

MINUTES

2010 COMMISSION

August 7, 2009
Room 545-N—Statehouse

Members Present

Rochelle Chronister, Chairperson (via teleconference)
Dr. Ray Daniels, Vice-Chairperson
Senator Jean Kurtis Schodorf
Representative Clay Aurand
Representative Marti Crow
Carolyn Campbell
Terri Canfield
Barb Hinton
Stephen Iliff
Emile McGill

Staff Present

Sharon Wenger, Kansas Legislative Research Department
Theresa Kiernan, Office of the Revisor of Statutes
Kristen Kellems, Office of the Revisor of Statutes
Pat Matzek, Committee Assistant

Others Present

Chris W. Courtwright, Kansas Legislative Research Department
Richard Cram, Director, Office of Policy and Research, Kansas Department of Revenue
Joe Lawhon, Legislative Division of Post Audit
Levi Bowles, Legislative Division of Post Audit
Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards
Scott Frank, Legislative Division of Post Audit
Laurel Murdie, Legislative Division of Post Audit
Jim Redmon, Director, Kansas Children's Cabinet
Jane Groff, Director, Kansas Parent Information Resource Center
Dodie Wellshear, United School Administrators of Kansas
Mike Reecht, K12, Inc.
Berend Koops, Hein Law Firm

Dan Korber, Kansas, Inc.
Diane Gjerstad, Wichita Public Schools
Bill Brady, Schools for Fair Funding
Val DeFever, Schools for Quality Education
Trudy Racine, Kansas Children's Service League

Morning Session

The meeting of the 2010 Commission was called to order at 9:03 a.m. by Vice-Chairperson Dr. Daniels.

Presentation of State General Fund Tax Receipts: Short-, Medium-, and Long-Term Issues

Chris Courtwright, Principal Economist, Kansas Legislative Research Department, stated the State General Fund (SGF) receives about 81 percent of all state taxes. The largest of the tax exceptions that do not go into the SGF are motor fuel taxes and unemployment compensation taxes. The motor fuel taxes go into the State Highway Fund and are earmarked for the Comprehensive Transportation Program. Unemployment compensation taxes go to a special trust fund that basically is required by federal law. A portion of sales tax receipts is set aside for the highway fund and other taxes are earmarked for other sources, which include a new tire excise tax and a dry cleaning excise tax. Over \$4 of every \$5 in state tax dollars goes into the SGF.

Mr. Courtwright distributed information on Consensus Revenue Estimating, Recent History of SGF Tax Receipts, Long-Term SGF Tax Issues, Medium-Term SGF Tax Issues and Short-Term SGF Tax Issues, Estimated Fiscal Notes for Selected Tax Cuts Enacted Since 2005, and Federal Legislation (Attachment 1).

The following are a few examples of the Long-Term, Medium-Term and Short-Term SGF Tax Issues:

- Long-Term SGF Tax Issues
 - Elasticity - sales tax elasticity declining;
 - Technological changes - mail order and internet streamlined; and
 - Competitiveness with other states - economic development concerns regarding nearby states.

- Medium-Term SGF Tax Issues
 - K-12 dependency after 1992 - more state aid to reduce mill levies;
 - Exemptions, narrowing of tax bases - especially sales tax exemptions; and
 - Proliferation of tax credits, incentives - especially "refundable" tax credits.

- Short-Term SGF Tax Issues
 - Length and severity of recession;

- Continue Estate, Franchise Phase-outs; and
- Ephemeral 2009 Revenue Enhancements - settlement authority and statute-of-limitation changes.

Under federal legislation, one important new development relates to the federal enactment of the American Recovery and Reinvestment Act (ARRA) of 2009; and a separate piece of legislation increased cigarette taxes to help provide additional funding for the State Children's Health Insurance Program (SCHIP). Kansas SGF receipts are expected to be reduced by a total of \$88.0 million by the end of FY 2010 as a result of these new federal laws.

The SCHIP legislation increased the federal cigarette tax by 61 cents per pack, effective April 1, 2009. The Department of Revenue has estimated that this increase and its impact on consumer behavior will be expected to reduce Kansas cigarette tax receipts by about \$3 million in fiscal year 2009 and \$7.5 million in fiscal year 2010.

Richard Cram, Director, Office of Policy and Research, Kansas Department of Revenue, spoke on the fiscal year 2008 estimated value of exemptions or exclusions (Attachment 2) that are currently in effect and which will be updated prior to the next legislative session. Mr. Cram stated that as sales tax rates increase, there are increased exemption requests. The value of the total exemptions is at \$4 billion, which is twice the value of the revenue received from sales tax. The largest exemption is over \$2 million and covers property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail and is used primarily to prevent double taxation.

Mr. Cram gave a brief update on a streamlined sales tax effort, stating there is an initiative under way that would provide federal legislation to grant states that are members of the Streamlined Sales and Use Tax Agreement the authority to require local retailers to collect sales and use tax. This legislation could be introduced after the end of the August recess.

Mr. Cram also distributed a copy of the "Tax Year 2006 Kansas Department of Revenue Tax Credits" (Attachment 3), indicating total tax credits exceeding \$174 million. The largest tax credit programs involve transfer payments to low-income individuals, such as the Earned Income Credit and the Food Sales Tax Refund.

A question and answer session followed the presentation.

**Presentation of a Selected Portion of the Performance Audit
Related to Spending, Including Tax Credits, Entitled:
"Economic Development: Determining the Amounts the
State Has Spent and the Impacts"**

Joe Lawhon, Principal Auditor, Legislative Division of Post Audit, provided a handout on Amount and Type of Tax Revenues Forgone, fiscal years 2003 through 2007, cumulatively (Attachment 4). Industrial revenue bond exemptions were listed as the highest tax revenues forgone for this five-year period of \$349 million. The total amount forgone to the state totaled \$339 million, \$412 million to local units of government, and \$108 million that could not be determined whether allocation was state or local.

Mr. Lawhon addressed the question of what results can be seen from state spending for economic development in Kansas and highlighted one of the approaches taken: using regression

analysis to determine whether there were statistically measurable relationships between government economic development spending and the actual growth of three items:

- The number of jobs in Kansas;
- Business growth; and
- Per capita wages.

The findings were as follows:

- Pre-existing jobs and population levels were much stronger predictors of the growth in jobs in a county than other factors. Economic spending had a much smaller impact on job growth, accounting for only 4 percent of the measurable impact.
- The factors that had the biggest impact were pre-existing commercial property values and employment levels. Economic development spending was a somewhat better predictor of the growth in business than it was in the growth in jobs – it accounted for about 12 percent of measurable impact.
- The analysis did not identify a statistical relationship between economic development spending and per-capita wage rates.

A brief question and answer session followed the presentation.

Levi Bowles, Principal Auditor, Legislative Division of Post Audit, answered questions from members of the Committee.

Presentation on Taxes, Education, and Economic Status

Mark Tallman, Kansas Association of School Boards, presented testimony (Attachment 5) stating that what ultimately benefits the country and in the long run drives economic development, the economy, and prosperity is increasing productivity and, in an information-based economy, that amounts to raising skill levels, which reverts back to education. Mr. Tallman further stated the key determinant to economic progress is the level of education that possibly is threatened by the budget situation and the choice of the next legislation to either make deeper cuts in education or to consider some revenues that will offset those cuts.

Other items of discussion were:

- Kansas is a middle tax burden state. Kansas ranks 23 in the nation on state and local tax collections. Kansas state and local tax burden as a percentage of personal income has consistently ranged between 10.5 percent and 12 percent from the 1930s to 2000, but because of significant changes in the mix of taxes and exemptions from various taxes, it is quite likely the individual burden for some taxpayers has increased because it has been reduced for others.
- Tax policy alone does not drive prosperity. High-income states were more likely to be high-tax states, not the reverse.
- To maintain educational quality, Kansas must consider changes in its tax policy. In recent years, the Legislature has increasingly authorized tax exemptions,

abatements, credits, and other devices that allow certain taxpayers to avoid or reduce their taxes. Many of these tax cuts were intended to promote economic development.

- A look at state per capita income, tax burden, and education attainment shows that the lowest-income states have the lowest ranking on educational attainment. Tax policy is not the key driver of state income; it is the level of education.

Mr. Tallman distributed a publication entitled "Preparing All Kansas Students for the 21st Century (on file: Kansas Department of Education www.ksde.org).

A brief question-and-answer session followed the presentation.

Presentation on Forward-Looking Approaches to Education from Performance Audits, and Performance Audit Update

Scott Frank, Audit Manager, Legislative Division of Post Audit, distributed information on audits that currently are under way or have been approved:

- Legislative Post Audit Summary of School District Performance Audits Currently Underway or Approved - August 2009 ([Attachment 6](#)). This summary reviews issues relating to catastrophic funding for special education.
- Scope Statement - K-12 Education: Efficiency Audit of the Derby School District ([Attachment 7](#)) relating to whether the Derby school district could achieve cost savings by improving the management of its non-instructional personnel, facilities, or other resources.
- Forward-Looking Approaches to Education as Summary of Findings from School District Performance Audits ([Attachment 8](#)). This summary includes findings relating to charter, magnet, alternative, and virtual schools.

A brief question-and-answer session followed the presentation.

Vice-Chairperson Daniels asked Commission members if there were any changes or additions to the minutes of June 29, 2009. *Representative Marti Crow moved to accept the minutes as approved. The motion was seconded by Carolyn Campbell. The motion carried.*

Afternoon Session

Presentation of School District Efficiency Audit

Laurel Murdie, Principal Auditor, Legislative Division of Post Audit, distributed a copy of the *K-12 Education: School District Efficiency Audits* (On file: Legislative Division of Post Audit <http://kslegislative.org/postaudit>). Ms. Murdie stated that the question from this audit was on how

the school districts compared in various phases of efficiency. The conclusion was that when a comparison of per student spending was made among similar sized districts, there was quite a variation despite the fact the comparison was made with districts having similar characteristics. In addition, the districts that were spending more per student were spending more for staffing, and the districts did not report data to the Department of Education on a consistent basis, making it difficult to make meaningful comparisons in certain spending areas.

The original Scope statement from this Audit had two phases:

- Phase I - In-house or desk review of readily available staffing and expenditure data; and
- Phase II - Followup of a sample of districts with on-site visits. This phase was suspended.

The desk review concentrated on data covering seven areas of operations:

- District Administration;
- School Administration;
- Instruction Support;
- Student Support;
- Operations and Maintenance;
- Student Transportation; and
- Food Services.

Recommendations were:

- Suggest the districts follow details in their Financial Accounting Handbooks.
- Request the House and Senate Education Committees introduce legislation that would require school district to have expenditure and staffing data audited as part of their annual financial audits.
- Legislative Post Audit Committee or 2010 Commission consider approving efficiency audits of school districts.

A brief question-and-answer session followed the presentation.

Scott Frank also answered questions from members of the Committee.

Chairperson Chronister said that the Commission's decision to suspend the second phase of the efficiency audit was only a suspension, not direction to permanently discontinue that phase.

Presentation on Early Childhood Programming

Jim Redmon, Director, Kansas Children's Cabinet, stated that most of the action on the Early Childhood Program is on the federal level and there are 13-14 new Early Head Start Programs being proposed using federal dollars.

Two funding streams on the federal level will have an impact on Kansas and Early Childhood:

- Early Childhood Advisory Council dollars
 - To strengthen state and local coordination and collaboration among various sectors of the Early Childhood Programs in the State;
 - To perform needs assessments;
 - To increase overall participation of children in existing federal, state, and local childcare programs;
 - To have a unified data collection system; and
 - To have a state early learning standard.
 - Cost to fund - \$881,000 over the course of the next three years.

The final date to submit application is August 2010 and official documents or an executive order sanctioned by the state will be needed.

- Early Childhood Challenge Grants
 - \$8 billion allocation over the course of the next eight years;
 - Standards reform — integrating early learning standards across early learning settings;
 - Funding quality initiatives that improve providers and programs so more disadvantaged children participate; and
 - Increasing the number of children entering kindergarten and increasing parents' access to early learning programs.

A brief question-and-answer session followed the presentation.

Update Regarding Catastrophic Special Education Aid Hearing at Recent Legislative Educational Planning Committee Meeting

Sharon Wenger, Principal Analyst, Legislative Research Department, gave an update from the Legislative Educational Planning Committee (LEPC) meeting that was held on July 29. Senator

Jean Schodorf requested individuals testify regarding catastrophic aid and return recommendations to the LEPC. Ms. Wenger provided copies of testimony (Attachment 9) from each of the 12 presenters who appeared before the LEPC.

Recommendations are:

- Implement the recommendation of the 2010 Commission;
- Cap a pool of catastrophic aid funds at a funding level that could not be increased;
- Make current criteria for funding more clear;
- Increase the threshold from \$25,000 to a higher amount; and
- Deduct state and federal aid from the gross amount per student.

A brief question-and-answer session followed the presentation.

Parental Involvement Presentation: Best Practices - How Parental Involvement Boosts Student Outcomes

Jane Groff, Director, Kansas Parent Information Resource Center (KPIRC), spoke on the benefits, research and development of KPIRC, as well as the No Child Left Behind Program and parent involvement goals in Kansas school districts. Ms. Groff further commented that PIRCs are the parent involvement technical assistance centers in every state; there are 62 of them. PIRCs provide training to schools, school districts, teachers, and administrators, and to parents to support them in helping their children to learn.

Ms. Groff distributed the following:

- Information on the No Child Left Behind Act, Title I, Section 1118: Parental Involvement (Attachment 10) which states, in general, a local educational agency may receive funds under this part only if such agency implements programs, activities, and procedures for the involvement of parents in programs assisted under this part consistent with this section. Such programs, activities, and procedures shall be planned and implemented with meaningful consultation with parents of participating children.
 - School Parent Involvement Policy 2009-2010 (Attachment 11) which highlights the school's and/or district's commitment to parental involvement.
 - Kansas Family and Community Involvement Guide to Student Achievement (on file: Kansas Parent Information Resource Center www.kpirc.org).
 - Creating Family, School, & Community Partnerships (on file: Kansas Parent Information Resource Center www.kpirc.org).
 - Working Together, A Parent Involvement Guide for Kansas Teachers (on file: Kansas Parent Information Resource Center www.kpirc.org).

A brief question-and-answer session followed the presentation.

Vice-Chairperson Daniels announced the next meeting for the 2010 Commission will be October 1-2, 2009. The meeting was adjourned at 3:15 p.m.

Prepared by Pat Matzek
Edited by Sharon Wenger

Approved by Commission on:

October 2, 2009

(Date)

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August 7, 2009

To: 2010 Commission
From: Chris W. Courtwright, Principal Economist
Re: SGF Tax Receipts

Primer on Consensus Revenue Estimating

Recent History of SGF Tax Receipts

Long-Term SGF Tax Issues

Medium-Term SGF Tax Issues

Short-Term SGF Tax Issues

2010 Commission
Date - 08-07-09
Attachment - 1

* ECONOMIC OUTLOOK

Agricultural Outlook -- Agricultural Statistics
Employment Outlook -- Department of Labor
Oil and Gas Outlook -- Industry Sources
Aircraft Sector Outlook -- Wichita State Consulting Economist
Kansas Personal Income Forecasts -- KU and K-State Consulting Economists
CPI-U (Inflation) Forecasts -- KU and K-State Consulting Economists

* INDEPENDENT

Preparation of Six Different Sets of Estimates:

1. Division of the Budget (Governor)
2. Department of Revenue (Governor)
3. Legislative Research Department (Legislature)
4. Consulting Economist (University of Kansas)
5. Consulting Economist (K State)
6. Consulting Economist (Wichita State)

* CONFIDENTIAL

In Terms of Individual Estimates

* QUALIFIED UNANIMITY

Is Reached After All Parties Negotiate an Agreement on Every Source Estimate

* FINAL PRODUCT

Supported by All Parties Under All Circumstances; Governor Required to Use for Budget Recs

Last day of FY 08	First day of FY 09	(2009 Legislature convenes early January thru early May)				Last day of FY 09
June 30 2008	July 1 2008	October 2008	November 2008	April 2009	May 2009	June 30 2009

FY 2008



Final FY 08 receipts compared with final April est of receipts as adjusted in May for subsequent legislation

FY 2009



Economic outlook meeting estimates key Kansas indicators

Estimate for FY 2009 is made for 3rd time by estimators (4th time if altered by 2008 laws)

Estimate for FY 2009 is made for 4th time by estimators (5th time if altered by 2008 laws)

Est for FY 2009 may be adjusted (6th time) to reflect May 09 legislation

Final FY 09 receipts compared with final April est of receipts as adjusted in May for subsequent legislation

FY 2010



Economic outlook meeting estimates key Kansas indicators

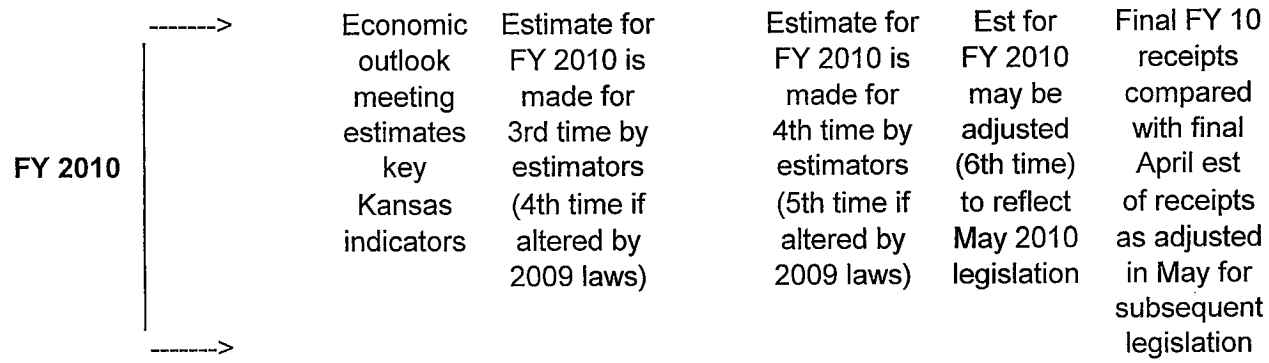
First est is made of FY 2010 receipts

Second est is made of FY 2010 receipts

Est for FY 2010 may be adjusted (3rd time) to reflect May 09 legislation

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First day of FY 10	(2010 Legislature convenes early January thru early May)				Last day of FY 10
July 1 2009	October 2009	November 2009	April 2010	May 2010	June 30 2010



A Recent History of SGF Receipts, Including Current (June 8 Estimate) of FY 2010 Receipts

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	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 est
Property Tax:								
Mot Carriers	\$15,729	\$19,498	\$20,454	\$22,056	\$25,812	\$29,032	\$29,257	\$28,000
Gen Property		\$13,718	\$538	\$55				
Mot Vehicle		\$1,541	\$1,801	\$1,875				
Total	\$15,729	\$34,757	\$22,793	\$23,986	\$25,812	\$29,032	\$29,257	\$28,000
Income Taxes:								
Individual	\$1,750,054	\$1,888,431	\$2,050,562	\$2,371,253	\$2,709,340	\$2,896,653	\$2,682,000	\$2,755,335
Corporation	\$105,222	\$141,173	\$226,072	\$350,201	\$442,449	\$432,078	\$240,258	\$268,200
Financial Inst	\$31,120	\$25,435	\$22,063	\$31,058	\$31,126	\$33,160	\$26,192	\$26,000
Total	\$1,886,396	\$2,055,039	\$2,298,697	\$2,752,511	\$3,182,915	\$3,361,891	\$2,948,450	\$3,049,535
Estate Tax	\$46,952	\$48,064	\$51,853	\$51,806	\$55,620	\$44,247	\$22,530	\$14,500
Excise Taxes:								
Retail Sales	\$1,567,722	\$1,612,067	\$1,647,663	\$1,736,048	\$1,766,768	\$1,711,398	\$1,689,516	\$1,699,428
Comp Use	\$225,923	\$214,503	\$244,755	\$269,250	\$284,981	\$246,277	\$235,026	\$231,200
Cigarette	\$129,250	\$119,789	\$118,979	\$117,899	\$115,282	\$112,705	\$107,216	\$102,000
Tobacco Prod	\$4,510	\$4,797	\$5,039	\$5,093	\$5,305	\$5,548	\$5,728	\$5,800
CM Beverage	\$2,273	\$2,165	\$2,077	\$2,090	\$2,091	\$2,228	\$2,089	\$2,200
Liq Gallonage	\$14,802	\$15,843	\$15,736	\$16,676	\$17,053	\$17,579	\$18,215	\$18,500
Liq Enforce	\$38,833	\$40,256	\$41,904	\$44,234	\$47,138	\$49,983	\$53,794	\$57,000
Liq Dr Places	\$6,847	\$7,154	\$7,444	\$8,009	\$8,567	\$8,903	\$9,141	\$9,700
Corp Franchise	\$31,090	\$36,806	\$47,095	\$46,898	\$47,892	\$46,659	\$41,720	\$22,000
Severance (total)	\$72,775	\$84,639	\$103,390	\$133,433	\$116,025	\$148,172	\$124,249	\$74,500
Gas	\$56,261	\$66,054	\$75,415	\$96,539	\$79,624	\$91,511	\$73,814	\$43,200
Oil	\$16,515	\$18,587	\$27,975	\$36,893	\$36,401	\$56,662	\$50,436	\$31,300
Total	\$2,094,025	\$2,138,019	\$2,234,081	\$2,379,629	\$2,411,103	\$2,349,452	\$2,286,693	\$2,222,328
Other Taxes:								
Ins Premiums	\$94,455	\$106,864	\$106,828	\$112,207	\$113,805	\$117,588	\$119,590	\$117,300
Miscellaneous	\$4,427	\$4,387	\$4,291	\$5,118	\$5,493	\$5,233	\$1,794	\$2,000
Total	\$98,882	\$111,251	\$111,119	\$117,325	\$119,298	\$122,821	\$121,384	\$119,300
Total Taxes	\$4,141,984	\$4,387,130	\$4,718,543	\$5,325,257	\$5,794,746	\$5,907,443	\$5,408,314	\$5,433,663
Other Revenue:								
Interest	\$19,075	\$13,870	\$23,257	\$54,335	\$92,276	\$111,258	\$64,199	\$24,000
Transfers (net)	(\$13,036)	\$16,721	\$23,562	(\$42,238)	(\$142,446)	(\$377,653)	\$35,582	\$23,610
AE and Misc	\$97,556	\$101,005	\$75,908	\$57,018	\$64,467	\$53,875	\$80,879	\$54,600
Total	\$103,595	\$131,596	\$122,727	\$69,115	\$14,297	(\$212,519)	\$180,660	\$102,210
TOTAL RECEIPTS	\$4,245,579	\$4,518,726	\$4,841,271	\$5,394,372	\$5,809,043	\$5,694,924	\$5,588,974	\$5,535,873

Annual Growth in SGF Receipts by Source

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	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 est
Property Tax:							
Mot Carriers	23.96%	4.90%	7.83%	17.03%	12.47%	0.78%	-4.30%
Gen Property							
Mot Vehicle							
Total	120.97%	-34.42%	5.23%	7.61%	12.47%	0.78%	-4.30%
Income Taxes:							
Individual	7.91%	8.59%	15.64%	14.26%	6.91%	-7.41%	2.73%
Corporation	34.17%	60.14%	54.91%	26.34%	-2.34%	-44.39%	11.63%
Financial Inst	-18.27%	-13.26%	40.77%	0.22%	6.53%	-21.01%	-0.73%
Total	8.94%	11.86%	19.74%	15.64%	5.62%	-12.30%	3.43%
Estate Tax	2.37%	7.88%	-0.09%	7.36%	-20.45%	-49.08%	-35.64%
Excise Taxes:							
Retail Sales	2.83%	2.21%	5.36%	1.77%	-3.13%	-1.28%	0.59%
Comp Use	-5.05%	14.10%	10.01%	5.84%	-13.58%	-4.57%	-1.63%
Cigarette	-7.32%	-0.68%	-0.91%	-2.22%	-2.24%	-4.87%	-4.86%
Tobacco Prod	6.36%	5.04%	1.07%	4.16%	4.58%	3.24%	1.26%
CM Beverage	-4.75%	-4.06%	0.63%	0.05%	6.55%	-6.24%	5.31%
Liq Gallonage	7.03%	-0.68%	5.97%	2.26%	3.08%	3.62%	1.56%
Liq Enforce	3.66%	4.09%	5.56%	6.57%	6.04%	7.62%	5.96%
Liq Dr Places	4.48%	4.05%	7.59%	6.97%	3.92%	2.67%	6.12%
Corp Franchise	18.39%	27.95%	-0.42%	2.12%	-2.57%	-10.59%	-47.27%
Severance (total)	16.30%	22.15%	29.06%	-13.05%	27.71%	-16.15%	-40.04%
Gas	17.41%	14.17%	28.01%	-17.52%	14.93%	-19.34%	-41.47%
Oil	12.55%	50.51%	31.88%	-1.33%	55.66%	-10.99%	-37.94%
Total	2.10%	4.49%	6.51%	1.32%	-2.56%	-2.67%	-2.81%
Other Taxes:							
Ins Premiums	13.14%	-0.03%	5.04%	1.42%	3.32%	1.70%	-1.91%
Miscellaneous	-0.90%	-2.19%	19.27%	7.33%	-4.73%	-65.72%	11.48%
Total	12.51%	-0.12%	5.59%	1.68%	2.95%	-1.17%	-1.72%
Total Taxes	5.92%	7.55%	12.86%	8.82%	1.94%	-8.45%	0.47%
Other Revenue:							
Interest	-27.29%	67.68%	133.63%	69.83%	20.57%	-42.30%	-62.62%
Transfers (net)	-228.27%	40.91%	-279.26%	237.25%	165.12%	-109.42%	-33.65%
AE and Misc	3.54%	-24.85%	-24.89%	13.06%	-16.43%	50.12%	-32.49%
Total	27.03%	-6.74%	-43.68%	-79.31%	-1586.46%	-185.01%	-43.42%
TOTAL RECEIPTS	6.43%	7.14%	11.42%	7.69%	-1.96%	-1.86%	-0.95%

Long-Term SGF Tax Issues

Elasticity

Overall SGF elasticity over time

Sales tax elasticity declining

Technological Changes

Mail Order, Internet, Streamlined

Consumer Behavior

More \$ on Services, Increased Mobility

Structure of Kansas Economy

Transition -- Ag to Mfg to Services?

Structure of SGF Revenue Portfolio

Volatility of Income, Severance

Lack of Growth in "Sin" Taxes

Competitiveness with Other States

Eco devo concerns re nearby states

Medium-Term SGF Tax Issues

Increased K-12 Dependency After 1992

More state aid to reduce mill levies

Exacerbated by Tax Cuts of Late 1990s

More USD mill levy cuts, other tax cuts

Exemptions, Narrowing of Tax Bases

Especially sales tax exemptions

Proliferation of Tax Credits, Incentives

Especially "refundable" tax credits

Diversion of Revenues away from SGF

Redevelopment districts, biosciences

Ephemeral 2002-03 "Solutions"

Tax Increases, Prop Tax Accelerator

Accelerated K-12 Dependency After 2005

More \$ set aside in "lock box"

But no new taxes

Exacerbated by Tax Cuts of Mid 2000s

Estate tax repealed

Corporate franchise tax repealed

"M and E" property tax exemption

Bang for the buck? Post Audit follows

Short-Term SGF Tax Issues

Length and Severity of Recession

Continue Estate, Franchise Phase-outs

Other Provisions Ramping Up Hurt SGF

M/E; slider transfer; sev tax diversion

Ephemeral 2009 Revenue Enhancements

Settlement Authority

2-Year Haircut for Tax Credits

Statute-of-Limitation Changes

Estimated Fiscal Notes for Selected Tax Cuts Enacted Since 2005

(\$ in millions)												
Session	Bill #	Brief Description	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	thru FY 13
2005	SB 256	Inc Tax Exemption - Military Recruitment Bonuses	\$0.000	-\$0.587	-\$0.622	-\$0.660	-\$0.699	-\$0.741	-\$0.786	-\$0.833	-\$0.883	-\$5.810
2005	SB 133	Homestead Program - Indexation	\$0.000	\$0.000	-\$0.025	-\$0.050	-\$0.075	-\$0.100	-\$0.125	-\$0.150	-\$0.175	-\$0.700
2005	SB 23	Repeal of "Clunker" Sales Tax on Used Vehicles	-\$5.000	-\$5.175	-\$5.356	-\$5.544	-\$5.738	-\$5.939	-\$6.147	-\$6.362	-\$6.584	-\$51.845
2005	SB 138	Certain Tax Credits	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$0.500	-\$4.500
2005	HB 2040	Sales Tax Ex - Hearing Aid Repair	\$0.000	-\$0.093	-\$0.096	-\$0.100	-\$0.103	-\$0.107	-\$0.110	-\$0.114	-\$0.118	-\$0.842
2005	HB 2222	Indiv Dvlpment Account Program	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$0.503	-\$4.527
2006	SB 365	Phasing Out of Estate Tax	\$0.000	\$0.000	\$0.000	-\$9.000	-\$20.000	-\$37.000	-\$47.000	-\$52.000	-\$52.000	-\$217.000
2006	SB 404	Numerous Sales Tax Exemptions	\$0.000	\$0.000	-\$12.702	-\$15.448	-\$17.291	-\$8.173	-\$8.630	-\$10.087	-\$11.546	-\$83.877
2006	HB 2583	M and E	\$0.000	\$0.000	-\$3.500	-\$27.162	-\$42.737	-\$58.905	-\$63.698	-\$62.729	-\$68.869	-\$327.600
2007	HB 2031	Soc Sec Exemption and EITC Expansion	\$0.000	\$0.000	\$0.000	-\$12.900	-\$19.400	-\$21.300	-\$23.400	-\$25.800	-\$26.135	-\$128.935
2007	HB 2171	Sales Tax Exemptions - Various	\$0.000	\$0.000	\$0.000	-\$0.650	-\$0.673	-\$0.696	-\$0.721	-\$0.746	-\$0.772	-\$4.258
2007	HB 2240	Sales Tax Ex - Repair of Transmission Lines	\$0.000	\$0.000	\$0.000	-\$3.000	-\$3.387	-\$3.506	-\$3.629	-\$3.756	-\$3.887	-\$21.165
2007	HB 2405	Historic Preservation Tax Credits	\$0.000	\$0.000	\$0.000	-\$0.575	-\$0.575	-\$0.575	-\$0.575	-\$0.575	-\$0.575	-\$3.450
2007	HB 2476	Homestead Program Expansion	\$0.000	\$0.000	\$0.000	-\$10.500	-\$11.000	-\$11.600	-\$12.200	-\$12.800	-\$13.500	-\$71.600
2007	HB 2264	Franchise Tax Phase Out	\$0.000	\$0.000	\$0.000	-\$7.000	-\$16.500	-\$26.500	-\$37.000	-\$48.000	-\$50.000	-\$185.000
2007	HB 2004	Various Tax Credits	\$0.000	\$0.000	\$0.000	-\$4.100	-\$4.100	-\$4.100	-\$4.100	-\$4.100	-\$4.100	-\$24.600
2007	HB 2540	Business Disaster Sales Tax Relief	\$0.000	\$0.000	-\$0.400	-\$1.600	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	-\$2.000
2008	HB 2434	Omnibus Tax Bill Includes Corporate Rate Cut	\$0.000	\$0.000	\$0.000	\$0.000	\$0.141	\$0.141	\$0.139	\$1.079	\$1.078	\$2.578
Total These Bills			-\$6.003	-\$6.858	-\$23.704	-\$99.291	-\$143.140	-\$180.104	-\$208.985	-\$227.975	-\$239.070	-\$1,135.131

Federal Legislation

Since the estimates were made last fall, one important new development relates to the federal enactment of the American Recovery and Reinvestment Act (ARRA) of 2009; and a separate piece of legislation that increased cigarette taxes to help provide additional funding for the State Children's Health Insurance Program (SCHIP). Kansas SGF receipts are expected to be reduced by a total of \$88 million by the end of FY 2010 as a result of these new federal laws.

Because Kansas generally begins computation of its income tax liability using federal tax law as a starting point, a number of provisions of the ARRA will flow through and also affect state income tax receipts. The Department of Revenue has estimated that Kansas SGF receipts will have been reduced by the end of FY 2010 by an additional \$77.5 million as a result of our conformity to the ARRA - \$12.0 million in FY 2009; and \$65.5 million in FY 2010. Of this amount, \$45.0 million is attributable to new bonus depreciation and Section 179 expensing provisions (\$6.0 million in FY 2009 and \$39.0 million in FY 2010); \$20.0 million is attributable to tax law changes related to discharged indebtedness (\$6.0 million in FY 2009 and \$14.0 million in FY 2010); \$7.0 million is attributable to the exclusion of certain unemployment insurance benefits from adjusted gross income (all in FY 2010); \$4.0 million is attributable to an expansion in the earned income tax credit (all in FY 2010); and \$1.5 million is attributable to a special deduction for sales taxes paid on certain vehicle purchases (all in FY 2010).

While 2008 federal stimulus legislation containing tax cuts for individuals prompted the Consensus group a year ago to assume modest increases in sales and use taxes (\$8 million), this year's estimates do not contain any explicit adjustment for two major reasons. The 2009 tax cuts are being provided for most individuals through a reduction in federal withholding taxes and will be realized throughout the course of the tax year. On the other hand, the full amount of the 2008 tax cuts for most individuals were made available more quickly as "recovery rebate credits" that were provided in a single lump sum to qualifying taxpayers in the spring of 2008. Overall consumer confidence also remains at a much lower level than a year ago, so predicting behavior relative to selected tax reductions is much more problematic.

The SCHIP legislation increased the federal cigarette tax by 61 cents per pack, effective April 1. The Department of Revenue has estimated that this increase and its impact on consumer behavior will be expected to reduce Kansas cigarette tax receipts by about \$3.0 million in FY 2009; and \$7.5 million in FY 2010.

STATE GENERAL FUND RECEIPTS
FY 2009
(dollar amounts in thousands)


DRAFT

	Actual	FY 2009		Percent increase relative to:		
	FY 2008	Estimate*	Actual	Difference	FY 2008	Estimate
Property Tax:						
Motor Carriers	\$ 29,032	\$ 29,500	\$ 29,257	\$ (243)	0.8%	(0.8)%
Income Taxes:						
Individual	\$ 2,896,653	\$ 2,775,000	\$ 2,682,000	\$ (93,000)	(7.4)%	(3.4)%
Corporation	432,078	255,000	240,258	(14,742)	(44.4)	(5.8)
Financial Inst.	33,160	26,000	26,192	192	(21.0)	0.7
Total	\$ 3,361,891	\$ 3,056,000	\$ 2,948,450	\$ (107,550)	(12.3)%	(3.5)%
Estate Tax	\$ 44,247	\$ 25,000	\$ 22,530	\$ (2,470)	(49.1)%	(9.9)%
Excise Taxes:						
Retail Sales	\$ 1,711,398	\$ 1,705,000	\$ 1,689,516	\$ (15,484)	(1.3)%	(0.9)%
Comp. Use	246,277	235,000	235,026	26	(4.6)	0.0
Cigarette	112,705	106,000	107,216	1,216	(4.9)	1.1
Tobacco Prod.	5,548	5,600	5,728	128	3.2	2.3
Cereal Malt Bev.	2,228	2,200	2,089	(111)	(6.3)	(5.1)
Liquor Gallonage	17,579	18,500	18,215	(285)	3.6	(1.5)
Liquor Enforce.	49,983	54,000	53,794	(206)	7.6	(0.4)
Liquor Drink	8,903	9,500	9,141	(359)	2.7	(3.8)
Corp. Franchise	46,659	35,000	41,720	6,720	(10.6)	19.2
Severance	148,172	129,100	124,249	(4,851)	(16.1)	(3.8)
Gas	91,511	78,400	73,814	(4,586)	(19.3)	(5.9)
Oil	56,662	50,700	50,436	(264)	(11.0)	(0.5)
Total	\$ 2,349,452	\$ 2,299,900	\$ 2,286,693	\$ (13,207)	(2.7)%	(0.6)%
Other Taxes:						
Insurance Prem.	\$ 117,588	\$ 119,700	\$ 119,590	\$ (110)	1.7%	(0.1)%
Miscellaneous	5,233	2,000	1,794	(206)	(65.7)	(10.3)
Total	\$ 122,821	\$ 121,700	\$ 121,384	\$ (316)	(1.2)%	(0.3)%
Total Taxes	\$ 5,907,443	\$ 5,532,100	\$ 5,408,314	\$ (123,786)	(8.4)%	(2.2)%
Other Revenue:						
Interest	\$ 111,258	\$ 56,000	\$ 64,199	\$ 8,199	(42.3)%	14.6%
Transfers (net)	(377,653)	40,222	35,582	(4,640)	(109.4)	-
Agency Earnings and Misc.	53,875	81,400	80,879	(521)	50.1	(0.6)
Total	\$ (212,520)	\$ 177,622	\$ 180,660	\$ 3,038	--%	1.7%
TOTAL RECEIPTS	\$ 5,694,924	\$ 5,709,722	\$ 5,588,974	\$ (120,748)	(1.9)%	(2.1)%

* Consensus estimate as of April 17, 2009 as subsequently adjusted for legislation enacted after that date.

NOTES: Details may not add to totals due to rounding.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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June 8, 2009

To: Governor Mark Parkinson and Legislative Budget Committee
From: Chris W. Courtwright, Principal Economist
Re: Legislative Adjustments to Consensus Estimates to FY 2009 and FY 2010

Pursuant to KSA 75-6701, the Legislative Research Department and Division of the Budget have adjusted the most recent estimates of State General Fund (SGF) receipts for FY 2009 and FY 2010. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2009 Legislative Session subsequent to the Consensus Revenue Estimate made on April 17, 2009. The attached tables show changes by source and incorporate those changes into the overall estimates for FY 2009 and FY 2010. FY 2009 receipts were increased by \$43.862 million relative to the April estimate, attributable to several changes in transfers enacted in the omnibus bill. FY 2010 receipts were increased by \$155.103 million, with much of the difference attributable to various tax law changes and additional adjustments to transfers.

An additional section has been added to this report discussing the implications for SGF receipts in FY 2011 and subsequent years relative to certain legislation enacted in 2009 and prior years.

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2010 estimate and to make an initial estimate for FY 2011.

FY 2009

The following FY 2009 adjustments were made:

- Senate Sub. for HB 2373, the omnibus bill, increased the estimate for net transfers by \$43.862 million, with the major change attributable to the elimination of a previously scheduled "slider" transfer (\$25.0 million) to local units of government that had been intended to help reduce property tax levies.

FY 2010

The following FY 2010 adjustments were made:

- SB 160, which increases the state's minimum wage from \$2.65 per hour to \$7.25 per hour on January 1, 2010, increased the individual income tax estimate by \$2.500 million.
- SB 97, which authorizes a diversion of employee withholding taxes under certain circumstances to "qualified" companies or third parties performing services on behalf of such companies, reduced the individual income tax estimate by \$1.950 million.

- Senate Sub. for HB 2373, the omnibus bill, increased the estimate for net transfers by \$89.440 million, with the major changes related to the transfer of privilege fees from the Expanded Lottery Act Revenue Fund (\$50.0 million) to the SGF; a transfer from the State Highway Fund (\$25.3 million) to the SGF relative to certain bond payments; and elimination of a previously scheduled transfer (\$5.0 million) from the SGF to the Special City and County Highway Fund.
- Senate Sub. for House Sub. for HB 2365, a major tax bill dealing with disputed liability settlement authority; tax credits; the statute of limitations relative to certain refund claims; and other provisions, increased total estimated SGF receipts by \$65.113 million. Of this amount, \$35 million in increases is attributable to the new settlement authority (\$30 million in corporation income taxes; \$2 million in individual income taxes; \$2 million in sales taxes; and \$1 million in gas severance taxes). Various statute-of-limitation provisions also increased the compensating use tax estimate by \$11.2 million; the sales tax estimate by \$2.5 million; and the individual income tax estimate by \$3.0 million.

An additional piece of legislation is expected to have an impact on FY 2010 SGF receipts but could not be quantified. SB 212, which provides for the direct shipments to Kansas residents by wineries, is expected to have a slightly positive (but indeterminate) impact on both liquor gallonage and liquor enforcement tax receipts.

FY 2011 and thereafter

Although the Consensus Group will not make its initial estimate for FY 2011 until the fall, worthy of note is the fact that a number of provisions in previously enacted legislation will further reduce SGF receipts:

- Legislation enacted in 2006 that decoupled the Kansas estate tax from the federal law beginning in 2007 and eliminates the Kansas tax altogether in 2010 will reduce receipts relative to the prior law by an estimated \$47 million in FY 2011; and \$52 million in FY 2012.
- Legislation enacted in 2007 that phases out the franchise tax will reduce receipts relative to the prior law by an estimated \$37.0 million in FY 2011; and \$48.0 million in FY 2012.
- Legislation enacted in 2006 relative to a property tax exemption for business machinery and equipment is expected to further reduce motor carrier property tax receipts to the SGF by \$5.6 million in FY 2011; and \$7.4 million in FY 2012.
- Additional legislation enacted in 2005 will reduce severance tax receipts to the SGF by \$6.3 million in FY 2011; and \$10.7 million in FY 2012; and \$13.4 million in FY 2013.
- Current estimates are that the slider transfer payments (originally enacted in 2006) to local units, which are scheduled to resume in FY 2011, will reduce SGF receipts by \$44.0 million in that year; and by \$25.5 million in FY 2012 before sunseting altogether in FY 2013.

- Legislation enacted in 2009 expanding the ability of retail businesses to qualify for sales tax exemptions when locating or expanding in unincorporated areas of certain low-population counties will reduce sales tax receipts to the SGF by approximately \$0.4 million beginning in FY 2011.

Also worth remembering is the fact that many of the provisions of the 2009 revenue enhancement package are ephemeral in nature. The total estimated amount of additional revenues provided by that legislation are expected to be \$53.230 million less in FY 2011 and \$61.020 million less in FY 2012 than the amount provided in FY 2010.

Table 1
Consensus Revenue Estimate for Fiscal Years 2009 and 2010
and FY 2008 Actual Receipts
(Dollars in Thousands)

	FY 2008 (Actual)		FY 2009 (Revised 6/8)		FY 2010 (Revised 6/8)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$29,032	12.5 %	\$29,500	1.6 %	\$28,000	(5.1) %
Income Taxes:						
Individual	\$2,896,653	6.9 %	\$2,775,000	(4.2) %	\$2,755,335	(0.7) %
Corporation	432,078	(2.3)	255,000	(41.0)	268,200	5.2
Financial Inst.	33,160	0.2	26,000	(21.6)	26,000	0.0
Total	\$3,361,891	5.6 %	\$3,056,000	(9.1) %	\$3,049,535	(0.2) %
Estate Tax	\$44,247	(20.4) %	\$25,000	(43.5) %	\$14,500	(42.0) %
Excise Taxes:						
Retail Sales	\$1,711,398	(3.1) %	\$1,705,000	(0.4) %	\$1,699,428	(0.3) %
Compensating Use	246,277	(13.6)	235,000	(4.6)	231,200	(1.6)
Cigarette	112,705	(2.2)	106,000	(5.9)	102,000	(3.8)
Tobacco Products	5,548	4.6	5,600	0.9	5,800	3.6
Cereal Malt Bev.	2,228	6.6	2,200	(1.3)	2,200	0.0
Liquor Gallonage	17,579	3.1	18,500	5.2	18,500	0.0
Liquor Enforcement	49,983	6.0	54,000	8.0	57,000	5.6
Liquor Drink	8,903	3.9	9,500	6.7	9,700	2.1
Corp. Franchise	46,659	(2.6)	35,000	(25.0)	22,000	(37.1)
Severance	148,172	27.7	129,100	(12.9)	74,500	(42.3)
Gas	91,511	14.9	78,400	(14.3)	43,200	(44.9)
Oil	56,662	55.7	50,700	(10.5)	31,300	(38.3)
Total	\$2,349,452	(2.6) %	\$2,299,900	(2.1) %	\$2,222,328	(3.4) %
Other Taxes:						
Insurance Prem.	\$117,588	3.3 %	\$119,700	1.8 %	\$117,300	(2.0) %
Miscellaneous	5,233	(4.7)	2,000	(61.8)	2,000	0.0
Total	\$122,821	3.0 %	\$121,700	(0.9) %	\$119,300	(2.0) %
Total Taxes	\$5,907,443	1.9 %	\$5,532,100	(6.4) %	\$5,433,663	(1.8) %
Other Revenues:						
Interest	\$111,258	20.6 %	\$56,000	(49.7) %	\$24,000	(57.1) %
Net Transfers	(377,653)	(172.0)	40,222	(110.7)	23,610	(41.3)
Agency Earnings	53,875	(16.4)	81,400	51.1	54,600	(32.9)
Total	(\$212,521)	--- %	\$177,622	(183.6) %	\$102,210	(42.5) %
Total Receipts	\$5,694,924	(2.0) %	\$5,709,722	0.3 %	\$5,535,873	(3.0) %

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Table 2
State General Fund Receipts
FY 2009 Revised
Comparison of April 2009 Estimate to June 2009 Estimate
(Dollars in Thousands)

	FY 2009 CRE Est.	FY 2009 CRE Est.	Difference	
	04/17/09	Revised 06/08/09	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$29,500	\$29,500	\$0	-- %
Income Taxes:				
Individual	\$2,775,000	\$2,775,000	0	-- %
Corporation	255,000	\$255,000	0	--
Financial Inst.	26,000	\$26,000	0	--
Total	3,056,000	\$3,056,000	0	-- %
Estate Tax	\$25,000	\$25,000	\$0	-- %
Excise Taxes:				
Retail Sales	\$1,705,000	\$1,705,000	\$0	-- %
Compensating Use	235,000	\$235,000	0	--
Cigarette	106,000	\$106,000	0	--
Tobacco Product	5,600	\$5,600	0	--
Cereal Malt Beverage	2,200	\$2,200	0	--
Liquor Gallonage	18,500	\$18,500	0	--
Liquor Enforcement	54,000	\$54,000	0	--
Liquor Drink	9,500	\$9,500	0	--
Corporate Franchise	35,000	\$35,000	0	--
Severance	129,100	\$129,100	0	--
Gas	78,400	\$78,400	0	--
Oil	50,700	\$50,700	0	--
Total	\$2,299,900	\$2,299,900	\$0	-- %
Other Taxes:				
Insurance Premiums	\$119,700	\$119,700	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$121,700	\$121,700	0	-- %
Total Taxes	\$5,532,100	\$5,532,100	\$0	-- %
Other Revenues:				
Interest	\$56,000	\$56,000	\$0	-- %
Net Transfers	(3,640)	\$40,222	43,862	--
Agency Earnings	81,400	\$81,400	0	--
Total Other Revenue	\$133,760	\$177,622	\$43,862	32.8 %
Total Receipts	\$5,665,860	\$5,709,722	\$43,862	0.8

Table 3
State General Fund Receipts
FY 2010 Revised
Comparison of April 2009 Estimate to June 2009 Estimate
(Dollars in Thousands)

	FY 2010 CRE Est.	FY 2010 CRE Est.	Difference	
	04/17/09	Revised 06/08/09	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$28,000	\$28,000	\$0	-- %
Income Taxes:				
Individual	\$2,745,000	\$2,755,335	10,335	0.4 %
Corporation	230,000	\$268,200	38,200	16.6
Financial Inst.	25,000	\$26,000	1,000	4.0
Total	3,000,000	\$3,049,535	49,535	1.7 %
Estate Tax	\$15,000	\$14,500	(\$500)	(3.3) %
Excise Taxes:				
Retail Sales	\$1,695,000	\$1,699,428	\$4,428	0.3 %
Compensating Use	220,000	\$231,200	11,200	5.1
Cigarette	102,000	\$102,000	0	--
Tobacco Product	5,800	\$5,800	0	--
Cereal Malt Beverage	2,200	\$2,200	0	--
Liquor Gallonage	18,500	\$18,500	0	--
Liquor Enforcement	57,000	\$57,000	0	--
Liquor Drink	9,700	\$9,700	0	--
Corporate Franchise	22,000	\$22,000	0	--
Severance	73,500	\$74,500	1,000	1.4
Gas	42,200	\$43,200	1,000	2.4
Oil	31,300	\$31,300	0	--
Total	\$2,205,700	\$2,222,328	\$16,628	0.8 %
Other Taxes:				
Insurance Premiums	\$117,300	\$117,300	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$119,300	\$119,300	0	-- %
Total Taxes	\$5,368,000	\$5,433,663	\$65,663	1.2 %
Other Revenues:				
Interest	\$24,000	\$24,000	\$0	-- %
Net Transfers	(65,830)	\$23,610	89,440	--
Agency Earnings	54,600	\$54,600	0	--
Total Other Revenue	\$12,770	\$102,210	\$89,440	700.4 %
Total Receipts	\$5,380,770	\$5,535,873	\$155,103	2.9

TABLE 4
Legislative Adjustments by Bill by Source to FY 2009 Estimates
(\$ in millions)

	<u>Transfers</u>	<u>Total</u>
Senate Sub. for HB 2373	\$43.862	\$43.862

TABLE 5
Legislative Adjustments by Bill by Source to FY 2010 Estimates

	<u>Sales</u>	<u>Use</u>	<u>Ind. Inc.</u>	<u>Corp. Inc.</u>	<u>Estate</u>	<u>Sev.</u>	<u>Priv.</u>	<u>Transfers</u>	<u>Total</u>
SB 160			\$2.500						\$2.500
SB 97				(\$1.950)					(\$1.950)
S. Sub HB 2373								\$89.440	\$89.440
S. Sub. H. Sub. HB 2365	\$4.428	\$11.200	\$9.785	\$38.200	(\$0.500)	\$1.000	\$1.000		\$65.113
Total by Source	\$4.428	\$11.200	\$12.285	\$36.250	(\$0.500)	\$1.000	\$1.000	\$89.440	\$155.103

Statute	Description of Exemption or Exclusion	Recent Revision	FY2008 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			3.5%
3602 (e)	Definition of retail sales, exempting wholesale sales and sales for resale		\$ -
3602 (ii)	Modified definition of sales or selling price to not include cash rebates granted by a manufacturer to a purchaser or lessee of a new motor vehicle if paid directly to the retailer as a result of the original sale. The exemption is granted from July 1, 2006 and ending June 30, 2009.	Rev 2006 SB 404	\$ 10.288
3603 (b)	Taxes telephone and telegraph services except creation WATS and private data lines. Bundling of services added in 2001. Modified pre-paid calling cards - revolved phrase dealing with sold in minutes (no fiscal impact).	Rev 2001 SB 1, Rev 2002 SB 39,	\$ 1.397
3603 (e)	Admission to any cultural and historical event which occurs triennially	Revised 1994	Minimal
3603 (f)	Coin operated Laundry Services		\$ 0.354
3603 (g)	Service of renting of rooms by holds or accommodation brokers to federal government or any federal employee in performance of official government duties.	2002 SB39	\$ 0.115
3603 (h)	Service of leasing or renting machinery and equipment owned by city purchased with industrial revenue bonds prior to July 1, 1973		\$ -
3603 (m)	Fees and charges by any political subdivision, youth recreation organization exclusively providing services to persons 18 or younger organized as a 501(c)(3) for sports, games and other recreational activities and entry fees and charges for participation.	Revised 1994 1998 SB493	\$ 0.874
3603 (n)	Dues charged by any organization pursuant to paragraph 8 and 9 of 79-201 (veteran & humanitarian organizations) and zoos	1998 SB493	\$ 0.322
3603 (o)	Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales.		\$ 0.202
3603 (o)	In 2004, changed the way sales tax computed on isolated and occasional sales of vehicles. Estimated to generate \$2 million annually	2004 SB 147	
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction reconstruction, restoration, replacement or repair or a residence, bridge or highway	1998 SB493	\$ 175.661
3603 (q)	Exemption for Service of repairing, servicing, maintaining custom computer software as described in section 3603 (e)	1988 Amended 2002 SB39	\$ -
3603 (s)	Customized computer software and services for modifying software for single end use and billed as a separate invoiced item. In 2004, amended to tax only prewritten software. Custom software is exempt	1988 Amended 2002 SB39, 2004SB 147	\$ 4.989
3603 (v)	Sales of bingo cards, bingo faces and instant bingo tickets. Tax rate 2.5 on July 1, 2001 to June 30, 2002; exempt on July 1, 2002	2000 HB 2013	\$ 2.640
3606 (a)	Motor fuels and items taxed by sales or excise tax	1999	\$ 224.659
3606 (b)	Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor bank. In 2001, deleted sales of water to make purchases for water suppliers exempt.(Neutral FN due to Clean Water Fee)	2001 SB 332	\$ 319.696
3606 (c)	Property or services purchased and leasing by elementary or secondary schools and educational institutions		\$ 56.495
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions, and for state correctional institution	2007 BH 2171	\$ 114.930
3606 (e)	Property or services purchases by federal government, its agencies or instrumentality's		\$ 5.349
3606 (f)	Property purchased by railroad or public utility for use in the movement of interstate commerce		\$ 15.007
3606 (g)	Sales, repair or modification of aircraft sold for interstate commerce directly through an authorized agent. IN 2004, expanded aircraft exemption for repair, modification plus parts and labor	1998 SB493, 2004 SB 147	\$ 7.050
3606 (h)	Rental of nonsectarian textbooks by elementary or secondary schools		\$ 0.924
3606 (i)	Lease or rental of films, records, tapes, etc. by motion picture exhibitors		\$ 1.650
3606 (j)	Meals served without charge to employees if duties include furnishing or sale of such meals or drinks		\$ 3.656
3606 (k)	Vehicles, trailers or aircraft purchased and delivered out of state to a nonresident		\$ 14.916
3606 (l)	Isolated or occasional sales, except motor vehicles		\$ -
3606 (m)	Property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail		\$ 2,172.085
3606 (n)	Property consumed in the production, manufacturing, processing, mining, drilling, refining or compounding of property; or irrigation of crops for ultimate sale at retail. In 2000, added provision to eliminate refunds from the Johnson County Water case sav		\$ 284.988
3606 (o)	Sales of animals, fowl, aquatic plants, and animals used in agriculture or aquaculture, for production of food for human consumption, the production of animal, dairy, poultry, or aquatic products, fiber or fur or the production of offspring.		\$ 160.402

Statute	Description of Exemption or Exclusion	Recent Revision	FY2008 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			3.5%
3606 (p)	Sales for prescription drugs	1999 SB 45	\$ 67.978
3606 (q)	Sales of insulin dispensed by pharmacist for treatment of diabetes		\$ 0.525
3606 (r)	Sales of prosthetic or orthopedic appliances prescribed by a doctor. IN 2004, exempted all hearing aids, parts and batteries by licensed providers	Amended 1997, 2004 SB 147	\$ 7.994
3606 (s)	Sales of property or services purchased by a groundwater management district		\$ 0.041
3606 (t)	Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement. In 2006, added work-site utility vehicle as exempt. To include precision farm equipment	2006 SB 76 2007 HB 2171	\$ 47.134
3606 (u)	Leases or rentals of property used as a dwelling for more than 28 consecutive days.		\$ 0.704
3606 (v)	Sales of food products purchased by contractor for use in preparing meals for delivery to homebound elderly persons. In 2004, expanded exemption to all personal property purchased by contractor and sales of food products by or on behalf of contractor or organization	2004 SB 147	\$ 0.804
3606 (w)	Sales of natural gas, electricity, heat, & water delivered through mains, lines or pipes to residential premises for noncommercial use, for agricultural use (to include propane gas), for use in severing oil and any property exempt from property taxation. (Updated Oct 06 based on return/stat data)		\$ 104.580
3606 (x)	Sales of propane, gas, LP-gas, coal, wood, and other fuel sources for the production of heat or lighting for noncommercial use in a residential premise		\$ 15.776
3606 (y)	Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce		\$ 0.905
3606 (z)	Property and services purchased directly by a port authority or a contractor therefore.		Minimal
3606 (aa)	Materials and services brought into Kansas for usage outside of Kansas for repair, services, alteration, maintenance, etc. used for the transmission of liquids or national gas by a pipeline in interstate commerce		Minimal
3606 (bb)	Used mobile and manufactured homes		\$ 4.284
3606 (cc)	Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Enterprise Zone Exemption)	2005 HB 2164	\$ 63.358
3606 (dd)	Property purchased with food stamps issued by US Department of Agriculture		\$ 7.326
3606 (ee)	Lottery tickets and shares made as part of a lottery operated by the State of Kansas		\$ 13.636
3606 (ff)	New mobile or manufactured homes to the extent of 40% of the gross receipts		\$ 3.141
3606 (gg)	Property purchased with vouchers issued pursuant to the federal special supplemental food program for women, infants and children		n/a
3606 (hh)	Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents		\$ 1.006
3606 (ii)	Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	1998 SB493	\$ 2.538
3606 (jj)	Property and services, includes leasing of property, purchased for community-based mental retardation facility or mental health center.	2004 SB 147	\$ 2.331
3606(kk)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility. In 2004, added exemption for building new facility in Riverton Ks (minimal impact)	1998 HB2584	\$ 111.893
3606(kk)	This is the impact from the changes made in 1998		\$ 2.331
3606 (ll)	Educational materials purchased for distribution to the public at no charge by a nonprofit public health corporation		\$ 0.078
3606 (mm)	Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	1988 HB2626	\$ 0.924
3606 (nn)	Services rendered by advertising agency or broadcast station		\$ 4.092
3606 (oo)	Property purchased by a community action group or agency to repair or weatherize housing occupied by low income individuals.		Minimal
3606 (pp)	Drill bits and explosives used in the exploration and production of oil or gas		\$ 0.389
3606 (qq)	Property and services purchased by a nonprofit museum or historical society which is organized under the federal income taxation code as a 501 (c)(3)		\$ 0.382
3606 (rr)	Property which will admit purchases to an annual event sponsored by a nonprofit organization organized under the federal income taxation code as a 501 (c)(3)		\$ 0.032

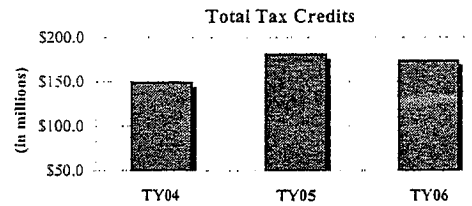
Statute	Description of Exemption or Exclusion	Recent Revision	FY2008 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			3.5%
3606 (ss)	Property and services purchased by a public broadcasting station licensed by FCC as a noncommercial educational television or radio station.		Minimal
3606 (tt)	Property and services purchased by not-for-profit corporation for the sole purpose of constructing a Kansas Korean War memorial and is organized under the federal income taxation code as a 501 (c)(3)	1996 HB2656	\$ -
3606 (uu)	Property and services purchased by rural fire fighting organization	1997 SB184	Minimal
3606 (vv)	Property purchased by the following organizations who are organized under the federal income taxation code as a 501 (c)(3): American Heart Association, Kansas Affiliate; Kansas Alliance for the Mentally Ill, Inc.; Kansas Mental Illness Awareness Council; in 2004 added: Heartstrings Community Foundation, Cystic Fibrosis, Spina Bifida Assn, CHWC, Inc., Cross-lines Cooperative Council, Dreams Work, Inc., KSDS, Inc., Lyme Association of Grater Kansas City, Inc Dream Factory, Ottawa Suzuki Strings, International Assn of Lions Clubs, Johnson County young Matrons, American Cancer Society, Community Services of Shawnee, Angel Babies Assn	1997 SB184, 2001 HB 2029, 2004 SB 147, 2006 SB 404, 2007 HB2171	\$ 0.764
3606 (ww)	Property purchased by the Habitat for Humanity for use within a housing project	1997 SB184	\$ 0.111
3606 (xx)	Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	1998 SB493	\$ 0.583
3606 (yy)	Property and services purchased by a parent-teach association or organizations and all sales of tangible personal property by or on behalf of such association	1998 SB493	\$ 0.547
3606 (zz)	Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	1998 SB493	\$ 0.920
3606(aaa)	Property and services purchased by religious organizations and used exclusively for religious purposes	1998 SB493	\$ 16.764
3606 (bbb)	Sales of food for human consumption by organizations exempt by 501(c)(3) pursuant to food distribution programs which offers such food at a price below cost in exchange for the performance of community service by the purchaser.	1998 SB493	\$ -
3606 (ccc)	Property and services purchases by health care centers and clinics who are serving the medically underserved.	1999 SB 45	\$ 0.365
3606 (ddd)	Property and services purchases by any class II or III railroad (shortline) for track and facilities used directly in interstate commerce. Only for calendar year 1999.	1999 SB 45	n/a
3606 (eee)	Property and services purchases for reconstruction, reconstruction, renovation, repair of grain storage facilities or railroad sidings. Only for calendar year 1999 and 2000.	1999 SB 45, 2000 SB 59	n/a
3606 (fff)	Material handling equipment, racking systems & other related machinery & equipment used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility; installation, repair, maintenance services, and replacement parts.	2000 HB 2011	\$ 6.059
3606 (ggg)	Property and services purchased by or on behalf of the Kansas Academy of Science.	2000 SB 59	Minimal
3606 (hhh)	Property and services purchased by or on behalf of Domestic Violence Shelters as members of the Kansas coalition against Sexual and Domestic Violence	2004 SB 147	\$ 0.055
3606 (iii)	Property and services purchased by organizations distributing food without charge to other nonprofit food distribution programs. Includes taxes paid on and after July 1, 2005 and prior to July 1, 2006.	2006 SB 404	\$ 0.230
3606 (jjj)	Sales of dietary supplements dispensed by prescription order by a licensed practitioner or mid-level practitioner.	2006 SB 404	Minimal
3606 (kkk)	Not Used		
3606 (lll)	Property and services purchased by Special Olympics Kansas, Inc., and sales made by or on behalf of Special Olympics.	2006 SB 404	\$ 0.026
3606 (mmm)	Property and services purchased by Marillac Center, Inc. and sales made by or on behalf of the Marillac Center.	2006 SB 404	\$ 0.052
3606 (nnn)	Property and services purchased by West Sedgwick County - Sunrise Rotary Club for constructing boundless playground.	2006 SB 404	\$ 0.021
3606 (qqq)	Property and services purchased by TLC for Children and Families, Inc and sales made by or on behalf of TLC	2006 SB 404	\$ -
3606 (ooo)	Sales made by or on behalf of a public library	2006 SB 404	\$ 0.010
3606 (ppp)	Property and services purchased by non-profit Homeless Shelters, and sales made by or on behalf of these organizations.	2006 SB 404	\$ 0.104
3606 (qqq)	Property and services purchased by TLC for Children and Families, Inc. and sales made by or on behalf of TLC	2006 SB 404	\$ 0.166
3606 (rrr)	Property and services purchased by county law library.	2006 SB 404	\$ 0.104

Statute	Description of Exemption or Exclusion	Recent Revision	FY2008 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			3.5%
3606 (sss)	Property and services purchased by catholic charities or youthville and sales made by or on behalf of catholic charities or youthville	2006 SB 404	\$ 0.621
3606 (ttt)	Property and services purchased a contractor for a purpose of restoring, constructing, equipping, reconstructing, maintaining, repairing, enlarging, furnishing or remodeling a home or facility owned by a nonprofit museum which is a qualified under the governor hometown heritage act (KSA 75-5071)	2006 SB 404	\$ 0.104
3606 (uuu)	Property and services purchased by Kansas Children's Service League and sales made by or on behalf of the KCSL	2006 SB 404	\$ 0.145
3606 (vvv)	Property and services purchased by Jazz in the Woods and sales made by or on behalf of such organization	2007 HB 2171	\$ 0.010
3606 (www)	Property purchased by or behalf of Frontenac Education Foundation and sales made by or on behalf of such organization	2007 HB 2171	\$ 0.002
3606 (xxx)	Property and services purchased by the Booth Theatre Foundation, Inc. Provides for refund of sales taxes paid from January to July 2007.	2007 HB 2171	\$ 0.030
3606 (yyy)	Property and services purchased by the TLC Charities Foundation, Inc. and sales made by or on behalf of these organizations.	2007 HB 2171	\$ 0.001
3606 (zzz)	Property purchased by Rotary Club of Shawnee Foundation	2007 HB 2171	Minimal
3606 (aaaa)	Property and services purchased by or on behalf of Victory in the Valley and sales made by or on behalf of such organization	2007 HB 2171	\$ 0.017
3606 (bbbb)	Guadalupe Health Foundation, sales of entry or participation fees, charges or tickets for annual fundraising event	2008 SS for HB 23434	
3606 (cccc)	Property and services purchased by or on behalf of Wayside Waifs for the purpose of providing such organizations annual fundraising event and sales made by or on behalf of such organization	2008 SS for HB 23434	
	Greensburg & Kiowa County tornado and storm damage relief	2007 HB 2540	\$ 1.600
	Total		\$ 4,072.238

Tax Year 2006 Kansas Department of Revenue Tax Credits

Tax Credits Allowed on Returns in Tax Years

	TY 2004	TY 2005	TY 2006
Corporate Income Tax	\$ 33,478,581	\$ 52,553,305	\$ 52,842,409
Individual Income Tax	\$ 111,878,636	\$ 123,981,459	\$ 117,317,893
Privilege Tax	\$ 3,525,354	\$ 4,387,003	\$ 3,854,441
Total Tax Credits	\$ 148,882,571	\$ 180,921,767	\$ 174,014,743



Adoption Credit - \$1,063,544

K.S.A. 79-32.202

Residents of Kansas who adopt a child can receive a credit of 25% of the adoption credit allowed against the federal income tax liability on the federal return.

Agricultural Loan Interest Reduction Credit - Amount withheld for confidentiality.

K.S.A. 79-32.181a; 79-1126a

A state bank, national banking association, production credit association, or agricultural credit association chartered by the Farm Credit Administration which extends or renews an agricultural production loan to an eligible agricultural production borrower at an interest rate which is at least one whole percentage point (1%) less than the lowest interest rate made on loans with equivalent collateral or which reduces the rate of interest being charged on any outstanding agricultural production loan to an eligible agricultural borrower by at least one whole percentage point (1%) shall receive a credit against their tax liability.

Agritourism Liability Insurance Credit - \$11,150

K.S.A. 74-50.173

An income tax credit shall be allowed in an amount equal to 20% of the cost of liability insurance paid by a registered agritourism operator who operates an agritourism activity.

Alternative-Fuel Tax Credit - \$73,150

K.S.A. 79-32.201

A credit is allowed for any person, association, partnership, limited liability company, limited partnership, or corporation who makes expenditures for a qualified alternative-fuel fueling station or who makes expenditures for a qualified alternative-fueled motor vehicle licensed in the state of Kansas.

Angel Investor Credit - \$532,616

K.S.A. 74-8133

Any angel investor that makes a cash investment in the qualified securities of a qualified Kansas business shall receive a credit of 50% of the amount invested.

Assistive Technology Contribution Credit - \$0

K.S.A. 65-7108

A taxpayer that makes a contribution to an individual development account reserve fund may qualify for an income tax credit in the amount of 20% of the amount contributed.

Biomass to Energy Credit - \$0

K.S.A. 79-32.233

A taxpayer that makes a qualified investment in a biomass-to-energy plant shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.

Business and Job Development Credit (carryover) - \$9,454,649

K.S.A. 79-32.160a

Any manufacturing or nonmanufacturing business which invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be entitled to a tax credit.

Business and Job Development Credit (noncarryover) - \$911,580

K.S.A. 79-32.153

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of the investment may be eligible for a credit.

Business Machinery and Equipment Credit - \$28,183,078

K.S.A. 79-32.206

A taxpayer may be allowed a credit in an amount equal to 15% of the personal property tax levied and timely paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery and equipment classified for such purposes in subclass (2) of class 2.

Amounts are withheld for confidentiality if there are four or fewer filers within any given tax area of a credit.

Child Day Care Assistance Credit - \$34,750

K.S.A. 79-32,190

A taxpayer may be eligible for a credit if they pay for child day care services for its employees, located child day care services for its employees, or provide facilities and necessary equipment for child day care services to its employees.

Child Dependent Care Credit - \$8,484,477

K.S.A. 79-32,111a

This credit is available only to residents and part-year residents filing as residents. The credit is equal to 25% of the federal credit allowed.

Community Entrepreneurship Investor Credit - \$103,370

K.S.A. 74-99c09

An investor making a cash donation of \$250 or more in the Kansas community entrepreneurship fund shall receive a credit of 50% of the total amount of cash donation.

Community Service Credit - \$2,796,787

Any business firm which contributes to an approved community service organization engaged in providing community services may be eligible to receive a tax credit of at least 50% of the total contribution made.

Disabled Access Credit - \$84,079

Individual and business taxpayers who incur certain expenditures to make their property accessible to the disabled; or to employ individuals with a disability may be eligible to receive a tax credit.

Earned Income Credit - \$50,334,784

K.S.A. 79-32,205

The credit is available to resident taxpayers in an amount equal to 15% of the earned income tax credit allowed against the taxpayer's federal income tax liability.

Food Sales Tax Refund - \$35,925,088

K.S.A. 79-3635

The credit is for sales tax paid on food. There is a \$72 credit per exemption claim for a Kansas Adjusted Gross Income of \$0 to \$13,800; and a \$36 credit per exemption claim for a Kansas Adjusted Gross Income of \$13,801 to \$27,600.

Habitat Management Credit- \$0

K.S.A. 79-32,203

An income tax credit is allowed for a property owner who pays property tax on property designated as a critical habitat or who incurs expenditures for managing a habitat.

High Performance Incentive Program - \$22,976,653

K.S.A. 74-50,132; K.S.A. 79-32,160a(e)

A qualified firm making a cash investment in the training and education of its employees may be eligible to receive a tax credit. A credit may also be available for those qualified firms that make an investment in a qualified business facility.

Historic Preservation Credit - \$4,008,053

K.S.A. 79-32,211

A tax credit is allowed for expenditures incurred in the restoration and preservation of a qualified historic structure.

Individual Development Account Credit - Amount withheld for confidentiality.

K.S.A. 74-50,208

Any program contributor that contributes to an individual development account reserve fund may be eligible for a credit of 50% of the amount contributed.

Integrated Coal Gasification Power Plant Credit - \$0

K.S.A. 79-32,239

A taxpayer that makes a qualified investment in an integrated coal gasification power plant shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.

Law Enforcement Training Center Credit - \$0

K.S.A. 79-32,242

Any business firm which contributes cash to the Kansas Law Enforcement Training Center to be used by the Center for the purpose of providing programs and courses of instruction for full-time police officers and law enforcement officers designed to fulfill the continuing education and training requirements of officers shall be allowed a credit that shall not exceed 50% of the total amount contributed.

Mathematics and Science Teacher Employment Credit - Amount withheld for confidentiality.

K.S.A. 79-32,215

An income tax credit shall be allowed to any business firm that has entered into a partnership agreement to employ a Kansas Mathematics or Science teacher during times that school is not in session.

National Guard and Reserve Employer Credit - \$15,550

K.S.A. 79-32,244

An income tax credit shall be allowed for employing a member of the Kansas Army and Air National Guard or a member of a Kansas unit of the reserved forces of the United States who was federally activated and deployed on or after August 7, 1990. The credit is 25% of the amount paid as salary or compensation, not to exceed \$7,000 for each member employed.

Amounts are withheld for confidentiality if there are four or fewer filers within any given tax area of a credit.

Nitrogen Fertilizer Plant Credit - \$0

K.S.A. 79-32,229

A taxpayer that makes a qualified investment in a nitrogen fertilizer plant shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.

Petroleum Refinery Credit - \$0

K.S.A. 79-32,218

A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.

Plugging of an Abandoned Oil or Gas Well Credit - \$17,002

K.S.A. 79-32, 207

Taxpayers who make expenditures during the tax year to plug an abandoned oil or gas well on their land in accordance with the rules and regulations of the Kansas Corporation Commission shall be allowed a credit in the amount of 50% of the expenditures made for taxable years beginning after 12/31/97.

Qualifying Pipeline Credit - \$0

K.S.A. 79-32,224

A taxpayer that makes a qualified investment in a new qualifying pipeline shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.

Regional Foundation Credit - \$813,095

K.S.A. 74-50,154

Any taxpayer that contributes to an organization designated as a regional foundation may be eligible to receive a credit of 75% of the total amount contributed.

Research & Development Credit - \$2,228,012

K.S.A. 79-32,182; K.S.A. 79-32,182a

A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for the research.

Single City Port Authority Credit - Amount withheld for confidentiality.

K.S.A. 79-32,212

An income tax credit is allowed equal to 100% of the amount attributable to the retirement of indebtedness authorized by a single city port authority established before January 1, 2002.

Small Employer Health Insurance Credit - \$446,739

An income tax credit is allowed for any two or more employers who establish a small employer health benefit plan for the purpose of providing a health benefit.

Swine Facility Improvement Credit - \$0

K.S.A. 79-32,204

A credit is allowed for the costs incurred to make required improvements to a qualified swine facility.

TAF Family Contribution Credit - \$0

K.S.A. 79-32,200

Any individual, corporation, partnership, trust, estate and other legal entity required to pay income tax under the Kansas Income Tax Act who enters into an agreement with the Secretary of Social and Rehabilitation Services to provide financial support to a person who receives Temporary Assistance for Families (TAF) is allowed a credit against their Kansas tax liability.

Telecommunications Credit - \$5,397,802

K.S.A. 79-32,210

A credit is allowed for property tax paid by telecommunications companies on property initially acquired and first placed into service after January 1, 2001 that has an assessment rate of 33%.

Venture and Local Seed Capital Credits - Amount withheld for confidentiality.

K.S.A. 74-8205, -8206, -8304, -8316, and -8401

A credit may be deducted from a taxpayer's income or privilege tax liability if the taxpayer invests in stock issued by Kansas Venture Capital, Inc.; and a credit may be deducted from a taxpayer's income tax liability if the taxpayer invests in a certified Kansas venture capital company; and a credit may also be deducted from a taxpayer's income tax liability if the taxpayer invests in a certified local seed capital pool. The amount of credit will be 25% of the total amount of cash investment in such stock.

Amounts are withheld for confidentiality if there are four or fewer filers within any given tax area of a credit.

Figure 1-7
Amount and Type of Tax Revenues Forgone
Fiscal Years 2003 through 2007, Cumulatively
(in millions)

Program Through Which Revenues Were Forgone	State				Local			Unallocated	Grand Total	% of Total
	Sales Tax	Property Tax	Income Tax	Sub-total	Sales Tax	Property Tax	Sub-total			
Industrial Revenue Bond Exemptions	---	\$69.7	---	\$69.7	---	\$280.0	\$280.0	---	\$349.7	40.7%
STAR Bonds	\$92.1	---	---	\$92.1	\$39.0	---	\$39.0	---	\$131.2	15.3%
Property Tax Abatements	---	\$20.0	---	\$20.0	---	\$93.7	\$93.7	---	\$113.7	13.2%
State Income Tax Credits	---	---	\$137.6	\$137.6	---	---	\$0.0	---	\$137.6	16.0%
Neighborhood Revitalization Act	---	---	---	\$0.0	---	---	\$0.0	\$38.7	\$38.7	4.5%
Pay As You Go Projects	---	---	---	\$0.0	---	---	\$0.0	\$43.2	\$43.2	5.0%
State Bond and Rebate Projects	---	---	\$20.1	\$20.1	---	---	\$0.0	---	\$20.1	2.3%
General Obligation and Special Revenue Bond Projects	---	---	---	\$0.0	---	---	\$0.0	\$21.6	\$21.6	2.5%
Transportation Development District	---	---	---	\$0.0	---	---	\$0.0	\$4.5	\$4.5	0.5%
Total Forgone	\$92.1	\$89.7	\$157.7	\$339.5	\$39.0	\$373.7	\$412.8	\$108.0	\$860.2	
Percent of Total	10.7%	10.4%	18.3%	39.5%	4.5%	43.4%	48.0%	12.6%	100.0%	100.0%

Source: LPA analysis of forgone tax revenue information provided by State agencies and units of local government.

2010 Commission
Date - 08-07-09
Attachment - 4

**Figure 1-2
Description of the Types of Economic Development Programs
That Result in Forgone Tax Revenue**

Name of Economic Development Program	Description
Downtown Redevelopment Act Projects	The program established under this Act allows owners of property located within a designated downtown area to make improvements to receive property tax rebates equal to or in excess of 25% of the appraised value of the property. After calculating the increase in appraised value of the property, the amount that's rebated follows a downward sliding scale, starting with 100% of the increased tax collected in year one and ending with 20% in year nine.
Industrial Revenue Bond Exemptions	Property improved using funds raised through the issuance of Industrial Revenue Bonds can be exempt from taxation for up to 10 years. It's common for the governmental entity issuing the bonds to require the developer to make payments in lieu of taxes. Those amounts can be used by the issuing governmental entity to make debt service payments on the outstanding bonds.
Neighborhood Revitalization Act Projects	The program established under this Act allows owners of property located within a designated district who make improvements to their property to receive property tax rebates. The amount that's rebated can vary from 1% to 100% of the increased taxes collected as a result of the improvements made.
Property Tax Abatement Projects	A complete or partial elimination of the property taxes to be collected—based on the appraised valuation of buildings, land and tangible personal property.
State Bond and Rebate Projects	The State has agreed to provide financial assistance to four businesses through arrangements set forth in State law. The two State bond projects are Goodyear in Shawnee County and Spirit Airlines in Sedgwick County. The two rebate projects are Innovia in Shawnee County and Eaton in Reno County.
State Income Tax Credits	Kansas law allows businesses and individuals to claim income tax credits when they fulfill certain eligibility requirements. In this audit, we identified 19 income tax credits that pertain to spurring economic development activities.
Transportation Development District Act Projects	The program established under this Act uses property taxes collected through special assessments or new sales taxes collected within the district to finance the transportation improvements made in the area.
<i>"Tax Increment Financing" is a real estate development technique. State law authorizes local governments to acquire certain property and to issue bonds to help finance the redevelopment project. In other words, it is a method to provide public funding in a public/private development project. It includes the following financing options:</i>	
General Obligation Bond Projects	The local governmental entity issues general obligation bonds which carry that entity's guarantee that the bond will be paid in full either from the revenue stream initially marked for payment or from any other revenue stream the entity has available.
Pay As You Go Projects	In this instance, the developer funds the cost of the redevelopment project, and the local governmental entity uses some or all of the additional tax revenues collected as a result of the new development to reimburse the developer for eligible costs incurred.
Special Revenue Bonds	Special Revenue Bonds are issued by a local government but are a limited obligation for that government because the bonds are paid only from funds pledged for that purpose.
Sales Tax and Revenue (STAR) Bond Projects	STAR bonds are a form of special revenue bonds that use both State and local sales tax revenues generated within the redevelopment district to pay off project expenses, including debt service payments for the bonds issued. As of June 2007, there were three active STAR bond projects in Kansas— the Speedway and Village West project in Wyandotte County, a Salt Museum project in Reno County, and improvements to the Heartland Park Racetrack in Shawnee County.
Source: Authorizing statutes and <i>Economic Development Tools for Kansas Municipalities</i> published by the League of Kansas Municipalities	

***We Used
Statistical Methods
To Analyze the
Relationship Between
Economic Development
Spending and
Economic Growth***

Our second approach to answering this question was to perform several regression analyses using actual historical information about each county from 2003 through 2007. Some of the variables we examined were economic development spending that could be allocated to those counties, population levels, jobs, wage rates, commercial property valuations, percent of people over 65, etc.

In simplified terms, regression analysis is a statistical tool that can help answer such questions as why the number of jobs in a county has changed over time. It can look at multiple factors going on at the same time within each county—and at all the variations in those factors from year to year—to determine which ones have had an impact on the change in the number of jobs, and how much of an impact they've had.

We used regression analyses to identify whether statistically measurable relationships existed between economic development spending and the actual growth in jobs, businesses, and per-capita wages from 2003 to 2007. There are a number of other advantages to such analyses:

- they can show how strong or weak that relationship is
- they can be used to help quantify the impact of that spending
- They involve data over time, in case any relationships that exist are time sensitive or volatile.
- They already account for the "multiplier effect" often cited by literature, which is generally pegged at 2-3 times the direct impact of the program. The multiplier effect recognizes the indirect impact economic development spending has on creating "downstream" jobs in the economy. For example, if a company builds a new factory in Emporia and creates 200 new jobs, additional jobs are likely to be created in the construction, restaurant, or other sectors of the economy.

The statistical models we used in performing these analyses assume a one-year lag between the time the economic development spending occurred and the time the economic growth happened. Because complete growth data for 2008 weren't available at the time of this audit, we weren't able to use the 2007 spending that the agencies had reported to us. Thus, our analyses were limited to economic development spending that could be allocated to the counties from 2003-2006. That spending totaled \$668 million (\$555.7 million in State and local forgone revenues, and \$112.8 million in direct State payments to companies).

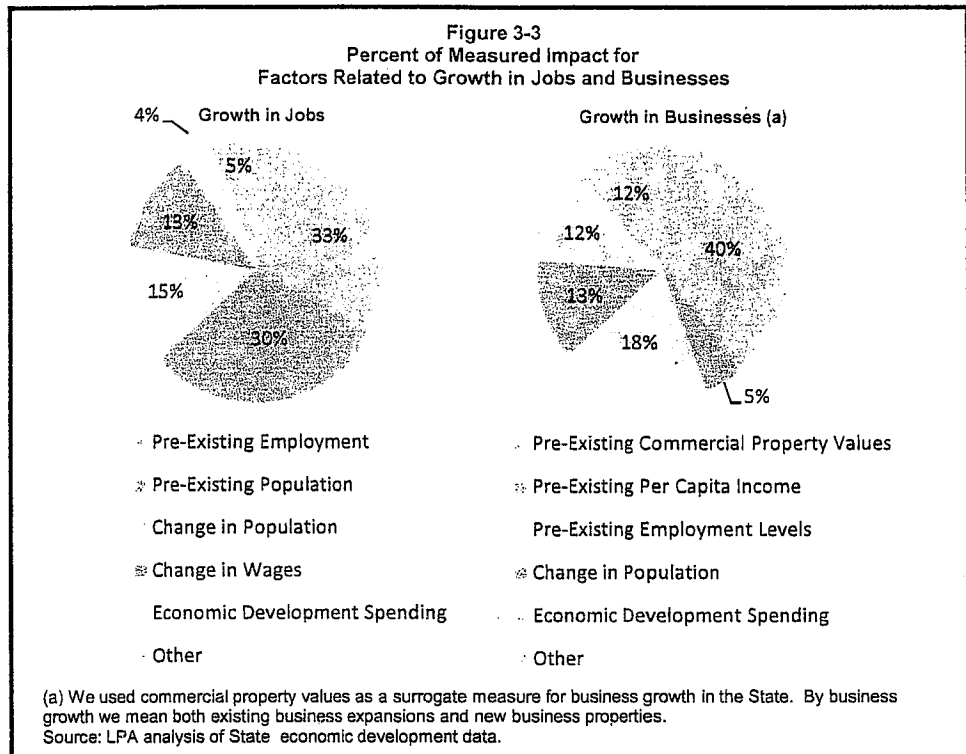
Finally, the readers should consider the following issues and limitations in reviewing the results of our analyses:

- Our analyses can't be used to compare one county to another, because our work doesn't provide county-level estimates of the cost to create or retain one job for each county. Instead, the analysis shows the average result for a county after looking at all counties in the State.
- Our analyses show how economic development spending has related to economic growth in the past; the nature of the Kansas economy and the relationships between major factors may change in future years, and new analyses could lead to different results.
- Our analyses shouldn't be used to project what may have occurred in the absence of economic development spending. That's because other factors might have come into play in the absence of governmental economic development spending.
- We used growth in commercial property values as a surrogate measure of business growth because it more accurately captures not only the number of businesses, but also the size of those businesses. Commercial property values measure the amount of business activity going on in a county, including business expansions and increases in property values due to demand for land.

Appendix L provides detailed information about the methodology we used.

Economic development spending for 2003-06 had a measurable impact on job and business growth, but other factors had much more of an impact. Based on our analyses, we didn't find a statistically measurable relationship between economic development spending in a county and the growth in per-capital wages in that county. But we did find one between economic development spending in a county and the growth in jobs and businesses in that county. Although, as noted in Question 2, other studies have shown mixed results, our model, which was specific to Kansas, showed a small but positive impact for Kansas' economic development spending.

However, those relationships were small—other factors generally had a much stronger impact on job and business growth in a county. *Figure 3-3* summarizes this information.



As the left pie chart in the figure shows, the factors that had the biggest impact on job growth in a county were employment and population levels that existed before the economic development spending occurred. In other words, all other things being equal, pre-existing jobs and population levels were much stronger predictors of the growth in jobs in a county than other factors. Economic development spending had a much smaller impact on job growth, accounting for only 4% of the measurable impact.

This small relationship likely reflects the fact that economic development spending is such a small part of the State's total gross domestic product—\$112 billion for 2006—which is a measure of the general size of the State's economy. During this audit, we also gathered information about how Kansas' gross domestic product compared with nearby states. That information is shown in *Appendix M*.

The right-hand pie chart in the figure tells a similar story for the growth in businesses, although the factors that had the biggest impact in this analysis were pre-existing commercial property values and employment levels. Economic development spending was a somewhat better predictor of the growth in businesses than it was in the growth in jobs—it accounted for about 12% of the measurable impact.

Regression analysis also allows us to quantify the impact of any relationships found. We determined that:

- all other things being equal, on average \$27,000 in economic development spending in a county led to one additional job being created or retained in that county from 2003 to 2007 over what would have been expected. (This amount includes both direct and indirect jobs that may have been created or retained through the economic development spending.) Unfortunately, there's no way to know the extent to which those created or retained jobs simply may have gone from one Kansas county to another, rather than being new to the State. In such a situation, one county could have gained a job, another county could have lost a job, and there would be no net impact on the State as a whole. As a result, these results can't be extrapolated to calculate a Statewide total (by dividing \$668 million by \$27,000).
- all other things being equal, \$1 in economic development spending was related to a \$2.46 increase in commercial property values.

As noted earlier, our analyses didn't identify a statistical relationship between economic development spending and per-capita wage rates. Such spending could induce higher wage rates in a county either directly (by creating exceptionally high-paying jobs that would increase the average wage rate in the entire county) or indirectly (by increasing the number of jobs to such an extent that there's a net shortage of workers, resulting in more competitive wage rates overall). There was no statistical evidence that economic development spending had worked in either way.

Finally, when we split the economic development spending into forgone revenues (\$555.7 million) and direct payments to companies (\$112.8 million) for our analyses, we determined that forgone revenues had a statistically measurable impact on job and business growth, but direct payments had no measurable relationship. That's possibly because direct payments by themselves represent such a small portion of the economic development spending we analyzed, making any relationship more difficult to measure.

APPENDIX I

Summary of Economic Development Income Tax Credits Allowed, As Processed by the Department of Revenue, by County Fiscal Years 2004-2006

This Appendix presents information about the economic development income tax credits allowed by the Department of Revenue for the 24 month period ending December 31, 2006. Of the 19 income tax credits we analyzed, only eight had activity during this period.

**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit			
	Regional Foundation Contribution Credit	Business and Job Development Credit	Telecommunications and Railroad Credit	Research and Development Credit
Allen	\$0	\$1,008	\$0	\$0
Anderson	\$0	\$126	\$0	\$0
Atchison	\$0	\$633	\$0	\$437
Barber	\$0	\$534	\$0	\$0
Barton	\$0	\$74,147	\$31	\$0
Bourbon	\$0	\$25,170	\$0	\$0
Brown	\$5,000	\$1,835	\$21,089	\$9,046
Butler	\$0	\$92,290	\$0	\$12,342
Chase	\$0	\$458	\$0	\$0
Chautauqua	\$0	\$0	\$134	\$0
Cherokee	\$0	\$19,212	\$4,714	\$0
Cheyenne	\$0	\$348	\$0	\$0
Clark	\$0	\$685	\$0	\$0
Clay	\$0	\$9,913	\$7,599	\$0
Cloud	\$0	\$33,753	\$132	\$0
Coffey	\$0	\$14,689	\$0	\$0
Comanche	\$0	\$0	\$0	\$0
Cowley	\$0	\$36,824	\$16,622	\$0
Crawford	\$0	\$359,548	\$0	\$0
Decatur	\$0	\$180	\$0	\$0
Dickinson	\$0	\$53,431	\$0	\$0
Doniphan	\$0	\$0	\$0	\$0
Douglas	\$0	\$240,819	\$0	\$12,324
Edwards	\$0	\$5,297	\$0	\$0
Elk	\$0	\$0	\$0	\$0
Ellis	\$0	\$2,000	\$0	\$1,142
Ellsworth	\$0	\$34,312	\$1,431	\$3,174
Finney	\$0	\$37,172	\$0	\$0
Ford	\$0	\$17,562	\$53,907	\$326
Franklin	\$0	\$61,684	\$5	\$0
Geary	\$0	\$1,616	\$0	\$0
Gove	\$0	\$3,997	\$0	\$0
Graham	\$0	\$92	\$0	\$0
Grant	\$0	\$0	\$33,805	\$0
Gray	\$0	\$8,020	\$0	\$0
Greeley	\$0	\$0	\$0	\$0
Greenwood	\$0	\$20,319	\$17	\$0
Hamilton	\$0	\$29,895	\$0	\$0
Harper	\$0	\$20,307	\$0	\$0
Harvey	\$0	\$344,390	\$0	\$1,359
Haskell	\$0	\$48,288	\$0	\$0

**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit			Total	
	Venture and Local Seed Capital Credit	High Performance Incentive Program Credit	Business Machinery and Equipment Credit		Single City Port Authority Credit
Allen	\$0	\$0	\$188,275	\$0	\$189,283
Anderson	\$0	\$1,709	\$15,306	\$0	\$17,141
Atchison	\$0	\$1,659,611	\$392,987	\$0	\$2,053,668
Barber	\$0	\$0	\$13,964	\$0	\$14,498
Barton	\$0	\$5,630	\$224,417	\$0	\$304,225
Bourbon	\$0	\$44,423	\$80,519	\$0	\$150,112
Brown	\$0	\$19,370	\$78,036	\$0	\$134,376
Butler	\$0	\$4,139	\$205,212	\$0	\$313,983
Chase	\$0	\$0	-\$38,562	\$0	\$39,020
Chautauqua	\$0	\$0	\$2,992	\$0	\$3,126
Cherokee	\$0	\$0	\$26,533	\$0	\$50,459
Cheyenne	\$0	\$7,596	\$3,458	\$0	\$11,402
Clark	\$0	\$0	\$6,185	\$0	\$6,870
Clay	\$0	\$0	\$26,951	\$0	\$44,463
Cloud	\$0	\$143,222	\$42,819	\$0	\$219,926
Coffey	\$0	\$0	\$17,889	\$0	\$32,578
Comanche	\$0	\$0	\$3,466	\$0	\$3,466
Cowley	\$0	\$0	\$102,841	\$0	\$156,287
Crawford	\$0	\$112,718	\$162,697	\$170,000	\$804,963
Decatur	\$0	\$5,979	\$8,346	\$0	\$14,505
Dickinson	\$0	\$0	\$99,468	\$0	\$152,899
Doniphan	\$0	\$0	\$19,484	\$0	\$19,484
Douglas	\$0	\$546,039	\$450,485	\$0	\$1,249,667
Edwards	\$0	\$0	\$22,530	\$0	\$27,827
Eik	\$0	\$0	\$3,990	\$0	\$3,990
Ellis	\$0	\$41,801	\$186,911	\$0	\$231,854
Ellsworth	\$0	\$0	\$27,168	\$0	\$66,086
Finney	\$0	\$1,401	\$129,996	\$0	\$168,569
Ford	\$0	\$14,932	\$169,068	\$0	\$255,795
Franklin	\$0	\$2,354	\$47,322	\$0	\$111,365
Geary	\$0	\$334	\$21,730	\$0	\$23,680
Gove	\$0	\$91,551	\$11,568	\$0	\$107,116
Graham	\$0	\$4,141	\$7,077	\$0	\$11,310
Grant	\$0	\$69	\$58,780	\$0	\$92,654
Gray	\$0	\$27,852	\$15,943	\$0	\$51,815
Greeley	\$0	\$0	\$7,030	\$0	\$7,030
Greenwood	\$0	\$0	\$21,902	\$0	\$42,238
Hamilton	\$0	\$0	\$3,990	\$0	\$33,885
Harper	\$0	\$83,858	\$28,547	\$0	\$132,712
Harvey	\$0	\$42,143	\$191,639	\$0	\$579,531
Haskell	\$0	\$21,570	\$6,532	\$0	\$76,390

**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit			
	Regional Foundation Contribution Credit	Business and Job Development Credit	Telecommunications and Railroad Credit	Research and Development Credit
Hodgeman	\$0	\$2,200	\$0	\$0
Jackson	\$25,000	\$5,051	\$0	\$0
Jefferson	\$0	\$41,887	\$0	\$101
Jewell	\$0	\$0	\$0	\$0
Johnson	\$500	\$3,511,415	\$475	\$272,581
Kearny	\$0	\$0	\$0	\$0
Kingman	\$0	\$43,385	\$0	\$0
Kiowa	\$0	\$889	\$0	\$0
Labette	\$0	\$100,007	\$0	\$3,960
Lane	\$0	\$6,327	\$0	\$0
Leavenworth	\$0	\$39,753	\$0	\$23,681
Lincoln	\$0	\$816	\$0	\$288
Linn	\$0	\$31	\$1,717	\$0
Logan	\$0	\$1,661	\$0	\$0
Lyon	\$0	\$111,697	\$3,958	\$523
Marion	\$0	\$22,534	\$0	\$0
Marshall	\$0	\$47,033	\$11,140	\$0
McPherson	\$0	\$280,343	\$50,812	\$0
Meade	\$0	\$3,510	\$0	\$0
Miami	\$0	\$77,177	\$570	\$73
Mitchell	\$0	\$0	\$8,875	\$0
Montgomery	\$0	\$56,483	\$0	\$0
Morris	\$0	\$10,198	\$29,967	\$0
Morton	\$0	\$0	\$3,062	\$0
Nemaha	\$0	\$130,320	\$0	\$4,940
Neosho	\$0	\$322,620	\$0	\$31
Ness	\$0	\$669	\$0	\$0
Norton	\$0	\$7,944	\$32,000	\$0
Osage	\$0	\$159	\$0	\$0
Osborne	\$0	\$28,653	\$0	\$226
Ottawa	\$0	\$21,798	\$7,034	\$0
Pawnee	\$0	\$1,116	\$0	\$0
Phillips	\$0	\$0	\$0	\$0
Pottawatomie	\$0	\$129,410	\$39,061	\$0
Pratt	\$0	\$0	\$0	\$0
Rawlins	\$0	\$77	\$0	\$0
Reno	\$0	\$201,243	\$11	\$14,620
Republic	\$0	\$1,200	\$0	\$0
Rice	\$0	\$62,449	\$4,060	\$0
Riley	\$0	\$118,014	\$0	\$9
Rooks	\$0	\$27,971	\$0	\$0
Rush	\$0	\$476	\$0	\$0
Russell	\$0	\$3,974	\$1,781	\$0

**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit				Total
	Venture and Local Seed Capital Credit	High Performance Incentive Program Credit	Business Machinery and Equipment Credit	Single City Port Authority Credit	
Hodgeman	\$0	\$0	\$446	\$0	\$2,646
Jackson	\$0	\$0	\$21,168	\$0	\$51,219
Jefferson	\$0	\$0	\$330,395	\$0	\$372,383
Jewell	\$0	\$0	\$2,831	\$0	\$2,831
Johnson	\$20,624	\$7,722,374	\$9,996,712	\$901,527	\$22,426,208
Kearny	\$0	\$0	\$1,364	\$0	\$1,364
Kingman	\$0	\$242	\$87,116	\$0	\$130,743
Kiowa	\$0	\$0	\$6,426	\$0	\$7,315
Labette	\$0	\$0	\$75,855	\$0	\$179,822
Lane	\$0	\$9,749	\$7,012	\$0	\$23,088
Leavenworth	\$0	\$0	\$118,466	\$0	\$181,900
Lincoln	\$0	\$0	\$3,294	\$0	\$4,398
Linn	\$0	\$1,786	\$16,872	\$0	\$20,406
Logan	\$0	\$75,822	\$4,909	\$0	\$82,392
Lyon	\$0	\$5,735	\$175,814	\$0	\$297,727
Marion	\$0	\$0	\$36,949	\$0	\$59,483
Marshall	\$0	\$0	\$112,723	\$0	\$170,896
McPherson	\$0	\$2,211	\$372,883	\$0	\$706,249
Meade	\$0	\$0	\$4,750	\$0	\$8,260
Miami	\$0	\$51,268	\$63,404	\$0	\$192,492
Mitchell	\$0	\$0	\$81,697	\$0	\$90,571
Montgomery	\$0	\$0	\$130,250	\$0	\$186,733
Morris	\$0	\$0	\$8,486	\$0	\$48,651
Morton	\$0	\$0	\$7,715	\$0	\$10,777
Nemaha	\$0	\$2,449	\$32,044	\$0	\$169,753
Neosho	\$0	\$0	\$117,316	\$0	\$439,966
Ness	\$0	\$24,617	\$12,778	\$0	\$38,064
Norton	\$0	\$7,124	\$87,293	\$0	\$134,361
Osage	\$0	\$0	\$11,149	\$0	\$11,308
Osborne	\$0	\$8,906	\$35,921	\$0	\$73,706
Ottawa	\$0	\$0	\$6,388	\$0	\$35,220
Pawnee	\$0	\$0	\$18,558	\$0	\$19,674
Phillips	\$0	\$0	\$15,244	\$0	\$15,244
Pottawatomie	\$0	\$0	\$223,999	\$0	\$392,470
Pratt	\$0	\$0	\$159,704	\$0	\$159,704
Rawlins	\$0	\$3,521	\$1,783	\$0	\$5,381
Reno	\$0	\$1,756	\$589,758	\$0	\$807,389
Republic	\$0	\$0	\$15,847	\$0	\$17,047
Rice	\$0	\$0	\$33,930	\$0	\$100,439
Riley	\$0	\$126,294	\$81,460	\$0	\$325,777
Rooks	\$0	\$4,315	\$29,073	\$0	\$61,359
Rush	\$0	\$13,365	\$12,921	\$0	\$26,762
Russell	\$0	\$73,859	\$37,500	\$0	\$117,113

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**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit			
	Regional Foundation Contribution Credit	Business and Job Development Credit	Telecommunications and Railroad Credit	Research and Development Credit
Saline	\$0	\$250,560	\$0	\$14,565
Scott	\$0	\$29,701	\$0	\$0
Sedgwick	\$0	\$2,214,795	\$0	\$450,153
Seward	\$0	\$33,142	\$0	\$0
Shawnee	\$60	\$230,279	\$531	\$355
Sheridan	\$0	\$9,291	\$0	\$0
Sherman	\$0	\$1,586	\$0	\$0
Smith	\$0	\$41,994	\$0	\$0
Stafford	\$0	\$0	\$0	\$0
Stanton	\$0	\$43,255	\$0	\$0
Stevens	\$0	\$32	\$0	\$0
Sumner	\$0	\$9,280	\$0	\$625
Thomas	\$0	\$1,661	\$0	\$0
Trego	\$0	\$521	\$0	\$0
Wabaunsee	\$0	\$9,777	\$0	\$0
Wallace	\$0	\$153	\$0	\$0
Washington	\$0	\$0	\$0	\$0
Wichita	\$0	\$31	\$0	\$0
Wilson	\$0	\$152,608	\$0	\$4,368
Woodson	\$0	\$6,433	\$0	\$0
Wyandotte	\$0	\$446,700	\$0	\$9,786
Subtotal	\$30,560	\$10,502,844	\$334,539	\$841,035
County unknown	\$0	\$13,859,247	\$170,293	\$1,402,652
Total	\$30,560	\$24,362,090	\$504,832	\$2,243,687

(a) Our analysis of the Department of Revenue's data was limited because the Department had reliable data about the amount of income tax credits claimed for only a 24-month period—which included the last six months of fiscal year 2004, all of fiscal year 2005, and the first six months of fiscal year 2006.

Source: LPA analysis of Kansas Department of Revenue income tax credit data.

4-12

**Economic Development Income Tax Credits Processed by the Department of Revenue
Fiscal Years 2004-2006 (a)**

County	Name of Tax Credit				Total
	Venture and Local Seed Capital Credit	High Performance Incentive Program Credit	Business Machinery and Equipment Credit	Single City Port Authority Credit	
Saline	\$0	\$349,214	\$320,801	\$0	\$935,140
Scott	\$0	\$10,939	\$20,626	\$0	\$61,266
Sedgwick	\$10,768	\$1,513,082	\$3,301,134	\$0	\$7,489,932
Seward	\$0	\$97	\$29,849	\$0	\$63,088
Shawnee	\$0	\$3,374,902	\$1,038,345	\$0	\$4,644,472
Sheridan	\$0	\$170,013	\$5,576	\$0	\$184,880
Sherman	\$0	\$36,896	\$14,152	\$0	\$52,634
Smith	\$0	\$0	\$20,373	\$0	\$62,367
Stafford	\$0	\$0	\$57,833	\$0	\$57,833
Stanton	\$0	\$0	\$5,754	\$0	\$49,009
Stevens	\$0	\$1,774	\$4,277	\$0	\$6,083
Sumner	\$0	\$1,781	\$36,377	\$0	\$48,063
Thomas	\$0	\$43,172	\$44,840	\$0	\$89,673
Trego	\$0	\$14,697	\$6,317	\$0	\$21,534
Wabaunsee	\$0	\$0	\$7,981	\$0	\$17,758
Wallace	\$0	\$5,029	\$898	\$0	\$6,080
Washington	\$0	\$0	\$17,445	\$0	\$17,445
Wichita	\$0	\$1,781	\$4,573	\$0	\$6,385
Wilson	\$0	\$90,657	\$44,062	\$0	\$291,695
Woodson	\$0	\$0	\$7,694	\$0	\$14,127
Wyandotte	\$0	\$26,959	\$1,315,974	\$0	\$1,799,420
Subtotal	\$31,392	\$16,658,828	\$22,667,699	\$1,071,527	\$52,138,424
County unknown	\$279	\$26,919,327	\$43,128,969	\$0	\$85,480,767
Total	\$31,671	\$43,578,155	\$65,796,668	\$1,071,527	\$137,619,191

KANSAS
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OF
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BOARDS

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Testimony before the
2010 Commission
on

Taxes, Education and Economic Status
by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

August 7, 2009

Education attainment has become the most important factor in economic success. Kansas is well poised to take advantage of this because our education system produces among the best results in the nation and in our region. Those results are threatened by state funding cuts. Barring either a dramatic economic recovery or significant additional federal aid, the only practical way to avoid such cuts is to raise more state revenue. The question is whether education and other vital services should be cut far more deeply rather than increase taxes or reconsider recent tax cuts.

Kansas is not a “high tax” state, and the Kansas tax burden (taxes compared to personal income) has been stable for decades.

Kansas is a highly educated state, but not a “high tax” state, ranking 23rd in the nation on state and local tax collections as a percent of personal income according to the most recent report from the National Federation of State Tax Administrators. Despite the rhetoric about “constantly rising taxes,” the Kansas tax burden has remained remarkably constant. The Kansas Legislative Research Department reports state and local government taxes as a percent of Kansas personal income has consistently ranged between about 10.5 percent and 12 percent from the 1930s to 2000. However, because of significant changes in the mix of taxes and exemptions from various taxes, it’s quite likely the individual burden for some taxpayers has increased – because it has been reduced for others.

Tax policy alone does not drive prosperity. Prosperous states do not have low average tax burdens, and low income states do not have high tax burdens.

If low taxes spur income growth and prosperity, low tax states should rank high on income measures. However, that is not the case.

State per capita income in 2007 ranged from a high of \$54,981 in Connecticut to a low of \$28,541 in Mississippi. The top 10 states in per capita income had an average ratio of total tax collections to state personal income of 12.17 percent. The 10 states with the lowest incomes had a slightly lower tax burden of 11.34 percent. Likewise the top 10 income states had an average national ranking of 22.4 (where 1 is the highest tax burden) and the bottom 10 had an average ranking of 26.3. In other words, high income states were more likely to be high tax states, not the reverse.

2010 Commission
Date - 08-07-09
Attachment - 5

Education attainment drives state income far more than tax burden.

Comparing states in the region on four measures of educational attainment (percent of population 18-24 that are high school completers and percent of population over the age of 24 with a high school diploma, bachelor's and advanced degrees) shows a stronger correlation to income than tax rates. By combining these measures of education to produce a national ranking of states, the 10 highest income states had an average educational rank of 12. As state incomes decline, average education rankings also decline. The bottom 10 income states had by far the worst average educational ranking: 39.2.

This can be seen even more clearly in Kansas' neighboring states and the other states in the Plains region. Of the five regional states with a lower tax burden than Kansas, only Colorado has a higher per capita income and median household income, and only Iowa had a (slightly) lower poverty rate. Lower taxes on low income is not a benefit. For example, Kansans paid about 1 percent more of their personal income in state and local taxes than Oklahoma, but had a 7.7 percent higher per capita income; 8.5 percent higher household income, and 4.7 percent fewer people living in poverty.

Tax Burden, Wealth and Education Attainment									
	Tax Collections % of Personal Income (2006)	U.S. Rank	Personal Income Per Capita (2007)	U.S. Rank	Household Income Median (2007)	U.S. Rank	Percent In Poverty (2007)	U.S. Rank	Education Attainment Adults 18 and older (Average U.S. Rank)
Nebraska	11.9%	14	\$36,471	24	\$47,085	33	11.2%	17	15
Minnesota	11.8%	19	\$41,034	11	\$55,802	10	9.5%	8	5
North Dakota	11.7%	21	\$34,846	29	\$43,753	39	12.1%	25	23
Kansas	11.7%	23	\$36,768	22	\$47,451	30	11.2%	17	10
Iowa	11.0%	34	\$35,023	27	\$47,292	32	11.0%	16	26
Oklahoma	10.6%	41	\$34,153	33	\$43,424	41	15.9%	41	40
Missouri	10.1%	44	\$34,389	32	\$45,114	37	13.0%	31	32
Colorado	9.8%	46	\$41,042	10	\$55,212	12	12.0%	22	11
South Dakota	9.1%	50	\$33,905	34	\$41,567	44	13.1%	32	30

But Kansas also had better wealth measures than two states with higher tax burdens: Nebraska and North Dakota. On the other hand, Colorado has a low tax rate but a high ranking on income measures (but also a higher poverty rate.) What the top income states in the region (Minnesota, Colorado and Kansas) have in common is not low taxes, but high education attainment. Likewise, the lowest wealth states have the lowest education levels.

The relationship between state education levels and income isn't surprising, based on the dramatic increase in the economic value of education.

Between 1973 and 2007, inflation-adjusted income for high school drop-outs declined 15.7 percent; for high school graduates with no additional training income increased just 3.3 percent; those with some postsecondary education increased 15.8 percent and college graduates increased 36.3 percent. Low-skill jobs which can support a family have disappeared. A high wage economy demands a highly skilled workforce, which Kansas is positioned to deliver – for now.

High income jobs require strong basic skills and postsecondary training. All the tax breaks in the world won't bring these jobs to Kansas if the workforce isn't there to fill them. Attracting low skill, low wage jobs to Kansas may help a few businesses, but it won't raise living standards for most Kansans. In reality, there are far cheaper places in the world to locate low skill operations. But Kansas can compete with almost any other state – and many other nations – in the quality of its workforce.

Lower taxes won't help the economy in the long run if states can't support strong education systems – and that takes a significant investment.

Kansas is a leader in educating its young people. Despite the contention that money doesn't matter in educational performance, that clearly isn't true in Kansas. It was disproved by the 2006 Legislative Post Audit Outcomes study. Additional funding, wisely spent with clear outcomes-based accountability, has made an enormous difference in Kansas, as measured by state assessments, national assessments and graduation rates.

Some say Kansas school districts aren't using their funds efficiently, but as the following table shows, Kansas educational outcomes rank in the top 10, yet Kansas spent less than the national average. Kansas spends less than any other top 10 states on educational outcomes (combined percent of students scoring basic on the 2007 National Assessment of Education Progress, students scoring proficient on the NAEP, percent of 18- to 24-year-olds completing high school and the percent of adults 25 and older with a high school diploma, bachelor's degree and advanced degree).

Average Rank in Six Education Measures for Each State, with 2005-06 Current Spending per Pupil									
Top 10 Education Ranking		Second 10 Education Ranking		Third 10 Education Ranking		Fourth 10 Education Ranking		Bottom 10 Education Ranking	
4.7 Vermont	\$12,614	15.8 Colorado	\$8,057	21.2 Iowa	\$8,360	29.0 Idaho	\$6,440	37.8 Oklahoma	\$6,961
5.7 Massachusetts	\$11,981	16.2 Utah	\$5,437	21.7 Wyoming	\$11,197	29.8 Missouri	\$8,107	38.7 S. Carolina	\$8,091
8.5 N. Hampshire	\$10,079	17.2 Washington	\$7,830	22.5 S. Dakota	\$7,651	30.2 Florida	\$7,759	39.0 Kentucky	\$7,662
9.0 Minnesota	\$9,138	17.2 N. Dakota	\$8,603	23.5 Illinois	\$9,149	30.3 Indiana	\$8,793	39.3 Tennessee	\$6,883
9.2 New Jersey	\$14,630	17.5 Maine	\$10,586	23.5 Oregon	\$8,545	33.2 N. Carolina	\$7,388	41.0 West Virginia	\$9,352
9.7 Connecticut	\$12,323	17.5 Pennsylvania	\$11,028	23.8 Ohio	\$9,598	33.7 California	\$8,486	41.5 Arkansas	\$7,927
11.2 Kansas	\$8,392	18.5 Wisconsin	\$9,970	24.7 Delaware	\$11,666	34.8 Georgia	\$8,565	42.5 Louisiana	\$8,402
11.3 Montana	\$8,581	19.0 Nebraska	\$8,736	25.3 Rhode Island	\$11,769	35.0 Arizona	\$6,472	43.7 Nevada	\$7,345
13.8 Virginia	\$9,447	20.3 New York	\$14,884	26.7 Alaska	\$11,460	35.7 Texas	\$7,561	44.0 Alabama	\$7,646
14.5 Maryland	\$10,670	21.2 Hawaii	\$9,876	27.5 Michigan	\$9,572	36.7 New Mexico	\$8,086	49.5 Mississippi	\$7,221
Average per pupil:	\$10,786	Average per pupil:	\$9,501	Average per pupil:	\$9,893	Average per pupil:	\$7,766	Average per pupil:	\$7,749

States with high educational attainment tend to have higher per capita and family income, and less poverty. Kansas ranks among the top states in the region in education spending, educational attainment and income. States with lower student achievement have lower incomes and more poverty. A recent study cited by the Kansas P-20 Council indicates states reap a benefit of \$209,000 for every high school graduate – nearly double the current 13-year cost of K-12 education per pupil in Kansas. Improving education reduces poverty which lowers welfare costs. Studies show improving graduation rates reduces crime. Individuals with more education tend to have better health outcomes. Every additional Kansas student better prepared to graduate and succeed in postsecondary training or college over the past decade was a successful investment, not an excessive cost.

Educational progress is threatened by funding cuts that could wipe out two-thirds of the increase since the *Montoy* decision.

After the Governor's budget allotments in July, total state aid for public education has been reduced a total of \$125.5 million, or 3.8 percent, below Fiscal Year 2009 (which was cut by \$21 million in base state aid during the year). But because several aid programs are actually increasing (KPERs contributions, bond and interest aid), the state aid reductions districts will face in their operating budgets will be \$168.4 million.

Nationally, it appears the economy may have hit bottom, but in Kansas, it will likely get much worse next year. The Legislative Research Department projects a \$568.6 million State General Fund (SGF) deficit for FY 2011. If the Legislature cuts spending by that amount and takes just 50 percent from education, school district aid would be reduced a further \$284.3 million, equal to \$448 in the base budget per pupil. But some legislators have said education should be cut more deeply than other programs.

In 2012, \$194.4 million in federal stimulus funding for education expires, which equals another \$306 in the base. These cumulative reductions would lower base state aid per pupil to \$3,464: \$969 or 22 percent below the level approved for FY 2009. The cumulative impact of these cuts would be \$604.2 million, or 65 percent of the state funding added after the *Montoy* decision in 2005 (\$931.7 million). In addition to deep reductions in K-12 education, the budget crisis will also have a major impact on postsecondary programs.

To maintain educational quality, Kansas must consider changes in its tax policy.

The state budget has been hit hard by the current recession. But the state has also granted hundreds of millions of dollars of tax breaks and exemptions that reduced revenue and shifted the responsibility for supporting education and other public services.

Kansas had historically sought to apply taxes to the major sources – property, income and sales – very broadly, with few exceptions and at relatively low rates. But in recent years, the Legislature has increasingly authorized tax exemptions, abatements, credits and other devices that allow certain taxpayers to avoid or reduce their taxes. For example, between 1998 and 2005, the state provided income tax reductions totaling \$217 million per year, and sales tax exemptions totaling \$85 million per year. Since 2005, further tax cuts were estimated to reduce state revenue by \$180 million in FY 2010, increasing to \$239 million by FY 2013.

Many of these tax cuts were intended to promote economic development. A Kansas Legislative Post Audit report found state and local government lost \$860.2 million in revenue due to tax incentives between FY 2003 and 2007, and the state spent \$453.4 million directly for economic development programs. That same report questioned the effectiveness of those programs. Although the overall tax burden has changed very little in the past 80 years, the “average” Kansas taxpayer has experienced tax rate increases to make up for lost revenue due to special tax breaks. A much higher portion of property taxes now fall on residential properties. Sales tax rates have increased, but sales taxes do not account for the larger share of revenue because so many sales are exempt from taxation. At a minimum, these “tax expenditures” should be evaluated just as closely as actual state spending. Perhaps these policies are justified. If so, the Legislature should consider raising tax rates – as it did in the 2001-02 recession.

Kansas economic development efforts depend on educational quality – and government spending.

Almost every discussion of Kansas economic development assets talk about a strong education system, skilled workforce, good infrastructure and quality of life. But when discussing tax policy, it is often as if those things simply fell from the sky, or were discovered by Lewis and Clark. In fact, those assets exist because generations of Kansas taxpayers made them priorities and were willing to pay for them.

There is clear evidence improving educational attainment is the most important economic development strategy available, and is vital to other goals. Both expanding bio-science industries and securing National Bio and Agro-Defense Facility (NBAF) are explicitly aimed at high skill, high wage employees. Both require government funding – the Kansas Bio-science Authority from state funds and the NBAF from federal funds. In addition, a state funded transportation infra-structure is a key part of economic strategies. In fact, Kansas law allows cities and counties to raise taxes for economic development purposes – a strange policy if tax increases harm economic development.

Deeper cuts in education will cause immediate economic harm by eliminating jobs, closing schools in communities and neighborhoods throughout Kansas, and reducing school district purchases. But in the long-term, it means more drop-outs, fewer skilled workers and less economic growth in the state. Because under-educated individuals are far more likely to commit crimes, require social services and have poorer health, spending less on education drives up the cost of other parts of the budget.

Raising more revenue for education, on the other hand, will require individuals and businesses to contribute more in the short term. But virtually all of those dollars will be immediately returned to the Kansas economy in wages and purchases. In the long term, education results in a more productive, innovative and prosperous economy for the benefit of the entire state – and nation.

Our education system will determine whether the next generation can make the American dream a reality. Previous generations believed in sacrifice for the future. What choice will this generation make?

State Per Capita Income, Tax Burden and Education Attainment

State Rank	State Name	Per Capita Income 2007	Tax Collections: % of Personal Income	Taxes: % of Personal Income (State Rank)	Education Attainment Ranking
1	Connecticut	\$54,981	11.9	15	2
2	New Jersey	\$49,511	12.5	9	9
3	Massachusetts	\$48,995	10.9	35	3
4	Wyoming	\$47,047	16.6	1	27
5	Maryland	\$46,471	11.1	30	5
6	New York	\$46,364	15.7	2	16
7	California	\$41,805	12.1	13	28
8	Virginia	\$41,727	10.5	42	11
9	New Hampshire	\$41,639	9.2	49	5
10	Washington	\$41,203	11.2	28	14
10 State Average			12.17	22.4	12
11	Colorado	\$41,192	9.8	46	11
12	Minnesota	\$41,105	11.8	19	5
13	Illinois	\$41,012	11.2	27	18
14	Delaware	\$40,112	11.6	23	28
15	Alaska	\$40,042	15.1	3	24
16	Nevada	\$39,853	10.8	38	48
17	Rhode Island	\$39,829	12.2	12	18
18	Hawaii	\$39,242	14	6	4
19	Pennsylvania	\$38,793	11.4	25	22
20	Florida	\$38,417	10.8	40	32
10 State Average			11.87	23.9	21
21	Vermont	\$37,483	13.5	7	1
22	Texas	\$37,083	10	45	45
23	Kansas	\$36,525	11.7	22	10
24	Nebraska	\$36,372	11.9	14	15
25	Wisconsin	\$36,272	12.3	11	20
26	North Dakota	\$36,082	11.7	21	23
27	South Dakota	\$35,760	9.1	50	30
28	Oregon	\$35,143	10.8	39	21
29	Louisiana	\$35,100	14.3	5	43
30	Oklahoma	\$34,997	10.6	41	40
10 State Average			11.59	25.5	24.8
31	Iowa	\$34,916	10	34	26
32	Ohio	\$34,468	11.8	17	31
33	Michigan	\$34,423	10.9	37	25
34	Maine	\$33,991	14.3	4	17
35	Missouri	\$33,964	10.1	44	32
36	North Carolina	\$33,735	11.3	26	38
37	Georgia	\$33,499	10.9	36	36
38	Tennessee	\$33,395	9.3	48	41
39	Montana	\$33,225	11.1	32	11
40	Indiana	\$33,215	11.9	16	39
10 State Average			11.16	29.4	29.6
41	Arizona	\$32,833	11	33	35
42	Alabama	\$32,419	9.6	47	47
43	Idaho	\$31,804	11.2	29	37
44	South Carolina	\$31,103	10.3	43	42
45	Kentucky	\$30,824	11.5	24	46
46	New Mexico	\$30,706	12.9	8	34
47	Arkansas	\$30,177	11.7	20	49
48	Utah	\$29,831	11.8	18	8
49	West Virginia	\$29,385	12.3	10	44
50	Mississippi	\$28,541	11.1	31	50
10 State Average			11.34	26.3	39.2

State Ranking of Educational Attainment

State Name	2007 NAEP Combined Basic	2007 NAEP Combined Proficient	18-24 High School Completers	High School Grads	Bachelors Degree	Advanced Degree	Average Rank All Measures	2005-06 Total Current Expenditures Per Pupil	Quintile Average
Vermont	3	3	3	6	7	6	4.7	\$12,614	
Massachusetts	1	1	10	19	1	2	5.7	\$11,981	
New Hampshire	5	4	19	5	8	10	8.5	\$10,079	
Minnesota	8	4	11	1	11	19	9.0	\$9,138	
New Jersey	6	2	9	26	5	7	9.2	\$14,630	
Connecticut	19	9	6	17	4	3	9.7	\$12,323	
Kansas	7	6	8	13	16	17	11.2	\$8,392	
Montana	3	8	5	4	19	29	11.3	\$8,581	
Virginia	13	13	18	28	6	5	13.8	\$9,447	
Maryland	25	20	16	23	2	1	14.5	\$10,670	\$10,786
Colorado	21	17	30	17	3	7	15.8	\$8,057	
Utah	27	26	4	2	16	22	16.2	\$5,437	
Washington	22	15	34	9	10	13	17.2	\$7,830	
North Dakota	2	10	2	16	25	48	17.2	\$8,603	
Maine	11	17	15	12	24	26	17.5	\$10,586	
Pennsylvania	15	7	13	24	27	19	17.5	\$11,028	
Wisconsin	20	11	7	14	30	29	18.5	\$9,970	
Nebraska	23	22	11	8	21	29	19.0	\$8,736	
New York	26	23	26	34	9	4	20.3	\$14,884	
Hawaii	44	44	1	9	12	17	21.2	\$9,876	\$9,501
Iowa	12	15	13	11	36	40	21.2	\$8,360	
Wyoming	10	17	21	3	39	40	21.7	\$11,197	
South Dakota	9	12	25	15	31	43	22.5	\$7,651	
Illinois	32	31	21	30	15	12	23.5	\$9,149	
Oregon	31	28	28	20	18	16	23.5	\$8,545	
Ohio	14	11	24	24	38	32	23.8	\$9,598	
Delaware	16	25	46	27	20	14	24.7	\$11,633	
Rhode Island	39	35	19	37	13	9	25.3	\$11,769	
Alaska	34	33	44	7	21	21	26.7	\$11,460	
Michigan	36	33	17	22	34	23	27.5	\$9,572	\$9,893
Idaho	18	23	30	21	37	45	29.0	\$6,440	
Missouri	28	30	27	31	35	28	29.8	\$8,107	
Florida	29	31	35	32	28	26	30.2	\$7,759	
Indiana	17	21	38	29	42	35	30.3	\$8,793	
North Carolina	30	28	39	39	31	32	33.2	\$7,388	
California	49	46	33	45	14	15	33.7	\$8,486	
Georgia	38	39	48	38	23	23	34.8	\$8,565	
Arizona	43	41	41	36	26	23	35.0	\$6,472	
Texas	24	27	46	49	33	35	35.7	\$7,561	
New Mexico	48	48	45	40	28	11	36.7	\$8,086	\$7,766
Oklahoma	35	40	36	33	41	42	37.8	\$6,961	
South Carolina	40	36	39	41	39	37	38.7	\$8,091	
Kentucky	33	36	37	47	47	34	39.0	\$7,662	
Tennessee	42	41	29	43	42	39	39.3	\$6,883	
West Virginia	41	43	23	42	50	47	41.0	\$9,352	
Arkansas	37	38	32	44	49	49	41.5	\$7,927	
Louisiana	46	48	41	28	46	46	42.5	\$8,402	
Nevada	45	45	50	35	45	42	43.7	\$7,345	
Alabama	47	47	43	45	44	38	44.0	\$7,646	
Mississippi	50	50	49	50	48	50	49.5	\$7,221	\$7,749

**Legislative Post Audit Summary of School District
Performance Audits Currently Under Way or Approved
August 2009**

Audit Title (Requestor)	Main Concerns	Questions Asked	Estimated Date Available
Performance Audits			
K-12 Education: Reviewing Issues Related to Catastrophic Funding for Special Education (Rochelle Chronister)	Under a 1994 provision added to the special education funding statutes, districts and cooperatives can receive an extra reimbursement for "catastrophic" special education cases—those that cost at least \$25,000 per year. Members of the 2010 Commission have become concerned about the dramatic increase in catastrophic cases. Specifically, they are concerned that districts may not be applying the same types of costs toward meeting the \$25,000 threshold for catastrophic aid.	<ol style="list-style-type: none"> 1. Do school districts include the same types of expenditures when calculating the costs for "catastrophic" special education cases? 2. How many "catastrophic" special education cases is the State likely to have over the next few years? 	<p align="center"><i>October 2009</i></p>
K-12 Education: Reviewing Issues Related to the Cost of the Health Care Benefits Provided By School Districts (2010 Commission)	Employee insurance costs—primarily health insurance—have grown substantially over the last several years, from just more than \$195 million for the 2003-04 school year, to almost \$250 million for the 2007-08 school year. Overall, employee insurance costs represent nearly 5% of school districts' total reported expenditures for 2007-08. Because health insurance costs represent such a large and growing cost for school districts, members of the 2010 Commission are interested in finding out whether there are ways districts could better control these costs.	<ol style="list-style-type: none"> 1. Could school districts obtain costs savings by reducing health insurance costs? 	<p align="center"><i>February 2010 (Not Started)</i></p>
K-12 Education: Reviewing School Districts' Use of Medicaid Reimbursements To Pay for Special Education Services (2010 Commission)	Because some special education services are health-related, school districts and special education cooperatives can bill Medicaid to help pay for these services if the students are eligible. Medicaid rules make it difficult for school districts to bill for all the health-related services they provided. As a result, members of the 2010 Commission are concerned about whether school district are missing out on large amounts of Medicaid funding for special education services.	<ol style="list-style-type: none"> 1. To what extent have school districts billed Medicaid to receive reimbursement for eligible special education services? 	<p align="center"><i>March 2010 Not Started</i></p>
School District Efficiency Audits			
K-12 Education: Efficiency Audits of the Select School Districts	In May 2009, the 2010 Commission recognized that some districts may want to take advantage of the opportunity to have an external efficiency audit to help them identify opportunities to operate more efficiently. The Commission directed us to contact school districts to see if any of them would like to volunteer for such an audit. So far, four districts have volunteered: <ul style="list-style-type: none"> • Derby • Ellinwood • Renwick • Winfield 	<ol style="list-style-type: none"> 1. Could the school district achieve cost savings by improving the management of its non-instructional personnel, facilities, or other resources 	<p align="center"><i>Started Derby – Oct 2009</i></p> <p align="center"><i>Not Started Ellinwood – Dec 2009 Renwick – TBD Winfield - TBD</i></p>

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SCOPE STATEMENT

K-12 Education: Efficiency Audit of the Derby School District

In July 2009, our office released a school district performance audit examining the efficiency of school districts' operations. As originally directed by the 2010 Commission, that audit would have consisted of two phases. The first phase called for analyzing district staffing and expenditure data to identify areas where spending for districts appeared to be out-of-line compared with their peers. The second phase called for following up on a sample of districts to evaluate their processes in the areas that appeared to be out-of-line to determine if there were ways they could reduce costs without affecting their ability to educate students.

In April 2009, the Commission directed us to suspend the follow-up part of the audit to alleviate concerns some superintendents had expressed about having an efficiency audit conducted while they were trying to address funding cuts from the State. However, in May 2009, the Commission discussed the fact that some districts may want to take advantage of the external review an efficiency audit could provide in helping them look for opportunities to operate more efficiently, and subsequently directed us to contact school districts to see if any of them would like to volunteer for an external efficiency audit.

Officials from the Derby school district contacted us and requested an efficiency audit to help them identify ways they could reduce costs without affecting the education they provide students. This school district performance audit answers the following question:

- 1. Could the Derby school district achieve cost savings by improving the management of its non-instructional personnel, facilities, or other resources?** To answer this question, we would review efficiency audits from other states, talk with district officials, and compare the district's non-instructional staffing and expenditures to its peers to identify areas where the district could potentially save money. We would evaluate the district's practices in each of the areas we've identified to see if there are ways the district could use fewer resources without affecting its ability to educate students.

Estimated Resources: 2 staff (8-10 weeks)

Forward-Looking Approaches to Education As Summary of Findings from School District Performance Audits

As a result of its charge to “review studies relating to the improving, reforming, or restructuring of the educational system,” the 2010 Commission has directed the Legislative Division of Post Audit to complete 15 school performance audits since 2006. Several of those audits explored innovative formats and methods of providing K-12 education. A summary of the most significant findings related to innovations follows.

Educational Settings

In recent years, parents have advocated for choice in the public school system. Many see charter, magnet, and alternative schools as a way to allow that choice. Kansas offers all three:

- **Charter schools** are innovative public schools that operate under local boards of education. In many cases, charter schools receive waivers that free them from some of the rules and regulations other schools must follow. Research on the effectiveness of charter schools is mixed. Some of the studies found that charter schools outperformed traditional public schools, while others have found that they performed worse. In Kansas, charter schools tended to have fewer special education and free-lunch students than traditional schools. Overall, charter school students scored lower on the 2005-06 State assessments than students in traditional settings.
- **Magnet schools** typically have a theme and try to attract a diverse group of students from across a city. Overall, research results on magnet schools were limited and mixed. In Kansas, magnet schools tended to have a slightly lower percentage of special education students than traditional schools, but a greater percentage of free-lunch students. On the 2005-06 State assessments, magnet schools outperformed traditional schools at the high school level, but performed worse at the elementary and middle school levels.
- **Alternative schools** generally serve students who have difficulty in the traditional school environment. State law limits these schools to grades seven through 12. While more recent research is limited, older research showed that alternative schools can have a small positive effect on student performance. In Kansas, alternative schools have fewer special education students but more free-lunch students than traditional schools. Their students performed significantly worse than traditional-school students on the 2005-06 State assessments. Because alternative schools generally serve students who have not been successful in traditional schools, it's not surprising that their test scores tended to be lower.
- **Virtual schools** offer all coursework online so students may access it at any time. Some offer the same curriculum that the “bricks-and-mortar” schools use. This format offers flexibility for students who may need to attend class outside of traditional hours. It also allows tailoring of coursework and instruction for a particular learning pace or style. On the 2005-06 State assessments, virtual school students tended to perform worse than students in traditional schools. Given that virtual schools often attract students who are struggling or have dropped out of school, it seems likely that those students' test scores would be lower.

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Instructional Methods

In 1983, the National Commission on Excellence in Education released the report, *A Nation at Risk*. This report discussed some of the problems in American education and highlighted the need for reform. Since then, demands from parents, falling test scores, and pressure to meet state standards have prompted many schools to attempt a variety of school reforms. Major approaches to the reforms include:

- **Alternative Scheduling** – Alternative schedules are designed to increase the time students spend in school, or to use that time more effectively. Alternative schedules are used to organize the school day, week, or year differently than is typical in traditional schools. Approaches like extended days or weeks are used to increase the total time students spend in school, while block or year-round schedules are used to organize instruction time more effectively.
- **Theme-Based Programs** – Theme-based programs are designed to keep students engaged in learning and to connect their education to their plans for after high school. Schools may offer one or more programs that are centered on a theme, such as technology, fine arts, or communications. The programs are designed to keep students engaged in their coursework by tailoring it to their interests, and to connect students' high school experiences to their plans for after high school.
- **Small Learning Communities** – Small learning communities are designed to foster the relationship between teachers and students, and among students. These schools divide the student body into smaller groups, sometimes based on a theme or career interest. Often, students will remain together with the same teachers for multiple years, which encourages better relationships. These small groups also simulate the small school environment, which fosters collegiality among students.
- **Individualized Learning** – Schools tailor the content and pace of the curriculum to each student. This method can accommodate many different paces and styles of learning. In recent years, the Department of Education has encouraged districts to use the Multi-Tier System of Supports (MTSS). The framework helps districts develop their core curriculum and supplemental services for students who are at-risk for academic failure. This framework is based on the philosophy that every child can learn and educators are responsible for student learning.
- **Comprehensive School Reform** – Many models of comprehensive school reform have been developed that change all aspects of a school. Rather than changing individual areas of a school, such as scheduling, curriculum, or school size, these reforms address many areas, including instructional format, staff development, and the structure of the day. Comprehensive school reform models that have been used in Kansas include High Schools That Work, First Things First, and America's Choice.


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August 3, 2009

To: 2010 Commission Members
From: Sharon Wenger, Principal Analyst 
Re: Summary of Testimony Regarding Catastrophic Aid from the Legislative Educational Planning Committee (LEPC)

Attached is a summary of each of the 12 presenters' testimony before the LEPC last week. Also attached are complete copies of testimony should you want to review the documents in detail. Finally, I have attached a memorandum written by Dale Dennis with a history of catastrophic aid, amounts applied for in the current school year, as well as the text of the 2010 Commission's recommendation on this topic.

The suggestions for "fixing" the catastrophic aid formula included:

- Implementing the recommendation of the 2010 Commission;
- Capping a pool of catastrophic aid funds at a funding level that could not be increased;
- Making current criteria for funding more clear;
- Increasing the threshold from \$25,000 to a higher amount; and
- Deducting state and federal aid from the gross amount per student.

Representatives of the three larger school districts agreed that a complete review and change in the special education funding formula should be done, not just a review and change of one part, catastrophic aid.

Senator Jean Schodorf, Chairperson of LEPC, asked special education directors to develop a recommendation related to catastrophic aid and bring it back to the LEPC no later than October 2009. I understand that group will be meeting in mid-August to begin this work.

Summary of Catastrophic Special Education Aid Testimony at the July 29, 2009, Meeting of the Legislative Educational Planning Committee

Mark Hauptman, Hays West Central Special Education Cooperative

Agrees with the 2010 Commission recommendation for changing the catastrophic aid formula; however, consider setting a specific cap, such as \$66,750, that can be renewed annually based upon increases in the consumer price index. Establishing the cap based upon the previous year's categorical aid per teacher could result in a cap that is lower than it needs to be. In addition, an overall cap of \$2.0 million on the catastrophic aid fund should be established, increasing annually based upon the consumer price index changes. If annual requests exceed the cap, then requests would be filled via pro-rated amounts.

Mike Bilderback, Special Services Cooperative of Wamego

- In the current year, the districts "seeking the highest reimbursement ... should remit a substantial amount of funds back to KSDE" so they can be redistributed to the other school districts, following a KSDE audit of every funded catastrophic aid application in the highest reimbursement districts.
- Adopt a census-based approach to catastrophic aid that is based upon the numbers or percentages of special education students for each district.
- The KSDE should edit its "Special Education Reimbursement Guide" making it more specific.
- Create a separate pool of funds for catastrophic aid with a capped amount that would not be exceeded.
- Establish a safety-valve fund for appealed cases.

Larry N. Clark, Sedgwick County Area Education Service Interlocal Cooperative

Mr. Clark described how the increase in catastrophic aid applicants decreased his Cooperative's categorical aid by \$475 per student or a total reduction of \$230,000 in categorical aid.

His recommendations included:

- Refine the criteria used to define a student eligible for catastrophic aid.
- Develop a threshold per student (rather than the \$25,000 threshold) based upon the average excess cost per FTE special education student and double that amount for the final threshold amount.
- Deduct state aid received for a student from the gross cost of educating a special education student who is eligible for catastrophic aid.
- When developing a new catastrophic aid formula, consider the implications for various size special education budgets.

Judy Denton, Leavenworth County Special Education Cooperative

The cut in categorical special education aid, as a result of the increase in catastrophic aid, caused the Cooperative to increase the Cooperative's assessment to its six school districts from three percent to four percent.

Ms. Denton recommended a different catastrophic aid cost cap be developed.

Dr. Ron Sarnacki, Cowley County Special Services Cooperative

Dr. Sarnacki recommended that the 2010 Commission recommendation regarding a change in the catastrophic aid formula be adopted.

Bruce Givens, Derby Public Schools

Mr. Givens indicated the 2010 Commission recommendation was a "good start." Although he also indicated other options Mr. Dennis had presented to the 2010 Commission would be acceptable. Mr. Givens offered to help convene a group of special education directors to reach consensus on an acceptable resolution.

Mike Lewis, High Plains Educational Cooperative

Mr. Lewis supported the 2010 Commission recommendation. Mr. Lewis indicated that average teacher salary and benefits are now \$52,869, much above the average of \$33,913 from 1994 when catastrophic aid was created. Mr. Lewis told Committee members that if the catastrophic aid formula is not changed, then districts will "need to apply for catastrophic aid on every student."

Bert Moore, Chautauqua and Elk County Special Services Cooperative (former Superintendent of West Elk School District and Vice-Chairperson of the Special Education Funding Task Force)

Mr. Moore said that state aid and federal aid for special education should be deducted from an individual student's gross costs, first, when applying for catastrophic aid. In addition, Mr. Moore indicated that the formula needed to be reviewed based on changes "that have occurred in teacher salary schedules." Leaving catastrophic aid unchanged will allow districts with higher teacher salaries more chance to access catastrophic aid than districts with lower salaries, lowering the amount of categorical aid the lower-salaried districts can access.

Dr. Tom Trigg, Blue Valley School District

Dr. Trigg described reasons for increases in special education expenditures since 1994.

- Medical advances allowing babies who at one time would not have survived to thrive and enter school, needing significant learning supports, therapies, and specialized transportation.
- Research has informed and improved practices so that one-to-one interactions with students are more widely used, as well as early and intense interventions.

Dr. Trigg indicated that the 2010 Commission recommendation is a fiscal disincentive to serve students in their home districts, rather encouraging out-of-district placements. (Teacher FTE and transportation reimbursement would not be included in out-of-district placements.)

Dr. Trigg advocated the catastrophic aid recommendations not be singled out but be included in a package of recommendations for the whole special education funding mechanism. "The consideration of any singular part of the formula without consideration of the whole has the potential to contribute further to inequities ..."

Dr. Trigg pointed to disparities across districts regarding the funding of excess special education costs, reminding the Committee that Blue Valley only received 65.6 percent of excess special education costs, while other districts received 150 or 200 percent.

Dr. Gary George, Olathe School District

Dr. George advocated that the whole special education formula be reviewed and recommendations for changes involve all aspects of the formula, not just catastrophic aid. Dr. George discussed the variations in funding of special education excess costs. He described reasons more high cost students are in the Olathe School District, including the location of major medical centers in the District.

Tim Rooney, Shawnee Mission School District (Business Manager)

Mr. Rooney told the Committee that the District had submitted a large number of catastrophic aid claims for the 2008-09 school year because this was the first year District officials understood that claim submissions on a gross cost basis were allowed. In addition, the District recently completed computer software program modifications allowing the district to more accurately track costs data per special education student.

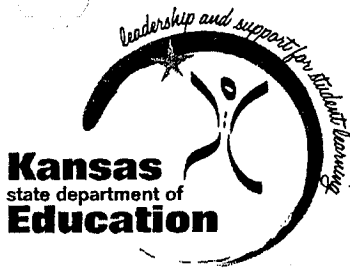
Mr. Rooney advocated the whole special education formula be reviewed and recommendations for changes be made to the whole formula, rather than singling out the catastrophic aid formula for change.

Mr. Rooney also discussed disparities in funding of excess special education costs across districts in the state.

Finally, Mr. Rooney recommended that a "hold harmless for catastrophic aid" provision should be made for the 2008-09 school year.

Deborah Haltom, Shawnee Mission School District (Director of Special Education)

Ms. Haltom recommended that the Special Education Funding Task Force continue to study the special education funding formula in its entirety before any recommendations for change are made.



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July 29, 2009

TO: Legislative Educational Planning Committee
FROM: Dale M. Dennis, Deputy
Commissioner of Education
SUBJECT: Catastrophic Aid

Concerns are being expressed about the catastrophic special education law. The major issue centers on what is catastrophic. We have provided background information and options for your consideration when discussing this issue.

Currently, students eligible for catastrophic state aid is any student whose special education services cost \$25,000 or more including transportation. This law was passed in 1994.

BACKGROUND INFORMATION

Average Teacher Salaries including Fringe Benefits

<u>1993-94</u>	<u>Est. 2008-09</u>	<u>Percent Increase</u>
\$ 33,913	\$ 52,869	55.9%

Total Special Education Expenditures

<u>1993-94</u>	<u>Est. 2009-10</u>	<u>Percent Increase</u>
\$ 305,736,000	\$ 816,700,000	167%

If you increase the catastrophic amount provided in KSA 72-983 adopted in 1994 and apply the increase in the cost of special education, catastrophic state aid per student would be approximately \$66,750

Listed below is a table which provides a history of the number of students qualifying for catastrophic state aid and the amount of state aid.

Fiscal Year	No. of Students Qualifying for Catastrophic Aid	Catastrophic Aid
2001	60	\$ 1,473,441
2002	62	1,513,457
2003	84	1,665,069
2004	85	1,242,160
2005	87	1,100,192
2006	131	2,168,805
2007	185	3,330,818
2008	276	6,005,454
2009	758	12,023,698

We have also provided the attached history of the number of students that have applied for catastrophic aid for the last four years by local special education units.

2010 COMMISSION RECOMMENDATION

Set the catastrophic state aid amount based upon twice the previous years' categorical state aid per teacher less special education state aid.

EXAMPLE -- The estimated amount for the 2009-10 school year would be twice the categorical state aid per teacher (\$28,760) for 2008-09 which results in \$57,520 per teacher less state special education categorical aid and state transportation aid.

Cost of Special Education Student Services	\$ 75,000
Less Special Education State Aid (teachers, paras, transportation)	\$(15,000)
Net Cost to School District	\$ 60,000
Two times categorical aid per teacher of preceding year (2 X \$28,760 – 2008-09)	\$ 57,520
Difference	\$ 2,480
Percentage Determined by State Law	.75
Additional State Aid	\$ 1,860

Catastrophic Aid Applications

Agency		FY 2006	FY 2007	FY 2008	FY 2009
202	Turner - Kansas City	0	0	0	1
229	Blue Valley	38	69	87	129
230	Spring Hill	0	0	0	1
231	Gardner Edgerton	1	1	1	3
232	De Soto	1	3	2	1
233	Olathe	9	23	85	122
259	Wichita	25	19	19	61
260	Derby	3	1	2	0
261	Hayesville	3	5	7	16
263	Mulvane	1	1	1	0
272	Waconda	0	0	1	0
273	Beloit SPED COOP	0	3	6	5
282	Chautauqua & Elk Co SPED COOP	0	0	0	1
290	Ottawa	0	0	2	1
298	Lincoln	0	0	1	0
305	Central KS COOP Salina	0	0	0	6
320	Special Services COOP of Wamego	0	3	2	0
330	Mission Valley	1	1	0	0
333	Learning COOP of N.C. Ks, Concordia	4	5	4	8
345	Seaman	2	2	2	2
346	Jayhawk	0	1	0	0
364	Marshall Co. SPED COOP	0	1	2	2
368	E.C. KS SPED COOP, Paola	1	0	1	1
373	Harvey Co. SPED COOP	0	4	5	2
379	Twin Lakes SPED COOP, Clay Center	1	1	1	1
383	Manhattan-Ogden	1	1	0	0
409	Atchison	0	0	1	1
418	Mc Pherson Co. SPED COOP	6	2	0	1
437	Auburn-Washburn	1	1	3	3
441	Sabetha	1	1	1	1
450	Shawnee Heights	0	1	1	0
453	Leavenworth Co. SPED COOP	1	0	0	1
480	Liberal	0	0	1	1
489	Hays W. C. Ks Educational Coop	0	0	0	1
490	Butler Co. SPED COOP	2	1	1	3
491	Eudora	0	0	0	1
497	Lawrence	0	5	2	0
500	Wyandotte Co. SPED COOP	2	1	0	4
501	Topeka	3	7	9	11
512	Shawnee Mission	0	0	0	333
602	N.W.KS Ed Serv. Ctr	6	5	4	2
603	ANW SPED COOP	5	6	5	11
607	Tri-County SPED COOP, Independence	4	2	1	2
610	Reno Co. SPED COOP	0	0	0	1
611	High Plains SPED COOP	0	2	1	0

Catastrophic Aid Applications

Agency		FY 2006	FY 2007	FY 2008	FY 2009
613	S.W. KS. SPED COOP	3	1	1	1
618	Sedgwick Co. SPED COOP	1	1	2	1
637	S.E. KS. Interlocal	5	5	12	18
	Total Catastrophic Aid applications	131	185	276	760

2010 Commission on Education
July 29, 2009 Room 545-N Statehouse

Testimony on Special Education Catastrophic Aid
Mark Hauptman, USD 489 Assistant Superintendent of Special Services

Catastrophic Aid was enacted in 1994 to assist school districts with the extraordinary cost of students requiring intensive special education services – generally students with very severe special education needs. In summary, to help with the cost of a very few students in the state that had these level of needs so no single district was adversely affected with this financial burden.

Unfortunately this catastrophic aid system has not been adjusted over the years and what had been a system respected by administrators has become a system taken advantage of by some administrators. From 1994 through FY 2005 there were slight variances in the number of students requiring this aid and the total financial costs varied slightly but largely remained under \$1.7 million. FY 2005 realized 87 students qualifying with a total payout of \$1.1 million.

From FY 2005 to FY 2009 those numbers dramatically increased to 758 students totaling \$12 million. In fact, 4 districts now account for 85% of these students. It is my belief the current system is broken and needs to be updated in order to get back to the original mission stated above. We cannot allow a system that can be manipulated to such a degree by a few districts. Every other district in the state can manipulate their figures in similar ways and the numbers will continue to rocket higher. **The end result is that every dollar taken from the Special Education Categorical Aid pot of funds, lessens the dollars available for every special education entity in the state to hire staff and provide programs for all special education students**

I applaud the 2010 commission for their recognition of this problem and for their proposed revision to the law. While I support your overall position, I would recommend the following considerations to your current proposal:

- A. ***It is critical that you retain your provision to subtract special education state aid from the cost of special education student services in the new formula.*** In essence, to not allow districts to double dip for transportation and categorical aid that they are already receiving.
- B. ***I would recommend that you set a specific catastrophic aid cost cap with an annual increase based on the prior year's consumer price index.*** Mr. Dennis earlier provided you with the figure of \$66,750 which reflects what the original catastrophic aid limit of \$25,000 would have increased to given the

increase in the cost of special education since 1994. You need only look at the effects of FY 2011 to see the next problem we face. Your plan suggests basing catastrophic aid "upon twice the previous year's categorical aid per teacher less any special education state aid". In FY 2010 categorical aid is projected to be \$23,000, down from \$28,760 in FY 2009. Doubling that difference results in an additional \$11,520 to be allowed in your catastrophic formula in FY 2011. This does not fairly account for the increase in federal aid to offset part of the decline in state categorical aid. This would allow for an immediate large increase in the amount paid out in catastrophic aid in FY 2011. We can't guess other funding changes that might influence this in the future.

- C. ***I would recommend an overall cap of \$2 million to be allowed annually in Catastrophic Aid.*** This cap would also increase annually based on the prior year's consumer price index. If annual receipts total more than this cap, the state board shall prorate the amount appropriated among all school districts which are eligible to receive catastrophic funding. Again, the original concept was to help districts with extraordinary costs of severely disabled students, not to fully fund these costs.

I would like to thank the 2010 Commission for your ongoing support of education and for your consideration of these proposals.

Special Services Cooperative of Wamego

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Mike Bilderback, Director

Diana Phillips, Office Manager

July 29, 2009

Re: Legislative Testimony Regarding Catastrophic Aid

Ladies and Gentlemen,

In my written remarks for today I outline four themes to the problem solving dilemma we face over the topic of how to fund catastrophic aid to Special Education organizations across our State. I briefly want to mention all four now for the sake of time already spent by others who have spoken earlier today. **First**, I feel that there is still room for a short-term solution to where we are now. I suggest that the districts seeking the highest reimbursements simply realize the impact that this has on all of the rest of the districts and in doing so remit a substantial amount of funds back to KSDE so these funds can be re-distributed equally across all other districts. If one will review closely the data provided within the body of my written remarks, (data originally provided by Dale Dennis earlier) when actual application rates from the past few years are compared to corresponding school district MIS records this creates a **census-based analysis** that can be used fairly to return funds to KSDE. Also, take note of the fact that 11 SPED organizations did not make application. Having visited with one of those, I learned an interesting fact. This Director stated that she'd rather not apply because the more applications made the less money she would get in return. She indicated that although she could apply from one year to the next that she actually makes more money in cat aid than if she applied. I thought that this was important to note, because the more typical thought pattern here would be that if you didn't make application this year it was because you didn't have a child that hit the \$25,000 lib, but this is not always the case. **Second**, nearly everything else we do in SPED is census-based, except for how catastrophic funding is handled (i.e.: cat aid, Dec 1 count, and Sept. 20th counts, to name a few). Currently the dissemination of such funds is based on financial need or resource limitations of individual districts. I believe there is a way to adopt a census-based approach that does not have to be driven by financial need or resource limitations. Simply put, raising salary and fringe benefit packages in some districts, but not doing so in all districts simultaneously, disables districts not able to keep up and reduces their opportunity for reimbursement. Therefore, I'm not convinced that a "one-size fits all" formula is truly equal to all. And, a census-based model would also take into account rapidly growing districts as well as those with declining enrollments (you'll better understand what I mean by this once you read forward). **Third**, the definition referred to in the *Special Education Reimbursement Guide*, needs to be much more specific so there is more clarity to what is genuinely within the framework of being classified as "catastrophic need." For example, contracted services, residential placements, and unforeseen expenditures of students that move into districts after the budget has been set and school has begun, should be considered. **Fourth**, what if, catastrophic aid becomes its own separate pool of money (aside from categorical aid). Yes, the money would originally come off of the top of cat aid, as it does currently, but capped so it would not "bleed" into cat aid set aside for reimbursements back to districts during the year nor at the end of the year. If a census-based model were used, such an amount could be estimated I believe. This would also create a cap for funding State-wide. An appeal process would probably need to be considered especially in those instances when a district was not expecting a new student and had little time or no time to adjust their staffing pattern or budget commitments already made for the year. No matter what the economic climate may be from one year to the next, I believe that Directors simply want to be able to depend on their revenue streams so that what is told to them at the beginning of the year can be maintained until the final payment is made. During good times the stability of our revenue sources will be appreciated. During bad times the stability of our revenue sources will be even more appreciated. I believe that the four-steps outlined herein would provide more stability to not only SPED budgets but also to general education budgets as well.

The Special Education Reimbursement Guide, State Categorical and Transportation (Manual) begins the discussion regarding the topic of Catastrophic Aid Requirements by stating,

“Because some students have unique or severe physical, mental, social/emotional, or educational characteristics that require expensive interventions, the 1994 Legislature authorized reimbursement to school districts for excessive expenditures incurred in providing special education services. Reimbursement is granted at 75% of costs that exceed \$25,000 for the school year. The intent of KSA 2000 Supp. 72-983 is to provide relief for costly services that cannot be delivered through the district’s normal special education program (e.g., additional and intensive related services or private school placements in- or out-of-state). If the appropriation for the payment of grants under this act is insufficient to pay the full amount, payments will be prorated by KSDE.

Amounts requested under this act can be used only to reimburse school districts for excessive expenditures in providing special education services for students who have unique or severe needs. All money requested by the school district must be deposited in its special education fund. Districts also are required to provide financial information to KSDE upon request.”

A clearer definition would hopefully lead to less misunderstanding of the letter and intent of KSA 2000 Supp. 72-983.

- Less than a handful of districts (4 to be specific) having filed 645 of the 760 applications (85%) this year. When one reviews the data provided by Dale Dennis further one realizes that the year before (2008) these same districts made 69.2% of the total applications, the year before that (2007) 60.0%, and the year before that (2006) only 54.96%. Therefore, the escalating number of total applications has risen 30% in just 4-years from these 4 districts alone.
- Interestingly enough, in the face of escalating numbers of applications from these 4 districts, their MIS data base information reveals an overall declining population of total students (-585 students from 2005 to 2008). For example, when one combines the Part-B student counts for 3 to 5 year olds with that of the Part-B count for 5 to 21 year olds the data reveals the following information: 2008 count of 14,642, 2007 count of 14,796, 2006 count of 15,090, and the 2005 count of 15,227.
- When the above child count population data is compared to the number of applications made during the period between 2005 and 2007 it reveals the following data:

Year	Child Count	Applications Made	% of Application to Child Count
2007	14,796	191	1.291%
2006	15,090	111	.736%
2005	15,227	72	.473%

3-year average of.....8333%

- Yet in one single year, 2009, with a child count at its lowest level in the past 4-years, the number of applications rose to 645 representing 5.624% of their total child count, an increase of more than 450%! This “historical” information is important in my professional opinion.
- Another interesting piece of data taken from this information reveals 4 districts with the next highest number of applications made for 2009 includes the Districts of: Haysville, Topeka, ANW SPED Coop, and the S.E.Ks. Interlocal. Interestingly, when you combine the SPED population of these 4 districts you have a total of 5,701 students. These districts submitted 56 applications which represented an average of 1.233% of the total number of students reported in their 2008 MIS data base. This average percent was based on the following actual percentages of: Haysville at 2.24%, Topeka at .466%, ANW SPED Coop at 1.141%, and S.E.KS.Interlocal at 1.085%.

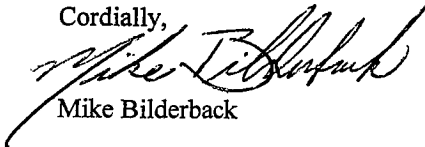
- When one combines the historical data for the 4 districts with the most applications for 2009, and the data from the other 4 districts just mentioned above it does establish some fair and reasonable parameters. For example, the average number of applications per population prior to 2009 for those districts making the most applications was .8333. When compared to the average for the next 4 highest districts making application at 1.233% there is only a **difference of .40%**. This establishes, in my mind, tolerable ranges to work from, and suggests that the letter and intent of the law can be balanced if a **census-based model** is used.
- The answer to this dilemma may lie in the Legislatures' intent in KSA 2000 Supp. 72-983. When looked at from a **financial point of view**: It, *"authorizes reimbursement to school districts for excessive expenditures incurred in providing special education services"* and goes on to say, *"...to provide relief for costly services that cannot be delivered through the district's normal special education program."* The question auditors need to determine is whether or not such was the case.

Solutions to this dilemma:

1. Auditors need to review all of the 645 applications made to determine if they meet the \$25,000 lid criteria.
2. KSDE should consider sitting down and mediating a satisfactory resolution with the districts with the highest number of application.
3. The simplest **short-term financial resolution** to the current crisis is for the 3 districts to refund the money proportionately back to KSDE (based on the historical data reviewed herein) so that it can be redistributed back to the original districts that should have received it in the first place. We've all had our fill of corporate greed lately and we do not need an example of such within our own ranks.
4. Yes, the current regulation needs to be changed to become more current to financial averages KSDE has at their disposal, however, balance this with a) a determination of whether or not a census-based approach can be used practically or not b) better define the intent of the regulation making it abundantly clear to ALL what the standards and criteria should be and c.) creating a hold harmless clause on cat aid by 1) placing a cap on catastrophic funds available annually, and 2) establishing a safety-value fund for appealed cases, to ensure a more stable and secure reimbursement revenue stream to ALL districts.
5. Region 2 feels that **the best financial resolution long-term** is Option # 4.

Thank you for the opportunity to speak today. I hope I have represented Region 2 to the best of my ability.

Cordially,



Mike Bilderback

Testimony before the
Legislative Educational Planning Committee
on
Catastrophic Special Education Aid

by

Larry N. Clark, Director of Special Education
Sedgwick County Area Educational Services Interlocal Cooperative #618
Goddard, Kansas

July 29, 2009

Madam Chairman, Members of the Committee:

Thank you for the opportunity to present my concerns and suggestions regarding Catastrophic Special Education Aid.

The Kansas State Department of Education Special Education Reimbursement Guide for School Year 2008-2009 states: "Because some students have unique or severe physical, mental, social/emotional, or educational characteristics that require expensive interventions, the 1994 Legislature authorized reimbursement to school districts for excessive expenditures incurred in providing special education services. Reimbursement is granted at 75% of costs exceeding \$25,000 for the school year. The intent of KSA 2000 Supp. 72-983 is to provide relief for costly services that cannot be delivered through the district's normal special education program (e.g., additional and intensive related services or private school placements in- or out-of-state)."

As you are aware, the number of special education students qualifying for catastrophic aid has increased dramatically, especially from the 2007-2008 school year to the 2008-2009 school year. As the number of students increased, so has the amount of money required to fund the Catastrophic Aid provision.

I was in my current position as Director of Special Education when the statute authorizing Catastrophic Aid was passed in 1994. I was a huge supporter of the bill that was passed for the reasons that it was passed. As I recall, one school district in our state was having to send one of their severely emotionally disturbed students to a school in the State of Texas for services to meet that student's unique needs which cost that district around \$400,000.00 per year, the total cost being borne by that school district. What would happen if that student moved into one of our schools and our Cooperative would have to come up with the \$400,000.00 tuition costs for that student?

During the 2008-2009 school year, our Cooperative claimed one student of the 2,960 special education student we serve for Catastrophic Aid. We have had to contract for services for this one student since the 2000-2001 school year due to the severe nature of the this student's

autism, at a cost of about \$240,000.00 per year. During the 2007-2008 school year, our Cooperative had two students claimed under Catastrophic Aid, the aforementioned student plus one other severely emotionally disturbed student who required contracted services from a day program at a mental health hospital, from which at semester, the Cooperative was asked to remove the student by the mental health hospital because he was too severe for their program. Our Cooperative was unable to find another program to serve the student's needs, so we had to develop our own program with four staff to try to meet this student's unique needs. These costs were in addition to the cost of the hospital program for half a year, in my opinion qualifying the student for the Catastrophic Aid program. That program of four staff to the one student previously served at the mental health hospital was still in effect for the 2008-2009 school year, but I did not feel that the costs should qualify for Catastrophic Aid due to the Cooperative assuming responsibility for the program as part of our "normal special education program" as it was already in existence from the previous year, and the student's services did not involve any contracted services. Based on the Catastrophic Aid claims made by other school districts for the 2008-2009 school year, perhaps I should have applied for additional Catastrophic Aid for more students in our Cooperative but I did not feel that any of our other students were the type for which Catastrophic Aid was intended.

What does the catastrophic in Catastrophic Aid mean? As an adjective, catastrophic has one meaning: extremely harmful; bringing physical or financial ruin. In the original case above in 1994, the \$400,000.00 for one student from one district may not have brought financial ruin to that school district, but it did point out the need for assistance from the State to help finance the high cost of educating some special education students. The costs associated with this original student were for services that could not be delivered through that district's normal special education program. Defining what student qualifies for "catastrophic" aid reimbursement is necessary, but may vary from school district to school district.

I will use Wichita USD #259 and our Cooperative for the 2008-2009 school year as an example. Wichita USD #259 had 49,146 students enrolled of which 7,681 were identified as requiring special education services. Our Cooperative's nine districts had an enrollment of 18,952 students, of which 2,960 were identified as requiring special education services. Wichita USD #259 had more of every type of identified special education student attending the Wichita Public Schools than in our Cooperative. For every severe student that our Cooperative serves, Wichita would have two to three. Even if our Cooperative student and Wichita's three students were similar in severity, needs and identification, the Cooperative may have had to contract for services for an extremely severe student because we could not develop a cost effective program for just one student. Wichita, however, may have found that they could develop and staff a program in a more cost efficient manner than contracting for those services from a private agency because they could spread the cost of the program and staff across more students. Should our Cooperative be able to acquire Catastrophic Aid for our one student while Wichita can not because they were able to develop their own program to save in costs, which could be interpreted in the Reimbursement Guide definition of a district's "normal special education program"?

Due to the number of additional students qualifying for Catastrophic Aid during the 2008-2009 school year, the dollar amount for each categorical aid unit decreased by \$475.00. This reduction resulted in a reduction of about \$230,000.00 in State categorical aid for our

Cooperative. Not only did this reduction affect the Cooperative's budgets for the 2008-2009 and 2009-2010 school years, it will also affect each of the Cooperative's nine districts local option budget (LOB) authority for the 2009-2010 school year due to Senate Bill 84, which was passed during the last legislative session. The basis for the 2009-2010 LOB includes the amount of categorical aid monies that passed through each of the districts of the State of Kansas during the 2008-2009 school year. Our nine districts combined lost around \$230,000.00 of the budget authority.

When looking at what to do with Catastrophic Aid, several issues need to be refined. One area is that districts need to use similar criteria to identify a student as one who would qualify for Catastrophic Aid; the definition of catastrophic needs to be refined.

The second issue involves the amount of costs to be reimbursed needing to be changed. This would easily be accomplished by setting a different amount for the Catastrophic Aid cap. The second issue of adjusting the cap for figuring the amount of costs to be reimbursed also has problems. I do not believe that we can just recommend that the cost threshold of \$25,000.00 in the current law be raised due to inflation, the average teacher salary, etc. and have this solve the problems.

Some are suggesting using an amount for the cost cap based upon the amount in the law in 1994 adjusted for inflation, using the consumer price index or the amount of categorical aid from the previous year. The amount of categorical aid per unit can change up or down based on the amount of money authorized by the legislature. For the 2008-2009 school year, the amount ended up being \$28,760.00 per unit. It is projected to be \$23,000.00 per unit for the 2009-2010 school year. This type of a decrease would increase the costs of the program over the previous school year as the cap number would drop.

My suggestion is to use the average excess cost amount per FTE special education student as the basis for the cost cap. The State provides the Legislature figures each year on what is called actual excess cost from the previous school year. Excess cost is that amount of money required to educate an identified special education student above the cost of educating a general education student. We can figure the average excess cost of educating one FTE identified special educating student. If the costs for salaries, materials, equipment, etc., across the State continue to rise, so does the average excess cost of educating an identified special education student. If the excess costs go down, so does the average.

Excess
cost
per
Student

My understanding is that the average excess cost per student from the 2007-2008 school year was around \$25,000.00 per FTE special education student. I would suggest that the State use two times the excess cost as the cap because the excess cost per student adjusts itself as the costs of educating special education students increases or decreases.

Since the State already reimburses districts for 80% of the transportation costs for transporting special education students, I would suggest that the costs for transportation should not be used when determining the total cost of special education services for Catastrophic Aid eligibility. I also feel that the Base State Aid Per Pupil (BSAPP), which is generated by each

FTE student and the Special Education State Categorical Aid, be removed from figuring the cost of educating a student when figuring the threshold for Catastrophic Aid. As an example:

Cost of Special Education Student Services (excluding Transportation Costs)	\$ 75,000.00
Less Special Education State Aid (Teacher, Para, Non-Public Equivalency)	<u>\$(15,000.00)</u>
Net Cost to School District	\$ 60,000.00
Less Two Times Excess Cost per Student from Previous Year	<u>\$(50,000.00)</u>
Difference	\$ 10,000.00
Less BSAPP (\$4,280 for 2009-2010 school year)	<u>\$ (4,280.00)</u>
Difference	\$ 5,720.00
Times Percentage Determined by State Law	<u>.75</u>
Catastrophic State Aid	\$ 4,290.00

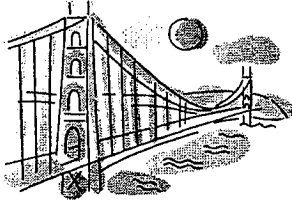
I also have a concern of solving the Catastrophic Aid funding issue by only adjusting the cap. Similar to the problems associated with what is the definition of catastrophic, another issue is what amount is catastrophic to one district may not be catastrophic to another district.

The contracted services cost during the 2008-2009 school year for our Cooperative's one student that we turned in for Catastrophic Aid assistance was \$241,568.00. When subtracting the \$25,000.00 cap and multiplying by the State Law 75%, we received \$162,426.00 in Catastrophic Aid for this one student. That meant that providing appropriate services for this student would still cost the Cooperative \$79,142.00 of local monies. Our Cooperative of nine districts and a special education budget of over \$28,000,000.00 was able to handle that cost.

What if that same student moved to a district such as Mulvane, Kansas. Would Mulvane's school district special education budget of \$1,673,026.00 be able to easily handle an additional \$79,142.00 cost for educating a severe student, or would that be a financial catastrophe for that district?

Just adjusting the cap upward to solve the funding issue will not always be what may be required.

Thank you for your consideration. I would be happy to answer any questions.



Building Bridges to Brighter Futures

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Catastrophic Aid Testimony
Legislative Educational Planning Committee
July 29, 2009

When the current legislation was passed in 1994, the amount of state aid and categorical aid per teacher was less than current amounts. The amount of "in excess of \$25,000" was established with those figures in mind. It only stands to reason, that as state aid and categorical aid increased, the amount used to determine the catastrophic aid cap should rise also. The original intent for catastrophic aid was to assist districts spending extraordinary amounts of money per student, and this should remain the intent of this aid.

My concern is that by leaving the catastrophic aid calculation the way it is now, we are taking more and more money out of the special education monies for this, leaving less money for categorical aid based on FTE of teachers to be distributed across the state. It is my belief that the majority of districts will benefit by having more money to be used in the distribution for categorical aid. It is my understanding that districts could have had approximately \$475/teacher FTE more in categorical aid for 2008-2009 **IF** the claims for catastrophic aid had not increased by 484 students statewide.

*In Leavenworth County, with approximately 192 teacher FTE, that is a difference of \$91,200.

*In Leavenworth County, with approximately 300 paraeducator FTE, that is a difference of \$57,000.

IF we had received that additional money in categorical aid, we would have only had to ask the six districts in the cooperative for a 3% increase in assessments, rather than the 4% we now need. This is critical, as the six districts have already suffered tremendous budget cuts.

I believe it is imperative to have a system to assist districts in meeting the expenses associated with educating students whose costs are significantly more than the average special education student. I also believe it is imperative to maintain a system that is equitable to all districts across the State of Kansas.

Please consider a different "catastrophic aid costs cap" that will be fair for all of the districts in Kansas.

Respectfully submitted,

Judy Denton, Director

Presentation to the Legislative Educational Planning Committee 7.29.09

Order of Presentation

1. Executive Summary
2. Introduction
3. Impact of Additional State Catastrophic Aid Claims
4. Conclusion
5. Recommendation

Ronald L. Sarnacki, Ph.D.
Director of Special Education
Cowley County Special Services Cooperative

Topeka, Kansas
July 29, 2009

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Executive Summary

- No “silver bullet” has been found by states for determining the best method for funding a state’s special education program. Each approach to funding has its own advantages and disadvantages depending on the perspective of the viewer.
- State catastrophic aid has been used in Kansas since 1994. It has not become an issue until recently due to the exponential increase in number of cases submitted primarily by three school districts in Kansas: USD 229 Blue Valley, USD 233 Olathe, and USD 512 Shawnee Mission. These three school districts
 - Have added 85% of students newly eligible for catastrophic aid in 08/09
 - Have 77% of students in the state who are eligible for catastrophic aid
- Three years ago USDs 229, 233, and 512 had 36% of students in the state who were eligible for catastrophic aid.
- When comparing the number of students in a district eligible for catastrophic aid with the total number of students with disabilities in that district, USDs 229, 233, and 512 have a prevalence ranging from 3.87% to 10.87%. The average for the state is 1.16%. Wichita USD 259, which is larger than any of these three USDs, has a prevalence of 0.93%. It is ludicrous to think that any district of size has over 10% of its students with disabilities classified as catastrophic.
- Due to the over identification of students with catastrophic disabilities by USDs 229, 233, and 512, other school districts have lost \$1,100 per teaching unit for the 2008/2009 school year. Most of this money will go directly to these three USDs.
- The money lost to these three USDs will directly impact the amount and quality of services available to other students with disabilities throughout the state of Kansas. These three USDs have found a loophole and not only exploited the system, but have exploited students with disabilities from other school districts in Kansas.
- The 2010 Commission recommended a formula for catastrophic state aid in which the school district, cooperative, or interlocal would have to spend twice the amount of categorical aid per teacher in the preceding year and then subtract any special education state aid for teachers, paras, and/or transportation. This formula should take the place of the one presently in place. The system presently in place also allows double dipping for state aid and is based on wage information that is fifteen years old.

Introduction

Since the birth of special education in 1975 at the federal level, there have always been concerns regarding its funding. At the national level, it has never been fully funded (40% federal funding was originally promised, but in reality the level of federal funding has never come close to that figure). At the state level, states have tried a variety of approaches to funding special education but have yet to find the silver bullet so that all factions are equally satisfied. Since 1998 the Kansas legislature, KSDE, directors of special education, and the Special Education Funding Task Force (appointed in 2008) have been studying and debating this issue as well. The final session of the 2008 Special Education Funding Task Force resulted in the tabling of any action to modify the way special education is/has been financed in Kansas. One document that came out of the final meeting of the 2008 Special Education Funding Task Force is attached as the final two pages of this report and clearly shows all Kansas school districts, cooperatives, and interlocals in rank order from least amount of money spent to most amount of money spent per special education student FTE. This document is entitled: Sped Expenditures/ Sped FTE. Some view data in this table as a scale of efficiency ... entities that spend less per special education student are more efficient in their use of resources.

Catastrophic state aid, as defined in Kansas State Statute 72-983, is a part of the Kansas formula for funding special education as well and has been since 1994. As its name implies, catastrophic state aid is designed to keep a school district from undergoing financial ruin when it has a student or students with extreme disabilities whose educational costs may be devastating to the school district. Catastrophic state aid has only recently become an issue in the Kansas system for funding special education and is the major subject of this paper.

State Catastrophic Aid

Due to the substantial increase in state catastrophic aid claims made by three school districts at the end of the 2008/2009 school year, every school district in Kansas is receiving \$1,100 less per teaching unit than had been originally slated for the 2009/2010 school year. The present system of determining the amount that qualifies a student as eligible for catastrophic state aid is certainly flawed when three school districts figure out a method to claim 85% of students newly identified as eligible for state catastrophic aid (please see Table entitled Catastrophic Aid 2006-09). Just three years ago these three districts accounted for 36% of students eligible for catastrophic state aid. Today these three districts have 77% of students for whom catastrophic aid is disbursed. A noteworthy fact is that the monies gained by these three districts were gained at the expense of (1) other Kansas school districts and (2) the students with disabilities who attended school in those other districts.

In my opinion, the intent of the law governing state catastrophic aid was to protect students with catastrophic disabilities and the districts that served them. Setting this money aside would guarantee that any student, no matter how severe his/her disability, would be guaranteed the right to receive an appropriate education in Kansas and that devastating expenses not covered by state aid for personnel and transportation would be covered by this state catastrophic aid. The intent was not to establish a loophole that several districts could exploit to reroute special education funding from other districts

across the state. Actions taken by these three districts have resulted in an uneven distribution of special education funding for school districts and for special education students across the state. When one compares the prevalence of students with catastrophic disabilities from these three school districts with other selected districts from around the state and with the state average, it is obvious that these districts are out of line in their identification of students with catastrophic disabilities (please refer to the Table entitled Students with Disabilities in Kansas: A Comparison of Prevalence).

The present system of determining state catastrophic aid is based on figures from the 1993/1994 school year. Because these are antiquated figures (e.g., the average teacher's salary in 2008/2009 in Kansas is 56% higher than it was in 1993/1994) and because the present system ignores the fact that districts already receive state aid for personnel and transportation, a change certainly needs to be made in determining the level at which a student becomes eligible for catastrophic state aid. The 2010 Commission has recommended a formula in which the school district, cooperative, or interlocal would have to spend twice the amount of categorical aid per teacher in the preceding year and subtract any special education state aid for teachers, paras, and/or transportation. I am supportive of that recommendation.

I would also like to share the following information with the committee. When I was hired as Director of Special Education in Cowley County toward the end of the 1994/1995 school year, the cooperative was sending two students with severe autism to Heart Spring in Wichita and spending \$160,000 per school year to do so. My first task was to meet with the family of the students and with Heart Spring officials to devise a plan to get the students back to their home school district. Our cooperative was able to replicate the Heart Spring program and bring the students back to their home school district. Total costs to do so amounted to \$52,000, resulting in a huge savings for the cooperative and for the state. My point is this: There are certainly times when a school district will opt to contract out services for severely disabled students and claim catastrophic state aid, but there are also times when a school district can attempt to educate a severely disabled student for less by providing the services itself and possibly avoid catastrophic claims altogether.

The Impact of Additional Catastrophic State Aid Claims

Losing the \$1,100 per teaching unit is costing Cowley County Special Services Cooperative \$184,800 in state funding for the 2009/2010 school year. Much of this money will flow directly to three school districts. Other districts, cooperatives, and interlocals throughout the state are being affected in a similar manner. Six teaching positions and six para educator positions were cut from Cowley County's 2009/2010 budget. Associated with this was a 78% increase in assessments to local school districts that are part of the cooperative. This summer, in an effort to be even more frugal, our cooperative has moved into the USD 465 administrative building that was donated to the school district, thus saving money on rent and utilities. Our cooperative is doing its part to help the state reduce expenditures associated with educating students with disabilities. Reducing local expenditures, however, should not be associated with funneling exorbitant amounts of state aid to districts that have found a loophole and grossly over identified the number of students qualifying for catastrophic state aid.

Conclusion

The present state of the economy at the national, state, and local levels calls for all school districts to tighten their belts. All school districts, cooperatives, and interlocals must participate in reducing expenditures and doing their fair share to help the state and nation get through the economic crisis that presently exists. Educational entities must find ways to do more with less. Finding loopholes in the system (i.e., exploiting others by over identifying the number of students with catastrophic disabilities) is not the way to solve issues in school finance. The intent of the law governing state catastrophic aid as originally passed in 1994, in my opinion, was to protect students with catastrophic disabilities and the districts that served them, guaranteeing that those students would receive an appropriate education, and ensuring that school entities would have the financial capability to provide those services. There are really a very small percentage of students whose disability should be considered as catastrophic. It is absurd to think that a district of size would have four, seven, or in excess of ten percent of its students with disabilities classified as catastrophic. Because this situation does presently exist, the situation must be changed so that appropriate amounts of money follow the students who are appropriately identified as having catastrophic disabilities. This then will allow the rest of students with disabilities throughout the state to continue to receive their appropriate share of special education funding so that they, too, are able to receive an appropriate education.

Recommendation

The 2010 Commission has recommended a formula in which the school district, cooperative, or interlocal would have to spend twice the amount of categorical aid per teacher in the preceding year and subtract any special education state aid for teachers, paras, and/or transportation. This formula should take the place of the one presently in place that allows double dipping for state aid and is based on wage information that is fifteen years old.

Catastrophic Aid 2006-09

Agency	FY 2006	FY 2007	<i>Increase</i>	FY 2008	<i>Increase</i>	FY 2009	<i>Increase</i>
229 Blue Valley	38	69	31	87	18	129	42
233 Olathe	9	23	14	85	62	122	37
512 Shawnee Mission	0	0	0	0	0	333	333
Subtotal of 3 USDs	47	92	45	172	80	584	412
Total Catastrophic Aid applications	131	185	54	276	91	760	484
Percent by total of 3 USDs	36%	50%	83%	62%	88%	77%	85%

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Students with Disabilities in Kansas: A Comparison of Prevalence 7.22.09
 A Look at Selected School Districts/Cooperatives/Interlocals

USD/Coop/Interlocal	# SWDs	Prevalence of SWDs	# Catastrophic SWDs	Prevalence Cat/SWDs
229 Blue Valley	1877	9.03%	129	6.87%
233 Olathe	3149	11.92%	122	3.87%
512 Shawnee Mission	3086	11.11%	333	10.79%
259 Wichita	6530	13.33%	61	0.93%
618 Sedgwick County	2467	12.40%	1	0.04%
465 Cowley County	1146	17.48%	0	0.00%
State of Kansas	65730	13.83%	760	1.16%

- SWDs is an abbreviation for students with disabilities.
- Cat/SWDs is an abbreviation for the percentage of students with disabilities in a school district who are eligible for catastrophic state aid. It was determined by dividing column 4 by column 2. This number tells the reader what percentage of students with disabilities are considered eligible for catastrophic state aid in a particular school district.
- All figures are taken from the KSDE website or from documents provided by the KSDE office.

Sped Expenditures/Sped FTE
Reverse Robin Hood Effect

9-26

Coop/Int Number	Coop/Int Name	Sped FTE	Sped Expenditures	Sped Expenditures/Sped FTE
407	Russell	75.03	1,199,867	15,991.83
353	Wellington	178.63	2,864,510	16,036.00
615	Brown County Special Education Coop *	174.65	3,026,503	17,328.96
308	Hutchinson	330.55	5,980,523	18,092.64
389	Eureka	41.41	767,139	18,525.45
605	South Central Kansas Special Education*	528.92	9,839,341	18,602.70
475	Junction City	490.09	9,378,442	19,136.16
616	Doniphan County Education Coop *	113.71	2,264,887	19,918.10
465	Cowley County Special Services Coop *	423.29	8,494,431	20,067.64
490	Butler County Special Education Coop *	758.44	15,682,199	20,676.91
409	Atchison	132.65	2,773,610	20,909.23
620	Three Lakes Educational Coop *	311.54	6,540,737	20,994.85
320	Special Services Coop of Wamego *	186.29	3,957,295	21,242.66
261	Haysville	333.00	7,090,467	21,292.69
282	Chautauqua/Elk County Special Education Services *	89.29	1,907,806	21,366.40
244	Coffey County Special Education Coop *	137.59	3,007,585	21,859.04
290	Ottawa	158.20	3,470,163	21,935.29
379	Twin Lakes Education Coop *	181.78	4,048,722	22,272.65
614	East Central Kansas Coop *	221.65	4,957,146	22,364.75
637	SE Kansas Special Education Coop *	720.46	16,152,406	22,419.57
418	McPherson County Special Education Coop *	299.23	6,765,318	22,609.09
330	Wabaunsee East	47.26	1,071,482	22,672.07
383	Manhattan	371.89	8,492,062	22,834.88
405	Lyons County Special Services Coop *	129.40	2,980,993	23,037.04
636	North Central Kansas Special Education Coop *	314.09	7,239,260	23,048.36
489	Hay West Central Kansas Coop *	305.09	7,090,113	23,239.41
619	Sumner County Special Education Coop *	140.79	3,285,777	23,338.14
260	Derby	363.98	8,494,702	23,338.38
333	Learning Coop of NC Kansas *	211.01	4,928,760	23,357.95
613	SW Kansas area Coop *	582.60	13,786,978	23,664.57
618	Sedgwick County Area Education Services Coop *	1,029.10	24,585,494	23,890.29
442	Marshall Nemeha County Educational Services Coop *	67.57	1,614,292	23,890.66
372	Silver Lake	40.51	977,734	24,135.62
450	Shawnee Heights	189.85	4,696,244	24,736.60
437	Auburn Washburn	325.55	8,178,129	25,120.96

Sped Expenditures/Sped FTE
Reverse Robin Hood Effect

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373	Harvey County Special Education Coop *	298.14	7,537,966	25,283.31
345	Seaman	200.14	5,125,000	25,607.08
336	Holton Special Education Coop *	211.36	5,424,272	25,663.66
617	Marion County Special Education Coop *	162.85	4,200,398	25,793.05
428	Barton County Coop *	223.48	5,769,105	25,814.86
305	Central Kansas Coop in Education *	831.48	21,489,912	25,845.37
453	Leavenworth County Special Education Coop *	669.01	17,320,519	25,889.78
480	Liberal	128.80	3,390,707	26,325.36
457	Garden City	405.05	10,766,081	26,579.63
202	Turner	213.50	5,687,208	26,637.98
602	NW Kansas Education Services *	388.98	10,428,888	26,810.86
611	High Plains Education Coop *	351.33	9,524,845	27,110.82
603	ANW Special Education Coop *	389.35	10,564,201	27,132.92
495	Tri County Special Services Coop *	124.80	3,421,451	27,415.47
234	Ft. Scott	76.17	2,096,107	27,518.80
321	Kaw Valley	92.31	2,542,847	27,546.82
253	Flint Hills Special Education Coop *	347.31	9,632,648	27,735.01
259	Wichita	3,171.28	89,841,973	28,329.88
607	Tri County Special Education Coop *	401.70	11,629,764	28,951.37
364	Marshall County Special Education Coop *	82.68	2,400,888	29,038.32
501	Topeka	940.75	27,381,390	29,105.92
231	Gardner-Edgerton	203.61	6,087,413	29,897.42
500	Wyandotte Special Education Coop *	1,113.76	36,511,620	32,782.30
368	EC Kansas Special Education Coop *	405.39	13,383,004	33,012.66
263	Mulvane	73.26	2,489,900	33,987.17
608	NE Kansas Education Services *	255.42	8,704,485	34,079.11
230	Spring Hill	70.07	2,404,388	34,314.09
610	Reno County Education Coop *	258.58	9,028,344	34,915.09
273	Beloit Special Education Coop *	100.31	3,514,341	35,034.80
497	Lawrence	472.38	16,801,004	35,566.71
233	Olathe	1,122.52	42,054,122	37,464.03
229	Blue Valley	835.71	31,846,815	38,107.50
512	Shawnee Mission	1,135.39	45,278,698	39,879.42
232	DeSoto	189.86	7,981,748	42,040.18



Bruce Givens
Special Services Director
222 E. Madison
Derby, KS 67037

July 29, 2009

TO: Legislative Education Planning Committee

Thank you for the opportunity to discuss this important issue. I am sure that Mr. Dennis has given you a good historical perspective of "catastrophic aid."

I believe it was during the 1993-94 school year, when a special education funding task force was created. There have been such committees before and several after that school year. This committee recommended several changes to the distribution formula of special education. There were three special education administrators on this task force. I was one, the other two have since retired. I recall some teachers and school board representation as well as legislators. The current catastrophic aid formula was one of the recommendations and the only recommendation that became law.

The group that looked at this issue intended the use of this formula to be used rarely. In fact, shortly after the statute was in place, many directors (including myself) were surprised to learn that the aid was based on gross expenses. Most directors thought catastrophic meant expenses after categorical aid. In 1993, we never envisioned a district "prorating" the expenses of a teacher and/or paraeducators for particular students. As a group, the discussion centered on the few students USDs and cooperatives had to contract for. Some of these contracts with private and public institutions are averaging \$100,000 per year. These were the cases that were discussed in the creation of this formula.

I am in favor of a reformed catastrophic aid formula. The 2010 Commission suggestion is a good start. Options #2, #3 and #4 presented by Mr. Dennis are acceptable starts as well. Anything that prevents what I term the misuse of a well-intended concept should be discussed.

As the legislative committee chairperson for the Kansas Association of Special Education Administrators (KASEA), I am ready to assist in anyway possible. If an endorsement of any one particular plan or proposal is needed, I believe I can help can bring a recommendation from KASEA to you or a designated committee.

Thank you,

Bruce Givens, Director

Legislative Educational Planning Commission

Testimony July 29, 2009 State House Room 545 on Catastrophic Aid.

I am here to support the recommendation of the 2010 commission concerning necessary changes to the language regarding catastrophic aid reimbursement.

The current language hasn't kept up with the increase of teacher/para salaries. The Reimbursement of 75% costs that exceed \$25,000 in 1994 was appropriate when average salary and benefits were \$33,913; however, with the average salary now around \$52,869, the language is out-dated. Growth in the number of catastrophic aid applications is an indicator of this out-dated language.

The IEP'd student numbers have not varied that much in the last 4 years; however, catastrophic aid requests have increased each year and took a huge jump this past year. The old language has allowed this to happen and needs to be changed.

Year	# Students with IEP's	# Catastrophic Aid Applications
2006	79,937	131
2007	79,733	185
2008	79,538	275
2009	79,572	760

The recommendation from the 2010 Commission contains the language changes to develop a more effective process in determining the need for a catastrophic aid reimbursement.

2010 recommendation example:

Cost of Special Education Student Services	\$ 75,000
Less Special Education State Aid (teachers, paras, transportation)	\$(15,000)
Net Cost to School District	\$ 60,000
Two times categorical aid per teacher of preceding year (2 X \$28,760 – 2008-09)	\$ 57,520
Difference	\$ 2,480
Percentage Determined by State Law	.75
Additional State Aid	\$ 1,860

The dramatic increase in the catastrophic aid requests this past school year has had a negative effect on both the current and future Categorical Aid reimbursement. The 2010 commission recommendation will support practices, which would not let such a drastic increase in the number of catastrophic aid applications happen so easily. If the language is not updated, then each special education service provider will need to apply for catastrophic aid on every student, hoping to gain additional funds. This will defeat the original purpose of catastrophic aid and increase administrative costs. An increase to administrative cost is not a positive or effective use of these funds.

I hope the Legislative Educational Planning commission will support the immediate implementation of the 2010 recommendation on necessary changes to catastrophic aid reimbursement language. The implementation of the 2010 recommendation would have a very positive effect on categorical aid. By increasing the reimbursement as much as \$1100 per teaching unit, the amount for Categorical aid per teaching unit could be as high as \$24,100. If not implemented, categorical aid could possibly be reduced to below \$23,000 per teaching unit?

Thank you

Ann Ike Lewis

Ulysses, KS

High Plains Educational Cooperative



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Testimony on

Catastrophic Special Education Aid

Legislative Education Planning Committee

Provided by

Bert Moore, USA|Kansas Appointee to the
Special Education Funding Task Force and Vice-Chairperson of the Task Force

July 29, 2009

Education administrators remain committed to ensuring that each and every child in Kansas receives a quality education that will help them reach their potential and become successful, productive adults. There are 465,000 students in our public schools that we strive to impact positively every single day.

My name is Bert Moore and I currently serve as the Director of the Chautauqua County Special Education Cooperative. Prior to this year, I also served as superintendent of the West Elk USD. Last year, I was appointed by USA|Kansas to serve on the Special Education Funding Task Force established by the Legislature and was subsequently named vice-chair.

I have served as a Director of Special Education for the past 18 years in Kansas. It is my personal opinion that the state needs to consider amending the formula so that any state aid and federal aid received by the district to support a student's special education services is deducted in the formula. Currently this aid is not deducted when figuring the \$25,000 excess cost. I also think that the formula needs to be reviewed based on changes that have occurred in teacher salary schedules.

We are facing a difficult road ahead as our nation and state recover from the economic downturn that has reduced our revenues substantially. Students with disabilities are guaranteed a "free appropriate public education" in the "least restrictive environment". Special education agencies and local education agencies do not have the ability to deny a student's special education services or reduce the individual education program services agreed upon by the IEP team. The economic downturn has now placed more of the financial responsibility of ensuring that students with disabilities receive appropriate special education services on the Local Education Agency.

I can share with you that as a former superintendent, any reduction in state aid has a major impact on the ability of a school district to maintain its programs and services. Two thirds of the districts in the state have seen a decline in enrollment over the past 5 years. This has already impacted their programs and services even when the state was providing more state aid. The sponsoring district for my Cooperative has declined from 440 students to 352 students over the past 5 years. They will have a local option budget of 30% for the 2009-10 school year. The sponsoring school district is facing a 6% reduction in its budget for the 2009-10 school year; however the contribution required by the district to the Cooperative will increase.

As long as the catastrophic aid formula is left unchanged, each special education agency will be forced to seek catastrophic aid for as many students as it can. Our state will move toward a "student funded" formula for more and more students that qualify for catastrophic aid, leaving less state categorical aid for special education personnel. It is also important to realize that the teacher salary schedule will allow some districts with higher teacher salaries to access catastrophic aid, and this will impact the state aid available to those districts with lower teacher salaries.

On behalf of administrators statewide, I can assure you that we are all here because of a shared commitment to providing a quality educational experience for each child – this includes access to qualified professionals, instructional supports and appropriate interventions.

Administrators appreciate the Legislative Education Planning Committee's decision to hold hearings and listen to feedback from those professionals who strive to improve services to children with special needs. **Again, I would like to stress that we truly believe that investing in quality programs and services for our special needs students is absolutely critical.**

In closing, I would like to thank you for your continued support of education and for realizing the importance of investing in education. Preparing our children requires a shared commitment, collaboration, and open dialogue among all stakeholders.

TESTIMONY TO LEGISLATIVE EDUCATIONAL PLANNING COMMITTEE
Dr. Tom Trigg
Superintendent, Blue Valley Unified School District No. 229
July 29, 2009

Chairperson Schodorf and Committee Members,

I appreciate this opportunity to provide testimony to the committee regarding Special Education funding and specifically the high cost funding portion of the formula.

Fifteen years ago when the legislature created a plan to address the costs associated with students who have highly specialized needs it was a forward looking step and served as a safety net for a small number of students in a small number of districts. However, since 1994 there have been significant changes in the students who access special education services.

Medical advances have allowed babies who would not have otherwise survived to thrive and to enter school. While we celebrate these advances, we often see young students arrive with the need for significant learning supports, therapies, specialized transportation and in some cases even the support of a full time nurse.

Research has informed and improved our practices. We understand that investment in early and intense interventions will reduce the need for long-term costly services. We have learned that the use of discrete trial approaches requiring one-to-one adult interactions for a portion of the day are effective and are supported as expected best-practice.

There has been a shift from students with mild learning disabilities or with speech and language needs alone to students with severe and multiple disabilities. Blue Valley's identification rate for students with disabilities is just over 9%, far below the state average of nearly 14%. However, while we have seen declines in the identification of students with mild disabilities we are seeing significance increases in the area of autism. The migration of families to urban areas where medical services and private therapies are more available for children on the autism spectrum is widely reported by health professionals and parents. That migration has had an impact on our special education growth patterns.

Table A illustrates a sample of the growth in the incidence of Autism in Blue Valley.

Table A

Blue Valley December Head Count	Students w Autism as Primary Exceptionality	Autism as percentage of all students w disabilities
2002	61	3.9%
2006	132	6.9%
2008	171	9.2%

The case loads of special educators are changing from students with mild disabilities who now can be served in the general education setting through early interventions to students who require intense case management for behavior, communication, physical and learning needs. Our families expect, and we concur, that whenever possible, our students should be educated in the same schools as their neighbors and friends. Unfortunately the funding mechanism proposed by the 2010 Commission is a fiscal disincentive for serving students in their home districts. That language moves the funding from a gross to net cost formula allowing greater reimbursement for out-of-district placements than for services in a district setting. The elimination of transportation and teacher FTE reimbursement (neither of which would be in the out-of district placement costs) would effectively reduce funding eligibility to only students placed outside the district. While perhaps being fiscally advantageous to the state, it flies in the face of inclusion for children in their home communities.

As an attachment I have provided examples of the description of the disabling conditions of just five of the 129 students currently eligible for catastrophic funding in Blue Valley. These descriptions, submitted as part of our catastrophic aid claim include not only the impact of the disability but detail services, and equipment required to meet the needs of those five students. The disabilities of students whose needs meet the catastrophic threshold are varying and intense including students who are medically fragile and students who due to their disabilities require one-to-one adult supervision in order to keep them and their peers safe at school. As the descriptions illustrate, the services are not "Cadillac", rather, they are the services required in order to maintain the student in the placement that allows for a free and appropriate public education in the least restrictive setting. If the 2010 language is adopted these five students would not qualify for catastrophic aid. As a matter-of-fact, based on the proposed 2010 formula, catastrophic funding for 127 of the 129 Blue Valley students who currently meet the criteria would be eliminated.

It appears that the revised funding mechanism proposed by the 2010 Commission does not take into account many of the factors mentioned above and relies only on cost of living data.

Catastrophic aid is just one part of a complex special education funding process. While it is currently under the microscope, it is important that legislators look at catastrophic aid in the context of the entire formula, just as the Special Education Task Force members did last year when they began their work. That task force is authorized to continue working through the coming school year, and according to the annual report submitted to the Legislature by Dr. Posny, was to have resumed meetings this summer. The task force delayed making a recommendation for change to the current funding formula in order to evaluate the equitability of the formula. In recent testimony to the 2010 Commission I indicated my disappointment and concern that the Commission would recommend changing one aspect of the Special Education Distribution Formula without taking into consideration the unfair and disparate impact of the entire formula. Those who understand systems realize that tinkering with one small part of a larger system without considering the impact on the total system often

creates imbalance in the system and unintended consequences. The consideration of any singular part of the formula without consideration of the whole has the potential to contribute further to inequities that were identified during the committee's study last year. Modification to the special education funding model should be considered only in the context of how those modifications will impact funding streams in other ways and across a multitude of districts with varying demographics.

In 2008 testimony to the Special Education Funding Task Force Blue Valley addressed concerns with the excess cost funding distribution. While some districts receive 150% to over 200% of their excess costs, the 2007 Legislative Post Audit reported that Blue Valley received only 65.6% of excess special education costs. That disparity, added to the potential loss of catastrophic aid, effectively penalizes the district twice. All districts must be assured of funds to support the needs of students with exceptionalities. The 92% excess cost formula provides that safety net, and if that is not available then catastrophic aid for eligible students becomes even more critical.

KASB Governmental Relations Specialist Tom Krebs' testimony to the Special Education Task Force reiterated that KASB's continued "basic position on special education funding has been that the federal and state governments should fully fund the "excess cost" of special education. If not, either special education students will not receive the services they need, or funding must be shifted from regular education to special education, and regular students will not receive the educational services *they* need." The impact of underfunding excess year after year is not only an inequity, but is causing increasing budget challenges, to add the double blow of virtually eliminating catastrophic funding would be unfair and intolerable.

To once again reference KASB, Tom Krebs closed his testimony with this statement. "KASB would also strongly suggest that some type of special catastrophic/high cost program will need to be continued, and that change should be phased-in to avoid sudden funding reductions by any district." This statement should be given strong consideration as any formula changes are considered. The potential to create funding losers and winners is increased when decisions about any part of the formula are made in isolation from the entire funding system. Should changes be made a phased plan may mitigate some harm.

The breadth of Kansas may cause widely varied challenges and concerns, but every district in our state is working hard to meet the needs of all students. Should the legislature take up the issue of special education funding I am hopeful that there will be recognition of and validation for those differing challenges. The outcome of any such deliberation should be a systematic approach for the equitable disbursement of state and federal special education funds that will allow local communities to effectively serve the students who need us the most.



Olathe School District 233
Testimony Provided by Dr. Gary George
Catastrophic Aid
July 29, 2009

My name is Gary George and I am an assistant superintendent in the Olathe School District. It is a pleasure to be here to visit with you about catastrophic aid for high cost special education students.

As you are aware, in 1994, the Kansas Legislature adopted a catastrophic aid provision for special education. This provision requires that the district pay the first \$25T in expenses and the state reimburses districts for 75 percent of the expenses beyond \$25T. We have used this procedure for several years. However, even with regular special education aid and catastrophic aid, we still have to make significant transfers, in the range of \$7M to almost \$9M, to the special education fund each year.

Our overall special education percentages are in line with what you would expect of a larger district. As of December 1, 2008, we had 3,131 disabled students and 832 gifted students; total 3,963 special education students. Our disabled percentage is approximately 11.6 percent of our total enrollment (27,000). Our gifted enrollment pushes our IEP population to 14.6 percent of our student enrollment. We are a growing district and our special education student population has grown proportionally. We have included data for our 2008-09 students for which we have sought catastrophic aid. In 2008-09, the average (mean) cost of the students for which we applied for assistance was \$55,544.

Why does our community have these high numbers of students requiring these costly services? The answer lies in following:

- With an enrollment of over 27,000 students, a large number of special education students would be expected.
- Our community and the surrounding metropolitan area provide an excellent job market.
- Parents with special education students have access to major medical centers including KU Medical Center and Children's Mercy Hospital.
- The Olathe School District has an excellent reputation of providing quality programs for special education students and some parents have sought our district and others because of the services we offer. A letter from one of our parents is included for your reference on this point.

It is our understanding that the 2010 Commission has proposed a change in catastrophic aid. We believe that before changes are made, it would be appropriate to look at all aspects of the special education formula. I remind the Committee that there is a Legislative Post Audit Report (December 2007) that indicates a wide range in categorical aid for special education. The audit found that aid varied from between 45 percent and 207 percent of excess costs for special education for the 69 districts and cooperatives studied. That discrepancy has not been corrected.

In closing, let me say that we believe that catastrophic aid for high cost special education students is appropriate. If the threshold for catastrophic aid is raised, as was considered by the 2010 Commission, it will effectively eliminate much of this financial assistance for local school districts. The special education formula has several aspects and is complicated. It would be best to look carefully at the entire formula and consider input from all stakeholders before any changes are made.

Catastrophic Aid Information

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**This "payment" information for item #1 obtained from annual State "Special Education Aid" Reports*

Total CA amount/number of students applied for in 08-09 (May 09)
 Total CA amount/number of students applied for in 07-08 (May 08)
 Total CA amount/number of students applied for in 06-07 (May 07)

June Payment*	Adjustment*	Net Amount*	# of Students*	
2,989,972	TBD	TBD	122	May, 2009
2,508,186	-962,588	1,545,598	85	May, 2008
571,997	-69,810	502,187	23	May, 2007

For 08-09 CA amounts:

Mean, median, and mode of per student \$ expenditure amounts
 (after \$25,000 and 25% reductions)

Lowest \$	Mean / Average \$**	Median \$	Mode \$**	Highest \$
360	22,908	19,263	20,032	79,060

** 2,794,810 / 122

**This is the only #
 that repeated twice

Mean, median, and mode of per student \$ expenditure amounts
 (prior to \$25,000 and 25% reductions)

25,480	55,544	50,685	51,710	130,413
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** 6,776,413 / 122

For 08-09 CA:

Re: Application ~ Top areas of disability and # of students in each category

Total number of students as of Dec. 1, 2008 in those same categories

= Percentage

	Autism	Mental Ret	Mult Dis	Develp Disab	Hearing Imp	Other health
# of students on application	44	24	13	12	10	7
# of students in district	118	125	19	660	35	280
Percentage	37.288%	19.200%	68.421%	1.818%	28.571%	2.500%

Students 3-5 yrs with autism listed as Develp Disabled

***FYI ~ 2 DB students were included, which = 100% of 2 DB OSD students as of 12/01/08

***FYI ~ 2 TB students were included, which = 25% of 8 TB OSD students as of 12/01/08

***FYI ~ 2 VI students were included, which = 14% of 14 VI OSD students as of 12/01/08

December 1, 2008 total unduplicated count:

Total Special Education Students =	3963
Total Disability =	3131
Gifted =	832

Catastrophic Aid Info - 7/22/09

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Year	# Students	Amount Applied For	Adjusted	Net Amount		
FY05	10	176,960	-	176,960		
FY06	9	287,993	33,639	254,354		
FY07	23	571,997	69,810	502,187		
FY08	85	2,508,186	962,588	1,545,598		
FY09	122	2,989,972	TBD	TBD		

To Whom It May Concern:

My son has a traumatic brain injury as a result of a car accident. Prior to moving to Olathe, we lived in Colby, Kansas, a small town of about 5,000 people in Northwest Kansas. While we enjoyed the closeness of a small community, we knew things were lacking in his educational program and medical care.

We had just completed almost a year of driving 750 miles every month just for medical appointments, which was wearing on my family. My son had attended Colby schools for 7 years and everyone in the community knew him. The decision to move was not an easy one. He was educated in a private room within a resource room, with the same para all day long. While they educated in complete isolation, they also fostered "learned dependency". After countless interviews with school personnel asking questions about the kinds of educational programs offer for my son, we knew we wanted to find a district that knew the difference between community based instruction and work study programs, the difference between a lifeskills program and a resource room, that offered 18-21 year old programming choices other than another classroom. Olathe school district knows these differences! My son needed these differences. We also needed the staff that was knowledgeable of how to work with a traumatic brain injury child and could provide the necessary skills to afford him independence in his future. We found all of this and more here in Olathe. With this knowledge, we decided to move to Olathe.

Also, being in Olathe, so close to top-notch medical facilities, has allowed us to finally get my son's medical conditions controlled. Taking multiple days off of work and out of school is not an issue for us anymore. We are able to see doctors on a more regular basis and the continuum of care has been a huge benefit for his medical conditions.

Another benefit to being here in Olathe is we have been able to tap into the community resources such as day services, group homes and supported home care have never before been available to us within the community that we lived in. My son has recently graduated from Olathe Schools and he will be continuing his life in a day service program right here in Olathe! It is managed by the community developmental organization here in Johnson County. Prior to our move, we would have never been able to dream of this possibility. These resources were just not available to us.

We are happy to say that educationally, medically and community-based- we are in a much better place!

Respectfully submitted,

Machele Fisher-Haskin

9-40

July 29, 2009

**Legislative Educational Planning Committee
Testimony Regarding Special Education Catastrophic Aid**

Chairperson Schodorf and Members of the Committee,

My name is Tim Rooney and I am the Manager of Budget and Finance for the Shawnee Mission School District 512.

During the 2008-09 school year, the Shawnee Mission School District submitted a catastrophic aid claim that covered 334 students for a total reimbursable cost of \$3.8 million. The district did not submit a claim for the previous year and the district's budget for 2008-09 did not include a line for catastrophic aid. My testimony will address these issues. Additionally, I will briefly discuss how Shawnee Mission is affected by current special education funding laws.

Toward the beginning of the 2008-09 school year, I became aware that other districts had reported significant claims in 2007-08. When I asked district officials about these claims, I was told that KSDE will allow claims on a gross cost basis. Districts receive categorical aid on special education teachers and paras and 80% of the transportation costs are also reimbursed. A gross cost basis allows districts to submit claims without regard to the reimbursements the district receives. In July 2008, I called Dale Dennis to confirm the gross cost rule. He confirmed KSDE's position and I told him that Shawnee Mission would be submitting a claim.

During that time, district officials were finalizing the 2008-09 budget. In accordance with state law, the board had to authorize a notice of hearing in July for the August meeting. Additionally, systems were not in place to estimate a catastrophic aid amount. Consequently, the budget for 2008-09 did not include a line for the funding.

For the next few months, district officials developed plans to capture costs by student to support catastrophic aid claims. The district decided to leverage existing special education information stored on the computer. With some significant program modifications, the district thought it could use this data to allocate costs to all special education students. Once the design was developed, I called the KSDE auditors to discuss the approach the district planned to use. No issues were raised at that time. The modifications took several months to develop and test. The system was completed in late April and was submitted on May 1. Due to the size of the claim, our special education director and I met with KSDE officials on May 14 to review our claim. The district has provided follow-up information to KSDE as requested and the auditors are on-site doing field work at this time.

Shawnee Mission believes that changes to catastrophic aid funding should not be made without reviewing the equity of the entire special education funding formula. The independent Legislative Post Audit report published in December 2007 showed that Shawnee Mission received the second lowest reimbursement for special education costs. The report used data from the 2005-06 school year when the legislature funded special education at 89.3%. Shawnee Mission was funded at 65%. The range of funding statewide was between 45% and 207% which was consistent with the 1996-97 study according to the LPA report. This means that one district only received 45% of their excess costs while another received a reimbursement for more than twice the amount the district paid. The report identified the major reasons why districts and cooperatives had a lower reimbursement for excess costs:

1. large districts, or cooperatives made of larger districts.
2. spent more on direct costs, such as instruction, student support and transportation costs.
3. had more certified teachers per 10 students and paid higher average salaries.

Some have argued that discrepancy is due to higher salaries and districts have the discretion to pay whatever level of salaries they want. It is interesting that LPA found a correlation between underfunding and larger districts. That seems to imply that such school districts as a group have higher costs. The higher costs could be due to higher average salaries or additional services provided to the students. In either case, districts must pay those costs. Additionally, the amount of the special education appropriation is based on the aggregate cost of special education services times the state reimbursement rate, currently intended to be 92%. Therefore districts with higher costs including large districts cause the amount of the appropriation to be higher, but the formula disproportionately distributes funding to the districts with lower costs. Using 2007-08 figures provided to the Special Education Task Force by KSDE, Shawnee Mission had excess costs of \$30.7 million. If the districts would've been funded at 92%, the reimbursement would've been \$28.2 million, yet the district only received \$22.1. This was prior to the budget reductions implemented in 2008-09. That leaves Shawnee Mission short by \$6.1 million. Other large districts are similarly affected. Since statewide funding was based on 92%, the shortfall experienced by Shawnee Mission and other districts resulted in a corresponding windfall to districts above 92%. Shawnee Mission believes a new formula should narrow this gap, especially when a correlation exists between the shortfall and the size of district.

In conclusion, Shawnee Mission believes changes should not be made to the catastrophic aid portion of special education funding without addressing the equity issues on the categorical aid portion of the formula. At a minimum, the recommendation should allow a hold harmless for catastrophic amounts received in school year 2008-09 for any district that was funded under the statutory threshold.

I will stand for questions from the committee.

Written Testimony Only



Department of Special Education

SHAWNEE MISSION SCHOOL DISTRICT

Director of Special Education

Arrowhead Administrative Center

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**Legislative Educational Planning Committee
July 29, 2009
Topic: Special Education Catastrophic Aid**

**Written Testimony from Deborah Haltom
Director of Special Education Services, Shawnee Mission School district**

Chairperson, Senator Jean Kurtis Schodorf and members of the LEPC, thank you for the opportunity to provide written testimony on the topic of special education, catastrophic aid funding.

Kansas currently funds special education using a resource model. There are significant concerns about this approach, in terms of it not being equitable, predictable, or manageable. Legislators recognized hugely discrepant excess cost reimbursement patterns as they reviewed multiple post audit reports and established a Special Education Funding Task Force, which is not set to expire until June 30, 2011.

The Special Education Funding Task Force is charged with reviewing the current special education funding formula and making recommendations. Catastrophic aid is one provision in that formula and the model as a whole must be reviewed and revised to determine how any changes to any portion impacts the formula itself and the funding of all districts across the state.

When the Task Force meets there needs to be continued study of the formula, in its entirety, and recommendations made by that body. We ask that only after thorough study by the Task Force, are any changes recommended to the legislature on the current Catastrophic Aid portion of the formula.

Thank You, Deborah Haltom

No Child Left Behind Act, Title I, Section 1118: PARENTAL INVOLVEMENT

(a) LOCAL EDUCATIONAL AGENCY POLICY-

(1) IN GENERAL- A local educational agency may receive funds under this part only if such agency implements programs, activities, and procedures for the involvement of parents in programs assisted under this part consistent with this section. Such programs, activities, and procedures shall be planned and implemented with meaningful consultation with parents of participating children.

(2) WRITTEN POLICY- Each local educational agency that receives funds under this part shall develop jointly with, agree on with, and distribute to, parents of participating children a written parent involvement policy. The policy shall be incorporated into the local educational agency's plan developed under section 1112, establish the agency's expectations for parent involvement, and describe how the agency will —

(A) involve parents in the joint development of the plan under section 1112, and the process of school review and improvement under section 1116;

(B) provide the coordination, technical assistance, and other support necessary to assist participating schools in planning and implementing effective parent involvement activities to improve student academic achievement and school performance;

(C) build the schools' and parents' capacity for strong parental involvement as described in subsection (e);

(D) coordinate and integrate parental involvement strategies under this part with parental involvement strategies under other programs, such as the Head Start program, Reading First program, Early Reading First program, Even Start program, Parents as Teachers program, and Home Instruction Program for Preschool Youngsters, and State-run preschool programs;

(E) conduct, with the involvement of parents, an annual evaluation of the content and effectiveness of the parental involvement policy in improving the academic quality of the schools served under this part, including identifying barriers to greater participation by parents in activities authorized by this section (with particular attention to parents who are economically disadvantaged, are disabled, have limited English proficiency, have limited literacy, or are of any racial or ethnic minority background), and use the findings of such evaluation to design strategies for more effective parental involvement, and to revise, if necessary, the parental involvement policies described in this section; and

(F) involve parents in the activities of the schools served under this part.

(3) RESERVATION-

(A) IN GENERAL- Each local educational agency shall reserve not less than 1 percent of such agency's allocation under subpart 2 of this part to carry out this



section, including promoting family literacy and parenting skills, except that this paragraph shall not apply if

1 percent of such agency's allocation under subpart 2 of this part for the fiscal year for which the determination is made is \$5,000 or less.

(B) PARENTAL INPUT- Parents of children receiving services under this part shall be involved in the decisions regarding how funds reserved under subparagraph (A) are allotted for parental involvement activities.

(C) DISTRIBUTION OF FUNDS- Not less than 95 percent of the funds reserved under subparagraph (A) shall be distributed to schools served under this part.

(b) SCHOOL PARENTAL INVOLVEMENT POLICY

(1) IN GENERAL- Each school served under this part shall jointly develop with, and distribute to, parents of participating children a written parental involvement policy, agreed on by such parents, that shall describe the means for carrying out the requirements of subsections (c) through (f). Parents shall be notified of the policy in an understandable and uniform format and, to the extent practicable, provided in a language the parents can understand. Such policy shall be made available to the local community and updated periodically to meet the changing needs of parents and the school.

(2) SPECIAL RULE- If the school has a parental involvement policy that applies to all parents, such school may amend that policy, if necessary, to meet the requirements of this subsection.

(3) AMENDMENT- If the local educational agency involved has a school district-level parental involvement policy that applies to all parents, such agency may amend that policy, if necessary, to meet the requirements of this subsection.

(4) PARENTAL COMMENTS- If the plan under section 1112 is not satisfactory to the parents of participating children, the local educational agency shall submit any parent comments with such plan when such local educational agency submits the plan to the State.

(c) POLICY INVOLVEMENT- Each school served under this part shall —

(1) convene an annual meeting, at a convenient time, to which all parents of participating children shall be invited and encouraged to attend, to inform parents of their school's participation under this part and to explain the requirements of this part, and the right of the parents to be involved;

(2) offer a flexible number of meetings, such as meetings in the morning or evening, and may provide, with funds provided under this part, transportation, child care, or home visits, as such services relate to parental involvement;

(3) involve parents, in an organized, ongoing, and timely way, in the planning, review, and improvement of programs under this part, including the planning, review, and improvement of the school parental involvement policy and the joint development of the schoolwide program plan under section 1114(b)(2), except that if a school has in place a process for involving parents in the joint planning and design of the school's programs,



the school may use that process, if such process includes an adequate representation of parents of participating children;

(4) provide parents of participating children —

(A) timely information about programs under this part;

(B) a description and explanation of the curriculum in use at the school, the forms of academic assessment used to measure student progress, and the proficiency levels students are expected to meet; and

(C) if requested by parents, opportunities for regular meetings to formulate suggestions and to participate, as appropriate, in decisions relating to the education of their children, and respond to any such suggestions as soon as practicably possible; and

(5) if the schoolwide program plan under section 1114(b)(2) is not satisfactory to the parents of participating children, submit any parent comments on the plan when the school makes the plan available to the local educational agency.

(d) SHARED RESPONSIBILITIES FOR HIGH STUDENT ACADEMIC ACHIEVEMENT

As a component of the school-level parental involvement policy developed under subsection (b), each school served under this part shall jointly develop with parents for all children served under this part a school-parent compact that outlines how parents, the entire school staff, and students will share the responsibility for improved student academic achievement and the means by which the school and parents will build and develop a partnership to help children achieve the State's high standards. Such compact shall —

(1) describe the school's responsibility to provide high-quality curriculum and instruction in a supportive and effective learning environment that enables the children served under this part to meet the State's student academic achievement standards, and the ways in which each parent will be responsible for supporting their children's learning, such as monitoring attendance, homework completion, and television watching; volunteering in their child's classroom; and participating, as appropriate, in decisions relating to the education of their children and positive use of extracurricular time; and

(2) address the importance of communication between teachers and parents on an ongoing basis through, at a minimum —

(A) parent teacher conferences in elementary schools, at least annually, during which the compact shall be discussed as the compact relates to the individual child's achievement;

(B) frequent reports to parents on their children's progress; and

(C) reasonable access to staff, opportunities to volunteer and participate in their child's class, and observation of classroom activities.



(e) BUILDING CAPACITY FOR INVOLVEMENT

To ensure effective involvement of parents and to support a partnership among the school involved, parents, and the community to improve student academic achievement, each school and local educational agency assisted under this part —

- (1) shall provide assistance to parents of children served by the school or local educational agency, as appropriate, in understanding such topics as the State's academic content standards and State student academic achievement standards, State and local academic assessments, the requirements of this part, and how to monitor a child's progress and work with educators to improve the achievement of their children;
- (2) shall provide materials and training to help parents to work with their children to improve their children's achievement, such as literacy training and using technology, as appropriate, to foster parental involvement;
- (3) shall educate teachers, pupil services personnel, principals, and other staff, with the assistance of parents, in the value and utility of contributions of parents, and in how to reach out to, communicate with, and work with parents as equal partners, implement and coordinate parent programs, and build ties between parents and the school;
- (4) shall, to the extent feasible and appropriate, coordinate and integrate parent involvement programs and activities with Head Start, Reading First, Early Reading First, Even Start, the Home Instruction Programs for Preschool Youngsters, the Parents as Teachers Program, and public preschool and other programs, and conduct other activities, such as parent resource centers, that encourage and support parents in more fully participating in the education of their children;
- (5) shall ensure that information related to school and parent programs, meetings, and other activities is sent to the parents of participating children in a format and, to the extent practicable, in a language the parents can understand;
- (6) may involve parents in the development of training for teachers, principals, and other educators to improve the effectiveness of such training;
- (7) may provide necessary literacy training from funds received under this part if the local educational agency has exhausted all other reasonably available sources of funding for such training;
- (8) may pay reasonable and necessary expenses associated with local parental involvement activities, including transportation and child care costs, to enable parents to participate in school-related meetings and training sessions;
- (9) may train parents to enhance the involvement of other parents;
- (10) may arrange school meetings at a variety of times, or conduct in-home conferences between teachers or other educators, who work directly with participating children, with parents who are unable to attend such conferences at school, in order to maximize parental involvement and participation;



(11) may adopt and implement model approaches to improving parental involvement;

(12) may establish a districtwide parent advisory council to provide advice on all matters related to parental involvement in programs supported under this section;

(13) may develop appropriate roles for community-based organizations and businesses in parent involvement activities; and

(14) shall provide such other reasonable support for parental involvement activities under this section as parents may request.

(f) ACCESSIBILITY

In carrying out the parental involvement requirements of this part, local educational agencies and schools, to the extent practicable, shall provide full opportunities for the participation of parents with limited English proficiency, parents with disabilities, and parents of migratory children, including providing information and school reports required under section 1111 in a format and, to the extent practicable, in a language such parents understand.

(g) INFORMATION FROM PARENTAL INFORMATION AND RESOURCE CENTERS –

In a State where a parental information and resource center is established to provide training, information, and support to parents and individuals who work with local parents, local educational agencies, and schools receiving assistance under this part and is located in the State shall assist parents and parental organizations by informing such parents as organizations of the existence and purpose of such centers.

(h) REVIEW

The State educational agency shall review the local educational agency's parental involvement policies and practices to determine if the policies and practices meet the requirements of this section.



*****School Name*****
School Parent Involvement Policy
2009-2010

Mission/Values Statement, which highlights the school's and/or district's commitment to parental involvement.

In January of 2008, the Kansas State Board of Education, (KSBE), endorsed the six National Standards for Family-School Partnerships (NSFSP) to promote parent involvement in all KS districts and schools. "School name" will incorporate these standards into their parent involvement policy to promote parent involvement. These standards include: (1) Welcoming all families into the school community, (2) Communicating effectively, (3) Supporting student success, (4) Speaking up for every child, (5) Sharing power, (6) Collaborating with community.

PART I. SCHOOL PARENT INVOLVEMENT POLICY REQUIRED COMPONENTS

- A. ***School Name*** will jointly develop/revise with parents the school parent involvement policy and distribute it to parents of participating children and make available the parent involvement policy to the local community.

(NSFSP: 1-6.)

Activity	Date Due	Contact person

- B. Convene an annual meeting, at a convenient time, to which all parents of participating children shall be invited and encouraged to attend, to inform parents of their school's participation under this part and to explain the requirements of this part, and the right of the parents to be involved;

(NSFSP: 1,2,4)

Activity	Date Due	Contact person

- C. Offer a flexible number of meetings, such as meetings in the morning or evening, and may provide, with funds provided under this part, transportation, child care, or home visits, as such services relate to parental involvement;

(NSFSP: 1, 2)

Activity	Date Due	Contact person

D. Involve parents, in an organized, ongoing, and timely way, in the planning, review, and improvement of the school policy under section 1112, schoolwide under section 1114 and the process of the school review and improvement under section 1116.

(NSFSP: 2, 3, 5)

Activity	Date Due	Contact person

E. Provide parents of participating children –

- a. timely information about programs under this part;
- b. a description and explanation of the curriculum in use at the school, the forms of academic assessment used to measure student progress, and the proficiency levels students are expected to meet; and
- c. if requested by parents, opportunities for regular meetings to formulate suggestions and to participate, as appropriate, in decisions relating to the education of their children, and respond to any such suggestions as soon as practically possible.

(NSFSP: 2, 3, 5)

Activity	Date Due	Contact person

E. If the schoolwide program policy is not satisfactory to the parents of participating children, submit any parent comments on the policy when the school makes the policy available to the local educational agency.

(NSFSP: 5)

Activity	Date Due	Contact person

F. ***School Name*** will inform parents and parental organizations of the purpose and existence of the Parental Information and Resource Center in Kansas (i.e., Kansas Parent Information Resource Center).

(NSFSP: 6)

Activity	Date Due	Contact person

PART II REQUIRED SHARED RESPONSIBILITIES FOR HIGH STUDENT ACADEMIC ACHIEVEMENT

As a component of the school-level parent involvement policy, each school shall jointly develop with parents for all children served under this part a school-parent compact that outlines how parents, the entire school staff, and students will share the responsibility for improved student academic achievement.

- Conduct a parent/teacher conference in elementary schools, annually (at a minimum), during which the compact shall be discussed as the compact relates to the individual child's achievement;
- Provide frequent reports to parents on their children's progress; and
- Provide parents with reasonable access to staff, opportunities to volunteer and participate in their child's class and observation of classroom activities.

(NSFSP: 2, 3, 5)

Activity	Date Due	Contact person

BUILDING CAPACITY REQUIREMENTS FOR INVOLVEMENT

To ensure effective involvement of parents and to support a partnership among the school involved, parents, and the community to improve student academic achievement, each school and local educational agency assisted under this part –

- a. Shall provide assistance to the parents of children served by the school or local educational agency, as appropriate, in understanding such topics as the State's academic content standards and State student academic achievement standards, State and local academic assessments, the requirements of this part, and how to monitor a child's progress and work with educators to improve the achievement of their children;

(NSFSP: 2)

Activity	Date Due	Contact person

- b. Shall provide materials and training to help parents to work with their children to improve their children's achievement, such as literacy training and using technology, as appropriate, to foster parental involvement;

(NSFSP: 3)

Activity	Date Due	Contact person

- c. Shall educate teachers, pupil services personnel, principals, and other staff, with the assistance of parents, in the value and utility of contributions of parents, and in how to reach out to, communicate with, and work with parents as equal partners, implement and coordinate parent programs, and build ties between parents and the school;

(NSFSP: 5)

Activity	Date Due	Contact person

- d. Shall, to the extent feasible and appropriate, coordinate and integrate parent involvement programs and activities with Head Start, Reading First, Early Reading First, Even Start, the Home Instruction Programs for Preschool Youngsters, the Parents as Teachers Program, and public preschool and other programs, and conduct other activities, such as parent resource centers, that encourage and support parents in more fully participating in the education of their children;

(NSFSP: 6)

Activity	Date Due	Contact person

- e. Shall ensure that information related to school and parent programs, meetings, and other activities is sent to the parents of participating children in a format and, to the extent practicable, in a language parents can understand;

(NSFSP: 2)

Activity	Date Due	Contact person

- f. Shall provide such other reasonable support for parental involvement activities under this as parents may request.

(NSFSP: 1)

Activity	Date Due	Contact person

g. May involve parents in the development of training for teachers, principals, and other educators to improve the effectiveness of such training; (NSFSP: 4, 5)

h. May provide necessary literacy training from funds received under this part if the district has exhausted all other reasonably available sources of funding for such training; (NSFSP: 2, 3)

i. May pay reasonable and necessary expenses associated with local parental involvement activities, including transportation and child care costs, to enable parents to participate in school-related meetings and training sessions; (NSFSP: 1)

j. May train parents to enhance the involvement of other parents; (NSFSP: 1, 4)

k. May arrange school meetings at a variety of times, or conduct in-home conferences between teachers or other educators, who work directly with participating children, with parents who are unable to attend such conferences at school, in order to maximize parental involvement and participation; (NSFSP: 1)

l. May adopt and implement model approaches to improving parental involvement; (NSFSP: 1, 4)

m. May establish a district parent advisory council to provide advice on all matters related to parental involvement in programs supported under this section; (NSFSP: 5, 6)

n. May develop appropriate roles for community-based organizations and businesses in parent involvement activities; and (NSFSP: 5, 6)

PART III ACCESSIBILITY REQUIREMENTS

In carrying out the parental involvement requirements of this part, districts and schools, to the extent practicable, shall provide full opportunities for the participation of parents with children with limited English proficiency, parents with children with disabilities, and parents of migratory children, including providing information and school reports in a format and, to the extent practicable, in a language such parents can understand.

(NSFSP: 4)

Activity	Date Due	Contact person

PART IV ADOPTION

This ***School Name*** Parental Involvement Policy has been developed jointly with, and agreed on with, parents of children participating in Title I program, as evidenced by meeting minutes.

The Parent Involvement Policy was developed by ***School Name*** on 1/22/2009 and will be in effect for the period of school year. The school will distribute this Parent Involvement Policy to all parents of participating Title I children and make it available to the community on or before 09/08/09.

(Signature of Title I Authorized Representative)

1/22/2009

(Date)

These parents were involved with the development of this document: