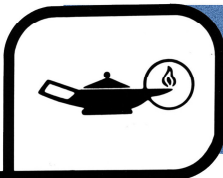


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Testimony before the
House Committee on Taxation
on
HB 2110 – Governor’s Tax Plan

by
Mark Tallman, Associate Executive Director, Kansas Association of School Boards
February 6, 2013

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify on the Governor’s revenue proposals. We view these proposals in two parts. In his budget message, the Governor called for keeping the state sales tax rate at 6.3 percent, rather than dropping to 5.7 percent on July 1 under current law (raising \$262.3 million), and eliminating the mortgage interest deduction (\$162.5 million). Combined with other actions, this produces a two-year budget that maintains a 7.5 percent ending balance and funds the base budget per pupil, local option budget and special education state aid at current levels; and increases funding for bond and interest and KPERS contributions based on current law. While far below the levels KASB supports (and the level ordered by the three-judge panel in the *Gannon* school finance case), simply maintaining current funding requires a significant increase in state revenues. KASB supports these or alternative measures to achieve that goal.

The Governor’s second revenue proposal was not part of his budget message. It would remove the state income tax deduction for real estate taxes in 2014, and then begin further income tax cuts by lower rates in 2015, 2016 and 2017. It would also require that in any year state general fund revenues grow more than four percent the excess will be used for further income tax rate reductions.

KASB does not support these provisions, based on Legislative Research Department projections that the cost of these addition tax cuts could reduce state ending balances from 8.0 percent in FY 2014 to 0.4 percent in FY 2017 and require \$781.5 million in spending cuts or revenue adjustments in FY 2018 to have a zero (non-negative) ending balance. We believe this threatens future K-12 funding, risking a decline in our educational outcomes, at a time when educational achievement is crucial to economic prosperity.

KASB supports additional revenue to avoid further cuts in education.

Based on the November consensus revenue estimates, Legislative Research indicates that with adjustments for mandatory spending, the Legislature will have to cut spending or raise revenue equal to \$267.3 million to avoid a state general fund deficit at the end of FY 2014. However, that assumes spending down the entire FY 2013 ending balance of \$505 million. Because those one time balances would not be available the following year, at least several hundred million in **additional** spending cuts or revenue increases would be required in FY 2015.

Under state law, the Governor is required to submit a budget with a 7.5 percent ending balance and no tax increase. Governor Brownback's "statutory" budget for FY 2014 meets this obligation by proposing an 8.3 percent across-the-board cut for all agencies. The Department of Education would lose \$247.9 million; equal to a \$365 cut in the base budget per pupil, or about 6.2 percent of school districts operating budgets (general fund, local option budgets and special education).

Funding for current educational operations is well below 2009 levels.

School district general fund budgets are \$190 million, or 6.8 percent, below the high level of funding 2009. (Each district's general fund is determined by multiplying weighted enrollment by the base budget per pupil, and funded by the 20 mill statewide property tax, other local effort revenues, and general state aid.) School districts have partially offset those reductions by raising Local Option Budgets over \$95 million, which has virtually all been borne by property taxes.

Since 2009, statewide enrollment has increased by almost 2 percent since 2009, and total weighted enrollment is up 6.8 percent, mainly due to more students qualifying for free lunch and counting for at-risk weighting. The consumer price index increased nearly 9.3 percent since 2009, so the "effective" cut in funding per pupil has been much larger than the dollar amount alone. Between 2009 and 2012, school districts reduced teachers and other instructional positions by 2.8 percent; general administration by 11.7 percent; school administration by 4.6 percent; operations and maintenance staff by 5.8 percent; and food service by 6.2 percent. A total of nearly 2,550 positions were eliminated.

Although district budgets and state aid for general education operations have been reduced, other areas have increased. Since 2009, state aid for bond and interest payments has increased \$35 million (although \$22 million in capital outlay aid was eliminated), and KPERS contributions for school district employees \$86 million. When additional local revenues for bond payments, capital outlay, food services, students and some federal programs are included, **total** school district spending is higher than FY 2009. However, none of these funds are available for general education programs.

School funding has declined compared to Kansas incomes.

Also since 2009, Kansas Personal Income, which is the total income of all residents and a measure of ability to support public services, increased from \$108 billion to an estimated \$125 billion this year. State aid to school districts dropped from 3.0 percent of state personal income to 2.6 percent— the lowest level since the state took over a larger share of school funding in the early 1990's. School operating budgets (general fund, LOB and special education aid) dropped from 4 percent to 3.5 percent - the lowest level since at least the early 1970's. Total school spending dropped from 5.2

percent of total personal income to 4.6 percent. Because personal income is expected to continue to grow in FY 2014 and 2015, further cuts to educational funding will push these percentages even lower.

How would additional funding cuts affect K-12 education?

In its testimony in the Senate Committee on **SB 78**, the Kansas Policy Institute provided a table showing six states that have lower state spending per resident than Kansas: Texas, Florida, Missouri, Oklahoma, New Hampshire, and Nevada. Only Missouri and Oklahoma among those states have a state income tax. KPI argues that Kansas can cut state spending and still have the “same basket of essential services.”

However, the data for these states only looks at **state** spending. Education funding is a combination of state, local and a relatively small amount of federal funding. Kansas provides 52.5 percent of K-12 funding from the state. Among the comparison group, only Nevada is higher (55 percent). Oklahoma’s state share is 46 percent; all the others are less than 40 percent. Therefore, it is not surprising that while Kansas provides about \$1,700 more per pupil in **state** funding, the other states spend on average \$1,000 more than Kansas from **local** sources, which in Kansas would likely be property taxes.

Although Kansas schools receive about \$841 more per pupil than the average of these states, it is not because Kansas is a higher spender. Kansas ranks 26th in total revenues per pupil. These low-spending comparison states are also among the lowest spending on education, except for New Hampshire, which ranks 14th in total per pupil revenue. Texas ranks 36th, Missouri 38th, Nevada 43rd, Florida 44th and Oklahoma 48th. (All financial data is for 2010, from the U.S. Census Bureau.)

Low spending states are NOT getting the same educational results.

Higher spending states tend to have by far the better outcomes, and the KPI comparison group makes this point. New Hampshire, the state with the highest per pupil spending in the group, ranks 2nd nationally on National Assessment of Education Progress scores, 4th in high school completion, and 7th in both preparation for college and adult educational attainment. Kansas, the next highest spending state in the group, ranks 9th, 11th, 9th and 13th on achievement measures – higher than any other states. With just a few exceptions, the other four states all rank in the bottom half of states on education, measures – often in the bottom 10.

Educational achievement is critical to economic success.

Kansas may have had a “lost decade” of population and job growth, but it had the second-highest per capita income in the comparison group (\$39,494 in 2010), and its national ranking moved up from 27th in 2000, to 21st in 2010. Only New Hampshire had higher per capital income, and it slipped from 6th to 9th over the decade. The two states with the highest educational achievement had the highest per capita income – which is no surprise when considering that higher education levels lead to higher income and employment. The other five states had both lower educational attainment and lower per capita income than Kansas. Texas and Oklahoma also improved their ranking from 27nd to 23rd and

42nd to 33rd, respectively. Florida and Nevada both dropped in the national ranking despite having no income tax, from 21st to 24th and 14th to 31st. Missouri was almost unchanged, moving from 31st to 32nd.

This sample of states illustrates KASB's concerns about the Governor's revenue bills. We believe we need additional revenue to avoid further cuts in education that would result in higher local funding (property taxes) or lower educational funding per pupil – or both. (Without a change in state law, most districts have little ability to raise more local operating revenues because of the cap on the LOB.) At the same time, we would oppose further tax which would create the same problems in the future. States spending less than Kansas have lower educational outcomes. Lower educational outcomes will, in the long run, reduce personal income.

KASB is not committed to these *particular* revenue proposals, but maintaining the sales tax would keep in place rates Kansas are already paying – not increase them. Eliminating deductions would still leave most Kansans paying a lower overall income tax to the state. Overall, state general fund receipts (mostly taxes) will be an estimated 4.6 percent of state personal income in FY 14 under the Governor's plan, compared to a low of 5.0 percent to a high of 5.9 percent every year between 1994, when the state took over more responsibility for school finance, and 2009.

Thank you for your consideration.

Attachment 1

Comparing Kansas to Certain Low-spending States				
	Percent K-12 Revenue from State Sources	Total K-12 Revenue Per Pupil, 2009-10	State Revenue Per Pupil	Local Revenue Per Pupil
Kansas	52.5%	\$11,566	\$6,069	\$4,068
Texas	37.5%	\$10,656	\$3,997	\$4,971
Florida	31.3%	\$9,981	\$3,127	\$5,255
Missouri	36.5%	\$10,596	\$3,869	\$5,132
Oklahoma	46.0%	\$8,840	\$4,067	\$3,597
New Hampshire	37.8%	\$14,221	\$5,382	\$7,900
Nevada	55.0%	\$10,054	\$5,525	\$3,683
Average (ex. KS)	40.7%	\$10,725	\$4,328	\$5,090

National Assessment of Education Progress, Average % at Benchmark			High School Completion, Average of four national studies			Preparation for College, estimated % of age cohort at Benchmark (*=SAT state, others ACT)		
	Percent	US Rank		Percent	US Rank		Percent	US Rank
New Hampshire	57.2%	2	New Hampshire	84.2%	4	New Hampshire*	36.2%	7
Kansas	53.9%	9	Kansas	81.9%	11	Kansas	40.9%	9
Texas	50.1%	21	Missouri	81.5%	18	Missouri	35.7%	22
Missouri	48.7%	29	Texas	78.2%	31	Oklahoma	31.5%	37
Florida	48.4%	31	Oklahoma	75.3%	36	Texas*	20.0%	46
Oklahoma	46.6%	33	Florida	72.9%	43	Florida	23.8%	46
Nevada	43.6%	43	Nevada	63.6%	50	Nevada	13.4%	50

Adult Education Attainment; average % with high school, bachelor's and advanced degree			Personal Per Capita Income			
	Percent	US Rank		2010	US Rank 2000	US Rank 2010
New Hampshire	44.9%	7	New Hampshire	\$44,084	6	9
Kansas	43.1%	13	Kansas	\$39,737	28	21
Missouri	40.4%	30	Texas	\$39,493	27	23
Florida	39.9%	35	Florida	\$39,272	21	24
Oklahoma	38.5%	41	Nevada	\$36,997	14	31
Texas	37.9%	43	Missouri	\$36,979	31	32
Nevada	37.6%	44	Oklahoma	\$36,421	42	33

Attachment 2

Average Overall Rank						
Overall Average Rank	State:	Pre-High School	High School Completion	Preparation for College	Adult Educational Attainment	Average Rank
1	Massachusetts	1	6	2	1	2.5
2	New Hampshire	2	4	7	7	5.0
3	Vermont	3	3	11	5	5.5
4	New Jersey	5	7	9	6	6.8
5	Minnesota	8	10	4	9	7.8
6	North Dakota	6	5	2	27	10.0
7	Kansas	9	11	9	13	10.5
8	Connecticut	25	14	4	2	11.3
9	Maryland	14	12	20	2	12.0
10	Colorado	11	30	15	4	15.0
11	Virginia	21	15	17	8	15.3
12	Utah	25	17	7	16	16.3
12	Wisconsin	23	1	17	24	16.3
14	Nebraska	28	8	11	22	17.3
15	Pennsylvania	16	9	22	23	17.5
16	Maine	10	16	24	21	17.8
17	Montana	4	13	35	20	18.0
18	Illinois	33	21	6	15	18.8
19	South Dakota	11	23	13	28	18.8
20	Wyoming	7	28	19	25	19.8
21	Washington	19	38	13	10	20.0
22	Iowa	25	2	30	26	20.8
23	New York	32	27	15	11	21.3
24	Ohio	11	20	31	33	23.8
25	Missouri	29	18	22	30	24.8
26	Rhode Island	30	24	28	19	25.3
27	Delaware	24	39	26	18	26.8
27	Oregon	35	25	33	14	26.8
29	Idaho	15	22	39	34	27.5
30	Indiana	17	29	30	39	28.8
31	Hawaii	40	26	39	12	29.3
32	Michigan	38	32	20	28	29.5
33	North Carolina	19	33	35	36	30.8
34	Kentucky	17	35	28	46	31.5
35	Tennessee	45	19	24	42	32.5
36	Texas	21	31	46	43	35.3
37	Oklahoma	33	36	37	41	36.8
38	Alaska	41	42	48	17	37.0
39	Arkansas	36	37	33	48	38.5
40	Florida	31	43	46	35	38.8
40	Georgia	37	49	37	32	38.8
42	California	49	41	43	30	40.8
43	South Carolina	39	45	41	40	41.3
44	Arizona	42	40	50	37	42.3
44	Louisiana	48	48	26	47	42.3
46	West Virginia	44	34	43	49	42.5
47	Alabama	46	44	41	45	44.0
48	New Mexico	47	46	48	38	44.8
49	Nevada	43	50	50	44	46.8
50	Mississippi	50	47	44	49	47.5

Attachment 3

Overall Rank, Resources and Students										
Rank of Average Rank	State	Current Spending Per Pupil 2010	Rank in Spending Per Pupil	Total Revenue Per Pupil 2010	Rank in Revenue per Pupil 2010	Instruction as Percent of Current Spending	Rank on Instruction as Percent of Current Spending	Percent of Students Eligible for Free/Reduced Meals	Rank of F/R Meal Students (1=low)	Decile Average
1	Massachusetts	\$14,350	7	\$16,664	7	62.5%	9	32.9	4	
2	New Hampshire	\$12,383	11	\$14,221	13	62.9%	6	23.5	1	
3	Vermont	\$15,274	4	\$17,333	5	60.6%	23	34.6	6	
4	New Jersey	\$16,841	2	\$18,827	3	57.8%	44	32.5	3	
5	Minnesota	\$10,685	21	\$12,757	20	66.3%	2	35.5	8	
6	North Dakota	\$10,991	19	\$13,273	17	60.1%	29	33.8	5	
7	Kansas	\$9,715	27	\$11,566	25	61.9%	13	45.7	30	
8	Connecticut	\$14,906	6	\$17,573	4	62.2%	11	32.3	2	
9	Maryland	\$13,738	8	\$15,705	8	61.3%	15	38.3	15	
10	Colorado	\$8,853	40	\$10,586	38	57.8%	45	38.4	16	\$12,774
11	Virginia	\$10,597	24	\$11,805	24	61.0%	18	36.5	10	
12	Utah	\$6,064	50	\$7,743	50	63.7%	4	42.1	22	
12	Wisconsin	\$11,364	17	\$12,775	19	61.0%	17	37.1	11	
14	Nebraska	\$10,734	20	\$12,353	21	66.0%	3	41.3	19	
15	Pennsylvania	\$12,995	10	\$15,612	9	60.8%	20	38.2	14	
16	Maine	\$12,259	13	\$14,144	14	58.7%	34	41.6	20	
17	Montana	\$10,497	25	\$11,359	28	60.2%	27	40.0	17	
18	Illinois	\$11,634	15	\$13,124	18	59.5%	30	46.2	32	
19	South Dakota	\$8,858	39	\$10,437	40	60.2%	26	37.6	13	
20	Wyoming	\$15,169	5	\$19,510	2	59.1%	32	35.2	7	\$11,017
21	Washington	\$9,452	31	\$11,432	27	60.7%	22	43.0	23	
22	Iowa	\$9,763	26	\$11,264	30	61.9%	12	37.3	12	
23	New York	\$18,618	1	\$20,480	1	69.7%	1	45.1	28	
24	Ohio	\$11,030	18	\$13,531	15	55.9%	48	40.3	18	
25	Missouri	\$9,634	28	\$10,596	37	60.6%	24	44.3	27	
26	Rhode Island	\$13,699	9	\$15,553	10	58.3%	40	41.9	21	
27	Delaware	\$12,383	11	\$14,415	11	61.5%	14	46.8	33	
27	Oregon	\$9,624	29	\$11,016	31	58.3%	39	50.2	36	
29	Idaho	\$7,106	49	\$8,163	49	61.2%	16	43.0	24	
30	Indiana	\$9,611	30	\$13,374	16	58.2%	41	45.3	29	\$11,092
31	Hawaii	\$11,754	14	\$14,234	12	62.4%	10	43.3	25	
32	Michigan	\$10,644	22	\$12,081	23	58.3%	38	45.9	31	
33	North Carolina	\$8,409	44	\$11,507	26	62.9%	7	49.9	35	
34	Kentucky	\$8,948	37	\$10,238	41	59.4%	31	54.9	42	
35	Tennessee	\$8,065	46	\$8,618	48	63.0%	5	54.4	40	
36	Texas	\$8,746	41	\$10,656	35	60.7%	21	50.5	37	
37	Oklahoma	\$7,896	47	\$8,840	47	56.2%	47	58.8	46	
38	Alaska	\$15,783	3	\$16,990	6	55.6%	50	36.2	9	
39	Arkansas	\$9,143	35	\$10,633	36	58.0%	42	59.7	47	
40	Florida	\$8,741	42	\$9,981	43	60.4%	25	53.5	39	\$9,813
40	Georgia	\$9,394	32	\$10,740	34	62.5%	8	56.1	45	
42	California	\$9,375	34	\$10,581	39	60.2%	28	55.6	44	
43	South Carolina	\$9,143	35	\$10,820	33	57.3%	46	54.6	41	
44	Arizona	\$7,848	48	\$9,059	46	55.8%	49	47.3	34	
44	Louisiana	\$10,638	23	\$12,111	22	58.6%	36	65.8	48	
46	West Virginia	\$11,527	16	\$11,269	29	60.9%	19	52.0	38	
47	Alabama	\$8,881	38	\$9,721	44	58.6%	35	54.9	43	
48	New Mexico	\$9,384	33	\$10,978	32	57.9%	43	66.6	49	
49	Nevada	\$8,483	43	\$10,054	42	58.9%	33	43.3	26	
50	Mississippi	\$8,119	45	\$9,061	45	58.6%	37	70.7	50	\$9,279