

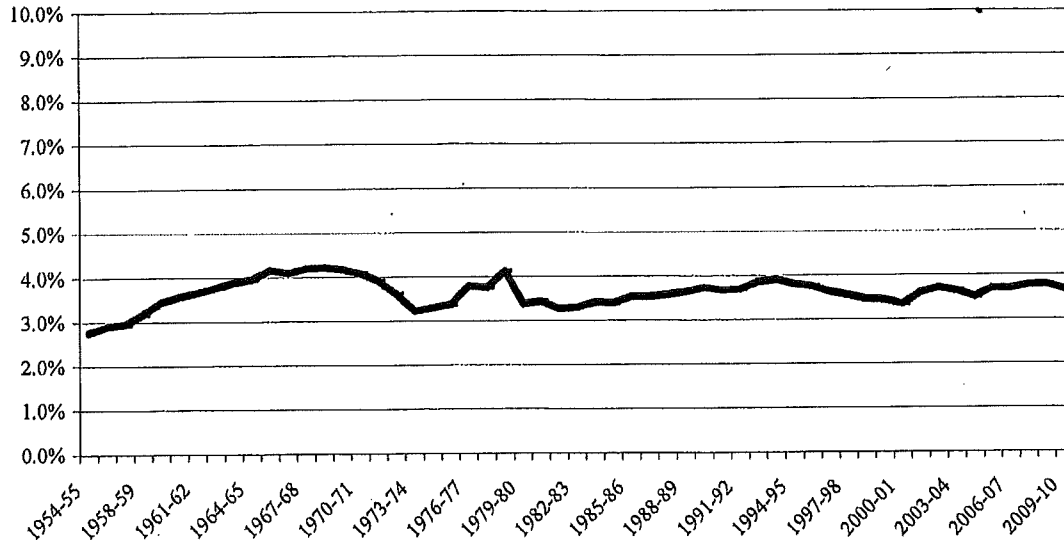
Kansas Tax Structure

Comments by Mark Tallman, KASB Assistant Executive Director/Advocacy
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Increasing educational funding has not increased the overall tax burden

Despite the changes in education and all the additional funding they require, school district expenditures have not significantly changed *as a percentage of Kansas personal income* in 50 years.

District General Fund Expenditures as Percent of Kansas Personal Income



As educational expectations rose in the 1960s, Kansas revised the educational article of its constitution, enacted school unification and passed a sales tax increase to fund a new school finance system. Spending compared to income then dropped in the mid-70s, but rose following the passage of the School District Equalization Act, special education laws and mandatory teacher bargaining – only to fall again in the early 1980s. When the 1983 *Nation At Risk Report* warned of declining education performance, Kansas responded by gradually increasing school funding compared to Kansas incomes until it peaked in 1993-94 with another new school finance act. Yet even after the Legislature's response to the *Montoy* lawsuit, school district general funds are less than 4.0 percent of personal income, about at the historical average of the past half-century.

This does not include school district expenditures outside of the general fund and local option budgets; primarily capital outlay and debt service on school construction bonds. These costs aren't included for several reasons. First, we don't have the information going back that far. Second, these expenditures are primarily funded by local revenues, and are either subject to direct voter approval or protest petition. Third, there is nothing to suggest they have made a significant difference in the total Kansas tax burden, which has also changed very little over past decades.

Just as school spending as a percentage of Kansas personal income has changed very little over the past 50 years, total state and local taxes as a percentage of KPI has changed very little over the past 80 years. Spending on K-12 education – a combination of state and local revenue – has increased at just about the same rate as overall state and local tax revenue, which has risen at just about the same rate as Kansas income.

Reasons for concerns about tax policy and education funding

- A. The rise in income has not been shared equally**
- B. Tax policy has shifted the tax burden and led to higher rates**
- C. Efforts to reduce property tax reliance have been undercut**

The more the Legislature allows school finance to shift back to local revenue sources to meet state educational requirements, which are vastly unequal across Kansas communities, the harder it will be to provide constitutionally suitable funding to meet the state's education outcomes for all students, regardless of where they live. More unequal local funding will lead to more school finance litigation.

Simplify the tax system by improving the school finance system

When basic state support for school districts doesn't keep up with education costs and state requirements, school districts must seek local revenues, special weightings or other aid programs from the state, or both. That is why local option budgets have increased, new weightings have been added, and some districts push for additional local taxing authority, which adds to the complexity of the tax system, as well.

There are two steps to simplify the school finance system. First, provide a mechanism for adequate base funding for a "suitable" education. This could decrease reliance on the property tax, which most Kansans probably favor – but only if legislators are willing to increase offsetting state taxes. Essentially, this means funding more of school district budgets through a higher state base, rather than local option budgets and weightings.

Second, maintain an improved local option budget system to allow school districts that wish to spend more to enhance their budgets with local revenues to do so, with a mechanism to assist lower wealth districts in raising comparable revenues with a comparable tax effort. Providing more local funding authority, which some of our members strongly favor, requires a system to equalize revenues raised at the local level. If not, there will be significant disparity in educational opportunity and constitutional challenges based on equity will rise.

Consider broadening the tax base and lowering rates

We agree there is a legitimate reason for every exemption the Legislature has passed. But taxpayers need to consider not the increase in taxes they face for losing their particular favorite exemption, but also the *savings* they will realize from lower rates on everything else.

Economic development policies must balance tax rates with services

Our members understand the importance of economic development. They know Kansas is in competition with other locations that may offer tax advantages. But they also know tax policies are only one of many factors used in making business decisions. Kansas is usually in the middle of the states in terms of tax burden, but frequently rates in the top 10 or 15 for business development. Many of the other factors involved require public expenditures that rely on taxes. KASB appreciates those business organizations that supported a tax increase last session in order to protect important public investments in education and infrastructure. Isn't it possible that a system of broad-based taxes, lower, predictable and consistent rates and stable funding for education and government services could be as attractive to business as targeted tax breaks?