



Responsible Policy. Real Prosperity.

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Kansas Center for Economic Growth
House Bill 2237
House Taxation Committee

Chairman Johnson and Members of the Committee:

My name is Heidi Holliday, and I am the Executive Director of the Kansas Center for Economic Growth. KCEG is a nonpartisan organization promoting balanced budget and tax policies that ensure all Kansans prosper. Thank you for the opportunity to testify today in support of House Bill 2237.

Last December, a coalition of organizations called "Rise Up, Kansas" offered a comprehensive plan for Kansas tax reform, which is the bill before you today. We took painstaking effort to develop a proposal that could appeal to policymakers with varying philosophies about raising revenue. In fact, we modeled over 70 different tax variations in search of the right balance.

You should have received our *Guide to Comprehensive Tax Reform* when we unveiled this plan last December, which offers a more in-depth explanation behind each of the plan's components. I am happy to answer questions, but here are the highlights:

- The Rise Up plan preserves the individual income tax cuts enacted under the Brownback plan for 70% of Kansas earners. No Kansan will pay a higher income tax rate than they did before the tax plan took effect.
- Allows for a food sales tax cut – which is currently the second highest in the nation.
- Holds the highway fund harmless for the first time since Governor Brownback took office. This will revive the state's transportation plan, which is proven to create new jobs and generate economic activity across the state.
- Sets the stage to proactively re-invest in Kansas schools.
- **Most importantly, this plan fixes Kansas' structural revenue imbalance, which will end this era of perpetual budget crisis.**

Our coalition is genuinely open-minded about the final shape tax reform could take. The Rise Up Kansas proposal did not elevate a variety of "revenue raisers" that warrant consideration. We appreciate this committee's work so far to vet other options, and we encourage you to continue that process.

We do, however, strongly urge you to embrace three fundamental goals for whatever tax plan you ultimately support:

1. **A plan that balances the budget and ends the cycle of crisis.** We must enact tax reform that aligns Kansas expenditures and revenues without relying on temporary sources, such as KPERS borrowing or sweeps from special funds with dedicated revenue streams. This requires a comprehensive approach that ends the future phase-out of individual income taxes. Simply closing the “LLC loophole” will not fix Kansas’ ongoing revenue shortfall.
2. **A plan that restores fairness and accountability.** The combined impact of tax policy changes between 2012-2015 resulted in a net tax increase for 40% of Kansans. Those folks worry deeply that the system is rigged against them. A plan that limits regressivity and requires everyone to “pitch in” is not only good policy, it will also generate much more public support.
3. **A plan that is proactive.** A Supreme Court order to increase funding for Kansas schools is widely expected soon. It is in your best interest – both politically and practically - to address this now, as part of a comprehensive tax reform plan. It is badly needed, overwhelmingly supported by Kansans, and will enable lawmakers to avoid another difficult tax debate should the ruling come after the Legislature adjourns.

Like many of you, we are disappointed the Governor failed to address the current year’s budget shortfall ahead of the 2017 session. We fear it will ultimately create additional pain and panic that could have been avoided, but we encourage you to stay firmly focused on the big picture.

Failed tax policy created this fiasco. Demanding a fix to the underlying problem first – before you address the current shortfall – will enable you to make much more strategic budget decisions. If you treat the illness before the symptom, you can ensure this tenth budget crisis will be the last Kansans are forced to endure as result of failed tax policy.

This is not an easy process. But at the end of the day, the Brownback tax plan just didn’t work. We gave the experiment time, but the evidence of failure is undeniable, and we’re at the end of the line. This now comes down to a question of priorities. We can prioritize unaffordable tax breaks for a few at the top, or we can prioritize our home and investments that create prosperity for all. Since we can’t have both, let’s prioritize the option that allows us to accomplish more together than we can on our own.

Thank you Chairman Johnson and members of the committee for the opportunity to testify. I would be pleased to stand for questions at the appropriate time.