

Approved April 11, 2002

Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on February 21, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Mays, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferrees appearing before the Committee:

Rep. Bethell
Rep. Findley
Rep. Huff
Larry Magill, Kansas Association of Insurance Agents
Dr. Edwin Church, U.S.D. 405, Lyons
Bill Frick, Shawnee Mission Public Schools
Bob Vancrum, Blue Valley School District
Mark Tallman, Kansas Association of School Boards

Others Attending: See attached list.

Consideration of HB 2647 - Extending the date of nongame and endangered species expenditures tax credits.

Representative Hutchins moved, seconded by Representative Huff, that HB 2647 be amended in Sec. 1(d) to provide it is applicable for years 2002 through 2007, in no event shall: (1) the aggregate amount of credits allowed exceed \$100,000; and (2) any taxpayer be allowed an annual credit in an amount exceeding \$2,000.” Motion adopted.

Representative Hutchins moved, seconded by Representative Huff, to report HB 2647 favorable for passage as amended. Motion adopted.

Hearing was opened on

HB 2804 - School district finance; teacher benefit and classroom enhancement budget.

Representative Bethell presented testimony in support of **HB 2804** (Attachment #1) which he believes contains a concept that will restore some of the local control to the school districts of Kansas, allowing a school district by vote of the qualified voters to create a fund up to 5% of the general fund to be used for the purpose of enhancing certified teacher salary and benefits and if additional funds are available, it is permitted to use those funds for classroom enhancements. Representative Bethell questioned the Fiscal Note and has asked the Fiscal Committee to look at it.

In response to a question Representative Bethell said it was his personal belief the case for education has not been appropriately presented to the voters in the State of Kansas and consequently it has always been said, “Everything has to be equal.” He is not convinced we have an equal system now nor that the system we have had since 1992 is appropriate. He believes if a school district has a case that the teachers are not getting the salaries they need, the people will be supportive. The proposed bill gives the school district and teachers in that district the opportunity to go to the people and gives the voters the opportunity to do what they believe needs to be done about teachers’ salaries. He noted the purposes for which the fund could be used are specified in the bill and any increase is subject to voter approval.

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Committee members commented this seemed to create different boundary lines for local sales which does not raise much revenue when people shop in larger towns and their sales tax supports the schools where they shop. Representative Bethell responded property tax could be the choice. There were questions as to whether a school district could place a tax county wide cutting across other districts. It was pointed out that in Topeka sales taxes generated by businesses on Wanamaker Corridor go to just districts in the county.

In response to questions Representative Bethell said adequate education is an undefined term and does not think it has to be defined as equal and if schools want to enhance, they should have that opportunity.

Dr. Edwin Church, Superintendent of U.S.D. 405 in Lyons, Rice County, presented testimony in support of **HB 2804** (Attachment #2). U.S.D. 405 has 950 students. He said this bill would provide school districts a process to increase revenue for specific purposes of increased teacher compensation and classroom enhancements. He believes the public recognizes teachers are underpaid and taxpayers are willing to pay additional taxes if assured additional revenue will be used to increase teacher pay and benefits. He outlined the group incentive pay plan negotiated in his district with a bonus to teachers if all goals are met. Dr. Church believes **HB 2804** would be improved with two changes: (1) allowing boards to take advantage of the additional 5% budget authority without requiring an election, and (2) providing equalization aid, as with the local option budget. Dr. Church looks at education as economic development.

When asked about dropping enrollment, Dr. Church said when there were 75-80 students in each section four teachers would be needed in first grade. Three were needed when it dropped to 70, and two are still needed for 55-60. He agreed "equal" is hard to define. Patrons in his district have been supportive of schools and approved another 8 mills for a bond issue two years ago when property taxes were going up 25 mills. When asked if he believes those elected should be able to place that tax with equity, he said the seven people were elected in his district to make such decisions and could be voted out of office if there was dissatisfaction with their decisions. When asked how an election would be funded, Dr. Church said there is an election expense item in their general fund. Special bond issue elections have cost \$1,200 to \$1,400 and \$200 for ballot by mail. A reason to remove the requirement for an election is that some districts would have difficulty funding an election.

Testimony was presented in support of **HB 2804** by Bill Frick, Assistant to the Superintendent, Shawnee Mission Public Schools (Attachment #3). He outlined cuts implemented in his district and said all districts could benefit from **HB 2804**. They were able to use local option budget to say whether they want more programs or more pay for teachers. He said their health benefit costs went up 10-15% this year. Mr. Frick said two-thirds of the districts in the state are declining, have used all of the bandaids, and are capped out of everything. In response to questions about cash balance of \$32 million June 30, 2001, he explained that was for all of the funds, including capital outlay, general operating funds, special education funds, food program, etc. and not all those funds could go directly to the classroom. Summer school is self-supporting but all funds are raised before June 30. Money is included to replace the old Greenwood School for which the taxpayers approved a \$147 million bond issue. He likened the balance to the state 7.5% to avoid a cash flow problem. In response to a question, he said districts get money from the state other than base aid per pupil. He noted from the Governor's first budget there is a likelihood of an \$800 million reduction. He described the process and timetable for building school budgets. Mr. Frick said the district would support school closings although the neighborhood concept would be lost and there would be busing. District enrollment has gone from 45,000 in 980s to 25,000, back to 35,000, and now down to 29,000 plus.

Bob Vancrum presented testimony in support of **HB 2804** (Attachment #4) on behalf of Blue Valley USD 229 which he said is the fastest growing school district in Kansas, growing each year in the 1990s by more than the size of the average Kansas school district. As a part of the School Finance Coalition, the district endorsed the state Board's proposals for funding education. He described that plan, admitting it is a daunting goal considering projected deficits even maintaining current inadequate levels of support but said it must be done to avoid having Kansas schools sink toward mediocrity and below, when by every credible standard they now rank among the nation's best.

Mr. Vancrum said rapid growth requires building and staffing before students occupy a classroom creating difficulties living within a straight headcount formula. He believes **HB 2804** should not be viewed as a permanent solution which can only come from a major painful rewrite of the finance formula or a major tax increase or both. It recognizes school districts have expenses such as health insurance and technology running much more than the inflation rate while increases granted by the legislature have been below.

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He referred to Sec. 1(b) requiring expenditures be only for benefits for certified teachers, including increase in salary if that is chosen by the board, with remaining funds to be used for classroom enhancements. He said it is the job of the legislature to set policy for the state and that if it believes the sales tax should not be included, the bill would be helpful to many school districts in Kansas if it is property tax only. He noted some districts are operating without health insurance for their employees and it is not a-typical in many districts for teachers to use their own money for classroom supplies. With reference to the reserve funds, he said that money includes both interest funds, capital outlay funds, kid's lunch money and it does include contingency funds which are approximately 4% to 5% of the general fund budget.

In response to a question he said he believes permanent solutions are going to be either from a major tax increase, a major painful re-write of the school finance formula, or both and said many legislators in 1992 were not in favor of this formula because they were concerned that the state would not keep the promise to replace property tax dollars that were taken away and that unfortunately that has happened.

When questioned about the difficulty levying sales tax where school districts overlap communities and counties, he said he believes interlocal agreements would have to be established to spread the money on a per pupil basis in each county and that there would be no problem limiting the bill to the property tax choice. When the formula went into effect, the district eliminated paying busing and it has not been re-implemented.

Mr. Vancrum said if the Legislature really believes in local control, that citizens of a community should be able to supplement and buy classroom enhancements they think are appropriate, then the argument that the current formula produces equality is absurd. There are districts in the state who receive more than twice as much per pupil than in other areas of the state.

Representative Huff presented testimony in support of **HB 2804** (Attachment #5). He said over 50% of the 303 school districts in Kansas have declining enrollment, have maximized their LOB and most districts' school boards will determine they have insufficient general funds to run their districts in 2003. The state will not be able to fund some of our school districts adequately this next year. **HB 2804** gives citizens of an individual district, small or large, the right to vote yes or no to raise their own property or sales taxes to support their local school district. He said over 50% of districts have maximized their local option budgets.

Mark Tallman presented testimony on behalf of the Kansas Association of School Boards in opposition to **HB 2804** (Attachment #6). He said KASB strongly supports the goal of increasing teacher salaries and benefits and enhancing classroom instruction and strongly agrees taxes must be raised to achieve those goals. The disagreement with **HB 2804** is that rather than providing funding to allow all districts to improve teacher salaries and benefits and classroom support, it would make these benefits available only through local taxes and only with approval of local voters. He described why they believe local tax resources to support schools are inherently unequal.

Reference was made to the recent Post Audit research on percentage of funds going to the classroom. Mr. Tallman said he believed the percentage of operating budget that appeared as "instruction" was about 57%. That is not the same as "going to the classroom". Post Audit says "instruction" is only classroom teachers' salaries. Under the Post Audit methodology librarians etc. are not considered an instructional expense. Non-instructional expenses include food service, transportation, building maintenance and a number of other items that have a direct impact on classrooms. This legislature mandated school breakfast programs, a requirement by this legislature that is not included in instruction.

The position of KASB is that school districts should not be allowed to increase their taxes unless all school districts have that option and opposition to **HB 2804** is primarily based on the fact that it is not equal. They believe what the legislature needs to do first is to meet the basic funding needs of all districts.

Representative Huff referred to the 2000 census figures that eight counties in the state have 75% of the population and asked how it would equal out when 97 counties have 25% of the population.

Mr. Tallman said KASB is not saying it ought to be equal but that it is the obligation of the legislature to ensure that all districts are provided suitable funding as required by the Constitution.

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Representative Vickery said in his testimony Mr. Tallman summarizes the problem in Miami County to keep their good teachers in competing with Blue Valley which has greater resources.

Mr. Tallman said there is strong competition for teachers in the private sector in addition to the competition among districts. He does not want in any way to minimize the problems but the only concern is that addressing it in this way can make it harder for other districts to be competitive.

Representative Owens expressed difficulty understanding the definition of suitable or adequate education, and believes what is being proposed by KASB is support of a mediocrity in not allowing for excellence to be cultivated where it can be by reducing support to the lowest common denominator. He said we have some very strong schools of excellence throughout the state and is concerned that KASB should be supportive of that excellence in education if the state is to attract economic development. He said he believes it is up to every individual in the state to rise up and say that we want excellence in education, but that those places that are willing to do so should not be held hostage.

Mr. Tallman said KASB wants to support excellence throughout the state and that we should not define our excellent schools as the ones spending more than others. KASB agrees with the premise that spending more in those schools will make them better, but if spending more in some schools would make them better, they believe spending more in all schools would make them better.

Representative Osborne encouraged an approach that would assist the proponents in improving the bill.

With reference to the recent Post Audit report, Mr. Tallman was asked about percentage of support attributed to "instruction". He said those figures were only classroom teachers and did not include libraries which affect on quality of education. He noted that the academic outcome of Kansas schools--national test scores, ACT, grade rates--are better than the averages of those four states that spend more money on "instruction" and he believes some of the things money is spent on have an effect on the quality of education.

When asked if KASB would be more in support of increasing the formula than of **HB 2804**, Mr. Tallman said that as the statewide mill levy has been decreased school districts have had to raise their local option budget, providing state aid on a more equalized basis. The legislature could raise the statewide mill levy and not correspondingly raise the base which would free up general fund money. In their opinion, raising the statewide mill levy and raising the base is better than doing this alone.

Representative Larkin said the local option budget was intended to create flexibility in the local use of funding so they would have authority to spend more money if they chose. The formula was rewritten in 1992 because of the threat of court action. Those creating it had no idea that because the formula has not been adequately supported, that the local option budget would become the major support.

In response to a question whether the value of a child's education in Pittsburg was worth what a child's education was in Johnson County, Mr. Tallman said that is the concern of KASB about new locally based funding systems because local resources are not remotely equal but wanted to acknowledge there are legitimate reasons to look at such things as cost of living.

Hearing on **HB 2804** was closed.

Meeting adjourned at 10:55 a.m. Next meeting is scheduled for February 22.