

*CORRECTED*

*SESSION OF 2004*

**SUPPLEMENTAL NOTE ON SENATE  
SUBSTITUTE FOR HOUSE BILL NO. 2004**

As Recommended by Senate Committee on  
Education

**Brief\***

Senate Substitute for HB 2004 would make changes to the school finance formula, authorize a school district health insurance program on a pilot basis, and implement measures intended to generate revenues to fund the proposal. Major provisions of the bill are described below:

**Education Provisions**

- A school district audit team would be created in the Division of the Budget to conduct school district performance and efficiency reviews of the operations of the school district. The audits would be conducted at the request of the school district boards of education and would be for the purpose of informing parents, policymakers, and interested taxpayers about how their school district is performing.
- For school year 2004-05 only, a new weight would be added to the school finance formula called the "special revenues weighting." The weight would be based on the FTE enrollment of the district, multiplied by \$100 and divided by Base State Aid Per Pupil (BSAPP).
- For school year 2004-05 only, the bilingual education weight would be increased from 0.20 to 0.22.
- For school year 2004-05 only, the at-risk weight would be increased from 0.10 to 0.11.

---

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

- A health care program would be developed for school districts which are unable to offer health insurance or which have contributed \$100 or less per member per month to an existing plan. The program would be available on a five-year pilot basis as an alternative to the State Health Care Program. Under the proposal, the state would provide funding for the program at a decreasing rate each year for the five-year period, at which point state aid would terminate. The school district and state match for 90 percent of the cost of individual health insurance would be 30 percent/70 percent for the 2004-05 school year; 40 percent/60 percent for the 2005-06 school year; 50 percent/50 percent for the 2006-07 school year; 60 percent/40 percent for the 2007-08 school year; and 70 percent/30 percent for the 2008-09 school year.

The Senate Leadership proposal also includes provisions that would require an appropriation but would not require statutory changes. They are:

- For FY 2005, an additional \$8,500,000 would be added for special education. The impact of the addition would be to fund special education excess costs at the 85 percent level in FY 2005. (The percentage recommended by the Governor in the current resources budget is 82.2 percent.)
- The Teacher Mentoring Program would be funded with \$1,000,000, which would provide grants to teachers who are mentoring first-year teachers.

#### **Revenue Provisions**

- The current liquor gallonage tax would be increased on June 1, 2004, as follows: The per gallon tax on cereal malt beverage and strong beer would increase from \$.18 to \$.42; the per gallon tax on wort or liquid malt would increase from \$.20 to \$.468; the per gallon tax on malt syrup or malt extract would increase from \$.10 to \$.233; the per gallon tax on "fortified" wine would increase from \$.75 to \$2.25; and the per gallon tax on alcohol and spirits would increase from \$2.50 to \$5.50.

- Policy would be changed regarding exemptions for sales tax paid on utilities (gas, water, and electricity) to require persons who seek refunds on sales taxes paid on utility purchases that pass through only one meter to conduct a usage study and provide it to the utility provider. The provider also would have to be presented with the exemption certificate or claim. Currently, no verification or documentation is required for individuals who claim utility exemptions for that portion of the utility that passes through one meter when most of the usage is taxable.
- The time frame for claiming an income tax refund after filing the original return or paying the tax and for claiming a sales tax refund or credit would be reduced from three years to one year. Exceptions would be provided relative to refunds brought about as a result of reductions in liability discovered during audits.
- Additional language would prohibit all refunds of income, sales, or use taxes to taxpayers who have entered into contracts or arrangements with persons representing the taxpayers in pursuing refund claims when compensation paid to such representatives is contingent upon the amount of refund or the amount that will be exempt in the future. Any refund claims proposed or asserted by or upon the recommendation of such representatives would be void.
- A policy would be implemented whereby no license would be issued under the Liquor Control Act to a person who is not current in the payment of gallonage, income, retailers sales, liquor enforcement, or liquor drink taxes related directly to the business for which the license is issued. The provision would not apply to someone who is involved in a tax audit or who is involved in an administrative or judicial appeal of a tax matter. Moreover, if the licensee is a corporation, partnership, trust or association, the individual officers, directors, stockholders, managers, partners, or other individual members would not be required to be current in the payment of taxes.
- A policy would be implemented whereby anyone who has a license issued by a licensing body of the state to practice a profession (meaning a certificate, permit, registration, or other document) could not have that license renewed unless the person

is current in the payment of all taxes owed the state and has filed all state tax returns. The provision would not apply to someone who is involved in a tax audit or who is involved in an administrative or judicial appeal of a tax matter.

- A policy would be implemented relating to refundable tax credits and net operating loss to modify the existing provisions in various income tax credit statutes to provide that any excess credit, instead of being refunded, would be carried forward and used as a credit against income tax liabilities in subsequent years. Credits that would be affected by the change are the telecommunications credit, disabled access credit, child daycare assistance credit, small employer health insurance credit, and business machinery and equipment credit.
- A policy would be implemented to require that unclaimed property be reported to the state in a specified period of time and that property distributable in the course of certain types of reorganization of an insurance company be abandoned two years, instead of five years, after the date of the reorganization, unless the owner acts to claim the property.
- A policy would be implemented to amend the sales tax law to provide that, in the case of isolated sales of motor vehicles or trailers, the tax would be charged on the greater of the states selling price or the valuation of the motor vehicles or trailers pursuant to the motor vehicle tax law.
- The Director of Taxation would be required to provide a means for individual consumers to report and remit state and local use taxes on the Kansas individual income tax return.

Senate Substitute for HB 2004 would become effective upon publication in the *Kansas Register*.

## **Background**

The original version of HB 2004 was introduced in 2003 in order to reconcile amendments to statutes that had been amended more than once. (Those technical changes subsequently were made in another

bill.) In its current version, the bill contains the Senate Republican Leadership school finance plan. As explained by sponsors of the plan, the changes proposed to the school finance formula would be for the 2004-05 school year only and are intended to show a good faith effort of the part of the Legislature to address concerns identified in current school finance litigation. The proposed revenue measures would be ongoing, although the benefit of certain changes would be one-time or would diminish in succeeding years.

The fiscal impact of the proposed legislation is as follows:

#### **Education Provisions**

- Audits conducted by the Division of the Budget of school district performance and efficiency at the request of school districts are estimated to cost \$250,000.
- Creation of the new "special revenues weighting" is estimated to cost \$44,500,000.
- Increasing the bilingual education weight from 0.20 to 0.22 is estimated to cost \$1,000,000.
- Increasing the at-risk weight from 0.10 to 0.11 is estimated to cost \$5,100,000.
- Implementation of an alternative school district health care program is estimated to cost \$1,500,000 in FY 2005.

The provisions in the Senate Republican Leadership Proposal that would require an appropriation but not a statutory change are the following:

- Funding special education excess costs at the 85 percent level is estimated to cost an additional \$8,500,000 in FY 2005.
- Funding the Teacher Mentoring Program for first-year teachers is estimated to cost \$1,000,000.

- As a consequence of increasing weights in the formula, state aid to help fund increases in local option budgets is estimated to be \$3,250,000 in FY 2005.

**Total:** The total increase of recommended education provisions, including those that require appropriations but not statutory changes, is \$65,100,000.

### **Revenue Provisions**

- The increase in the gallonage tax is expected to increase revenues to the State General Fund by \$21,740,000 in FY 2005; \$22,100,000 in FY 2006; and \$22,190,000 in FY 2007.
- The provision concerning exemptions for sales tax paid on utilities (from 2004 HB 2681) would generate additional State General Fund revenues of an estimated \$8,600,000 in FY 2005; \$8,880,000 in FY 2006; and \$8,160,000 FY 2007. (The amount of increase is estimated to go down in FY 2007 because, under current law, the sales tax rate is scheduled to decline to 5.0 percent on July 1, 2006.)
- The provision (from 2003 HB 2449) changing the time frame from three years to one year for claiming an income tax refund after filing the original return or paying the tax and for claiming a sales tax refund or credit would generate additional State General Fund revenues estimated to be \$16,500,000 in FY 2005; \$12,250,000 in FY 2006; and \$9,000,000 in FY 2007. The amount attributable to income taxes and sales taxes, respectively, are \$12,000,000 and \$4,500,000 in FY 2005; \$9,000,000 and \$3,250,000 in FY 2006; and \$7,000,000 and \$2,000,000 in FY 2007.
- The fiscal impact of requiring licensees under the Liquor Control Act to be current in the payment of taxes (from 2004 SB 414) has not yet been determined.
- The policy (from 2004 HB 2776 and SB 412) of requiring that all licensees of professional licensing boards in Kansas be current in the payment of taxes in order to have their licenses renewed is estimated to generate additional revenues to the State General Fund of \$1,250,000.

- The policy of modifying tax credit statutes to require excess credit to be carried forward and used as a credit against income tax liabilities in subsequent years instead of being refunded (from 2003 HB 2449) is expected to generate additional State General Fund revenues of \$9,000,000 each year in FY 2005, FY 2006, and FY 2007.
- The policy (from 2004 SB 399), which provides that property distributable in the course of certain types of reorganization of an insurance company is deemed abandoned after two years instead of after five years unless the owner acts to claim the property, is estimated to increase State General Fund revenues on a one-time basis by \$10,000,000 in FY 2005.
- The policy of applying the sales tax to the greater of the stated selling price or the valuation of the motor vehicles or trailers in the case of isolated sales (from 2004 SB 372) is estimated to generate increases revenues to the State General Fund of \$1,906,000 in FY 2005; \$2,127,000 in FY 2006; and \$2,111,000 in FY 2007. (The amount decreases in FY 2007 because of a reduction in the sales tax rate, based on current law.
- The voiding of refund claims based on third-party contingency contracts would be expected to increase State General Fund receipts by \$500,000.
- The amount of additional state use tax collections voluntarily reported by taxpayers on the individual income tax form would be positive but indeterminate at this time.

**Total:** The amount of increased revenues to the State General Fund is estimated to be \$69,496,000 in FY 2005.