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Testimony before the
House Taxation Committee
on

HB 2285– Relating to **definitions of commercial and industrial machinery and equipment**

by
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Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify on **HB 2285**. We appear as an opponent.

"Moving target" seems to be the order of the day in this session, and this bill fits that definition to a T! Nobody is quite sure what figure would be removed from real tax to personal tax as this change is contemplated. Nobody is quite sure what tax package will emerge ultimately. As a result, nobody knows what the final budget will look like. But there is one thing we can be sure of: any decrease in taxable evaluation will result in a significant decrease in the revenue the state collects through its 20 mill assessment that supports K-12 appropriations. Two choices emerge for policymakers at that point. Do we raise state taxes in another manner to make up for the cut? Or do we cut appropriations and let our fellow elected officials representing schools boards make the real decision: raise taxes or cut services. We urge you to make the decision that will keep state revenues stables.

Let's just say a figure of $400 million is removed, a number I have been told is in the ball park. Twenty mills is 0.02 times 400,000,000, which is $8 million, which is about $17 on the base. The state either finds the revenue or cuts appropriations accordingly. But what complicates matters even more is districts levy their own tax through their local option budget and/or capital outlay levy. First, let's look at the LOB. The last several years, the amount appropriated to fund the LOB has not been sufficient to pay for demands on it, so it has been pro-rated. Rather than getting 92 percent of the promised money, they are only getting about 85-90 percent of what is promised. They have already been forced into the position I've described: either raise their mill levy or reduce their budget. If real valuation is reduced, the districts receiving LOB equalization will be hit again. And to make matters worse, the 50+ districts that don't receive equalization aid will be forced to make the same difficult choice: raise their mill levies or cut their budget.

It's important to realize that operating budgets, general fund and supplemental budgets have already been reduced 8-10 percent due to state cuts. The places where state funding has increased, KPERS payments and bonds and interest funds, cannot be spent to support day-to-day operating. The cuts we're being discussed will just be added to the ones already been made.

Capital will also be adversely affected. Sadly, several years ago, the state chose not to equalize capital outlay levies. As a result, districts with lower valuation per pupil simply could not raise the same amount of money with a similar tax effort. With less local valuation, every district with a capital outlay levy, which is topped at 8 mills, will get less money for it, and many of them are at the cap, so, once again, budgets get cut.

We all know many who will receive the tax benefits live where their assets are, but I would suggest this is true: at both the state and district level, many of those receiving the tax benefits being contemplated are not residents of the taxing authority where that real property has now become personal property. They will take their savings out of the state or out of the school district. The money then fails to ripple through the economy as that dollar is not being spent "locally." Therefore, the adverse impact on the local or state economy is greater than just the amount of money that locals now have to tax themselves to keep their services at the same level.

I'll be happy to stand for questions.