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Testimony before the
House Committee on Taxation
on
HB 2560 – Reduction of Income Tax Rates

by
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Mr. Chairman, Members of the Committee,

Thank you for the opportunity to testify on **HB 2560.** Our primary concern is new section 45. As we understand the purpose of this section, the goal is to limit annual state general fund spending increases to no greater than 2 percent per year, by requiring any increase in revenues over 2 percent be used to reduce individual and corporate income tax rates. KASB opposes this provision.

The people of Kansas, through their constitution, have directed the Legislature to make suitable provision for financing of the educational interests of the state. Since 1975, funding for school district operating budgets – a combination of state and local funding – has risen 704 percent, or an average of 5.9 percent per year. However, school funding has not increased faster than total personal income in the state, which increased 776 percent, or 6.1 percent. For at least 35 years, Kansans – through their state and local representatives – have increased spending in education at the same rate as their income has grown. They have, quite literally, invested a consistent share of income in their children's future.

To make sure all school children in the state have an opportunity to share in this investment, Kansans have turned from extremely unequal local property tax resources for education finance to state funding from sales and income taxes. State aid has increased from less than 50 percent of district operating budgets in 1975 to over 80 percent, providing a substantial reduction in property taxes for schools relative to income. Much of the increase in funding has been targeted at groups of students who historically lagged behind in achievement: low income, disabled and English Language Learners.

The result of this investment has fulfilled another mandate of the state constitution: to "provide for intellectual, educational, vocational and scientific improvement through a system of public schools." The high school graduation rate for Kansans has doubled since the 1960s and college completion has more than tripled. New opportunities have opened for students with disabilities, women and minorities. The use of technology has expanded. We have made substantial progress in narrowing the achievement gap among student groups.

Kansas is a leader not just regionally but nationally in educational attainment. Our students score in the top 10 on national reading and math tests and preparation for college. Kansas ranks in the top 15 on high school completion and adult education levels. These results are critical at a time when higher educational levels equal higher incomes, less unemployment and lower poverty.

Our high national ranking has been achieved by consistently spending slightly below the national average per pupil: top 10 results at below average cost. Most states have increased education funding as much or more than Kansas.

KASB is concerned over section 45 in that it would reverse this long and successful commitment to education funding. The 2 percent annual state spending limit would be less than one-third of the historical average of Kansas personal income growth, and about one-third of the average increase in school district general fund budgets. In fact, it would be less than the average inflation rate for the past two decades (2.6 percent). To hold school budgets below the rate of inflation would almost certainly mean an erosion of teacher salaries compared to other professionals, higher class sizes, closing school buildings, longer transportation times, and reduced services to students.

In theory, a decline in state support could be made up by increased local revenues. However, under the current formula, most school districts are close to the limit on local option funding. Removing those limits, as the Governor has proposed in his school finance plan, would allow some districts to make up for limited state aid. However, without increased state equalization aid, lower-wealth districts will need substantially higher property tax rates to provide equitable funding.

In addition, even if K-12 education continues to account for about half of the state general fund, a substantial portion of state school aid will likely be required to address the unfunded KPERS issues, leaving little left over for basic school district operations. Furthermore, school enrollments are projected to continue to increase over the next decade, meaning more funding will be required just to maintain the current support per pupil.

We urge the committee to carefully weigh the potential benefits of eliminating the state income tax against the reduction in educational support, the shift to property taxes, and especially the impact on districts that rely more on state assistance to produce the educational outcomes our state economy demands.

Finally, we question the need for this significant shift in tax policy. Over the last decade, Kansas per capita income increased from 28th to 21st in the nation. We outrank all neighboring states except Colorado. But we also outrank five of the nine "no income tax states" (Florida, Nevada, South Dakota, Tennessee and Texas). In fact, only two no income tax states (South Dakota and Wyoming) had a bigger increase in national ranking than Kansas, and three of the nine (Florida, Nevada and Tennessee) actually declined.

We believe the people of Kansas have been right in the decades of strong support they have given to their public schools. We do not believe the people of Kansas today support reducing the state's role in funding that system, and transferring the burden to local revenues. We do not believe Kansas can compete for high skill, high wage job creation if we reduce our commitment to education.

In short, we urge you to remove section 45 from this bill.

Thank you for your consideration.