
Kansas in 1972	1.52	\$504 Million

* Estimated 2002 cash compensation per Non FTE in KS was \$32,645.

Cost to KS Taxpayers of Local Gov't FTE-to-Population Ratio

Region	Local Gov't FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	4.77	n/a
United States	3.96	\$693 Million
Plains States	4.15	\$537 Million
Contiguous States	3.16	\$1,386 Million
Kansas in 1987	3.94	\$712 Million
Kansas in 1972	3.34	\$1,228 Million

* Estimated 2002 cash compensation per FTE in KS was \$31,606.