

MINUTES

2010 COMMISSION

August 7, 2009
Room 545-N—Statehouse

Members Present

Rochelle Chronister, Chairperson (via teleconference)
Dr. Ray Daniels, Vice-Chairperson
Senator Jean Kurtis Schodorf
Representative Clay Aurand
Representative Marti Crow
Carolyn Campbell
Terri Canfield
Barb Hinton
Stephen Iliff
Emile McGill

Staff Present

Sharon Wenger, Kansas Legislative Research Department
Theresa Kiernan, Office of the Revisor of Statutes
Kristen Kellems, Office of the Revisor of Statutes
Pat Matzek, Committee Assistant

Others Present

Chris W. Courtwright, Kansas Legislative Research Department
Richard Cram, Director, Office of Policy and Research, Kansas Department of Revenue
Joe Lawhon, Legislative Division of Post Audit
Levi Bowles, Legislative Division of Post Audit
Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards
Scott Frank, Legislative Division of Post Audit
Laurel Murdie, Legislative Division of Post Audit
Jim Redmon, Director, Kansas Children's Cabinet
Jane Groff, Director, Kansas Parent Information Resource Center
Dodie Wellshear, United School Administrators of Kansas
Mike Reecht, K12, Inc.
Berend Koops, Hein Law Firm
Dan Korber, Kansas, Inc.

Diane Gjerstad, Wichita Public Schools
Bill Brady, Schools for Fair Funding
Val DeFever, Schools for Quality Education
Trudy Racine, Kansas Children's Service League

Morning Session

The meeting of the 2010 Commission was called to order at 9:03 a.m. by Vice-Chairperson Dr. Daniels.

Presentation of State General Fund Tax Receipts: Short-, Medium-, and Long-Term Issues

Chris Courtwright, Principal Economist, Kansas Legislative Research Department, stated the State General Fund (SGF) receives about 81 percent of all state taxes. The largest of the tax exceptions that do not go into the SGF are motor fuel taxes and unemployment compensation taxes. The motor fuel taxes go into the State Highway Fund and are earmarked for the Comprehensive Transportation Program. Unemployment compensation taxes go to a special trust fund that basically is required by federal law. A portion of sales tax receipts is set aside for the highway fund and other taxes are earmarked for other sources, which include a new tire excise tax and a dry cleaning excise tax. Over \$4 of every \$5 in state tax dollars goes into the SGF.

Mr. Courtwright distributed information on Consensus Revenue Estimating, Recent History of SGF Tax Receipts, Long-Term SGF Tax Issues, Medium-Term SGF Tax Issues and Short-Term SGF Tax Issues, Estimated Fiscal Notes for Selected Tax Cuts Enacted Since 2005, and Federal Legislation ([Attachment 1](#)).

The following are a few examples of the Long-Term, Medium-Term and Short-Term SGF Tax Issues:

- Long-Term SGF Tax Issues
 - Elasticity - sales tax elasticity declining;
 - Technological changes - mail order and internet streamlined; and
 - Competitiveness with other states - economic development concerns regarding nearby states.

- Medium-Term SGF Tax Issues
 - K-12 dependency after 1992 - more state aid to reduce mill levies;
 - Exemptions, narrowing of tax bases - especially sales tax exemptions; and
 - Proliferation of tax credits, incentives - especially "refundable" tax credits.

- Short-Term SGF Tax Issues
 - Length and severity of recession;
 - Continue Estate, Franchise Phase-outs; and

- Ephemeral 2009 Revenue Enhancements - settlement authority and statute-of-limitation changes.

Under federal legislation, one important new development relates to the federal enactment of the American Recovery and Reinvestment Act (ARRA) of 2009; and a separate piece of legislation increased cigarette taxes to help provide additional funding for the State Children's Health Insurance Program (SCHIP). Kansas SGF receipts are expected to be reduced by a total of \$88.0 million by the end of FY 2010 as a result of these new federal laws.

The SCHIP legislation increased the federal cigarette tax by 61 cents per pack, effective April 1, 2009. The Department of Revenue has estimated that this increase and its impact on consumer behavior will be expected to reduce Kansas cigarette tax receipts by about \$3 million in fiscal year 2009 and \$7.5 million in fiscal year 2010.

Richard Cram, Director, Office of Policy and Research, Kansas Department of Revenue, spoke on the fiscal year 2008 estimated value of exemptions or exclusions (Attachment 2) that are currently in effect and which will be updated prior to the next legislative session. Mr. Cram stated that as sales tax rates increase, there are increased exemption requests. The value of the total exemptions is at \$4 billion, which is twice the value of the revenue received from sales tax. The largest exemption is over \$2 million and covers property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail and is used primarily to prevent double taxation.

Mr. Cram gave a brief update on a streamlined sales tax effort, stating there is an initiative under way that would provide federal legislation to grant states that are members of the Streamlined Sales and Use Tax Agreement the authority to require local retailers to collect sales and use tax. This legislation could be introduced after the end of the August recess.

Mr. Cram also distributed a copy of the "Tax Year 2006 Kansas Department of Revenue Tax Credits" (Attachment 3), indicating total tax credits exceeding \$174 million. The largest tax credit programs involve transfer payments to low-income individuals, such as the Earned Income Credit and the Food Sales Tax Refund.

A question and answer session followed the presentation.

**Presentation of a Selected Portion of the Performance Audit
Related to Spending, Including Tax Credits, Entitled:
"Economic Development: Determining the Amounts the
State Has Spent and the Impacts"**

Joe Lawhon, Principal Auditor, Legislative Division of Post Audit, provided a handout on Amount and Type of Tax Revenues Forgone, fiscal years 2003 through 2007, cumulatively (Attachment 4). Industrial revenue bond exemptions were listed as the highest tax revenues forgone for this five-year period of \$349 million. The total amount forgone to the state totaled \$339 million, \$412 million to local units of government, and \$108 million that could not be determined whether allocation was state or local.

Mr. Lawhon addressed the question of what results can be seen from state spending for economic development in Kansas and highlighted one of the approaches taken: using regression analysis to determine whether there were statistically measurable relationships between government economic development spending and the actual growth of three items:

- The number of jobs in Kansas;
- Business growth; and
- Per capita wages.

The findings were as follows:

- Pre-existing jobs and population levels were much stronger predictors of the growth in jobs in a county than other factors. Economic spending had a much smaller impact on job growth, accounting for only 4 percent of the measurable impact.
- The factors that had the biggest impact were pre-existing commercial property values and employment levels. Economic development spending was a somewhat better predictor of the growth in business than it was in the growth in jobs – it accounted for about 12 percent of measurable impact.
- The analysis did not identify a statistical relationship between economic development spending and per-capita wage rates.

A brief question and answer session followed the presentation.

Levi Bowles, Principal Auditor, Legislative Division of Post Audit, answered questions from members of the Committee.

Presentation on Taxes, Education, and Economic Status

Mark Tallman, Kansas Association of School Boards, presented testimony ([Attachment 5](#)) stating that what ultimately benefits the country and in the long run drives economic development, the economy, and prosperity is increasing productivity and, in an information-based economy, that amounts to raising skill levels, which reverts back to education. Mr. Tallman further stated the key determinant to economic progress is the level of education that possibly is threatened by the budget situation and the choice of the next legislation to either make deeper cuts in education or to consider some revenues that will offset those cuts.

Other items of discussion were:

- Kansas is a middle tax burden state. Kansas ranks 23 in the nation on state and local tax collections. Kansas state and local tax burden as a percentage of personal income has consistently ranged between 10.5 percent and 12 percent from the 1930s to 2000, but because of significant changes in the mix of taxes and exemptions from various taxes, it is quite likely the individual burden for some taxpayers has increased because it has been reduced for others.
- Tax policy alone does not drive prosperity. High-income states were more likely to be high-tax states, not the reverse.
- To maintain educational quality, Kansas must consider changes in its tax policy. In recent years, the Legislature has increasingly authorized tax exemptions, abatements, credits, and other devices that allow certain taxpayers to avoid or

reduce their taxes. Many of these tax cuts were intended to promote economic development.

- A look at state per capita income, tax burden, and education attainment shows that the lowest-income states have the lowest ranking on educational attainment. Tax policy is not the key driver of state income; it is the level of education.

Mr. Tallman distributed a publication entitled "Preparing All Kansas Students for the 21st Century (on file: Kansas Department of Education www.ksde.org).

A brief question-and-answer session followed the presentation.

Presentation on Forward-Looking Approaches to Education from Performance Audits, and Performance Audit Update

Scott Frank, Audit Manager, Legislative Division of Post Audit, distributed information on audits that currently are under way or have been approved:

- Legislative Post Audit Summary of School District Performance Audits Currently Underway or Approved - August 2009 ([Attachment 6](#)). This summary reviews issues relating to catastrophic funding for special education.
- Scope Statement - K-12 Education: Efficiency Audit of the Derby School District ([Attachment 7](#)) relating to whether the Derby school district could achieve cost savings by improving the management of its non-instructional personnel, facilities, or other resources.
- Forward-Looking Approaches to Education as Summary of Findings from School District Performance Audits ([Attachment 8](#)). This summary includes findings relating to charter, magnet, alternative, and virtual schools.

A brief question-and-answer session followed the presentation.

Vice-Chairperson Daniels asked Commission members if there were any changes or additions to the minutes of June 29, 2009. *Representative Marti Crow moved to accept the minutes as approved. The motion was seconded by Carolyn Campbell. The motion carried.*

Afternoon Session

Presentation of School District Efficiency Audit

Laurel Murdie, Principal Auditor, Legislative Division of Post Audit, distributed a copy of the *K-12 Education: School District Efficiency Audits* (On file: Legislative Division of Post Audit <http://kslegislative.org/postaudit>). Ms. Murdie stated that the question from this audit was on how the school districts compared in various phases of efficiency. The conclusion was that when a comparison of per student spending was made among similar sized districts, there was quite a

variation despite the fact the comparison was made with districts having similar characteristics. In addition, the districts that were spending more per student were spending more for staffing, and the districts did not report data to the Department of Education on a consistent basis, making it difficult to make meaningful comparisons in certain spending areas.

The original Scope statement from this Audit had two phases:

- Phase I - In-house or desk review of readily available staffing and expenditure data; and
- Phase II - Followup of a sample of districts with on-site visits. This phase was suspended.

The desk review concentrated on data covering seven areas of operations:

- District Administration;
- School Administration;
- Instruction Support;
- Student Support;
- Operations and Maintenance;
- Student Transportation; and
- Food Services.

Recommendations were:

- Suggest the districts follow details in their Financial Accounting Handbooks.
- Request the House and Senate Education Committees introduce legislation that would require school district to have expenditure and staffing data audited as part of their annual financial audits.
- Legislative Post Audit Committee or 2010 Commission consider approving efficiency audits of school districts.

A brief question-and-answer session followed the presentation.

Scott Frank also answered questions from members of the Committee.

Chairperson Chronister said that the Commission's decision to suspend the second phase of the efficiency audit was only a suspension, not direction to permanently discontinue that phase.

Presentation on Early Childhood Programming

Jim Redmon, Director, Kansas Children's Cabinet, stated that most of the action on the Early Childhood Program is on the federal level and there are 13-14 new Early Head Start Programs being proposed using federal dollars.

Two funding streams on the federal level will have an impact on Kansas and Early Childhood:

- Early Childhood Advisory Council dollars
 - To strengthen state and local coordination and collaboration among various sectors of the Early Childhood Programs in the State;
 - To perform needs assessments;
 - To increase overall participation of children in existing federal, state, and local childcare programs;
 - To have a unified data collection system; and
 - To have a state early learning standard.
 - Cost to fund - \$881,000 over the course of the next three years.

The final date to submit application is August 2010 and official documents or an executive order sanctioned by the state will be needed.

- Early Childhood Challenge Grants
 - \$8 billion allocation over the course of the next eight years;
 - Standards reform — integrating early learning standards across early learning settings;
 - Funding quality initiatives that improve providers and programs so more disadvantaged children participate; and
 - Increasing the number of children entering kindergarten and increasing parents' access to early learning programs.

A brief question-and-answer session followed the presentation.

Update Regarding Catastrophic Special Education Aid Hearing at Recent Legislative Educational Planning Committee Meeting

Sharon Wenger, Principal Analyst, Legislative Research Department, gave an update from the Legislative Educational Planning Committee (LEPC) meeting that was held on July 29. Senator Jean Schodorf requested individuals testify regarding catastrophic aid and return recommendations to the LEPC. Ms. Wenger provided copies of testimony ([Attachment 9](#)) from each of the 12 presenters who appeared before the LEPC.

Recommendations are:

- Implement the recommendation of the 2010 Commission;
- Cap a pool of catastrophic aid funds at a funding level that could not be increased;
- Make current criteria for funding more clear;
- Increase the threshold from \$25,000 to a higher amount; and
- Deduct state and federal aid from the gross amount per student.

A brief question-and-answer session followed the presentation.

Parental Involvement Presentation: Best Practices - How Parental Involvement Boosts Student Outcomes

Jane Groff, Director, Kansas Parent Information Resource Center (KPIRC), spoke on the benefits, research and development of KPIRC, as well as the No Child Left Behind Program and parent involvement goals in Kansas school districts. Ms. Groff further commented that PIRCs are the parent involvement technical assistance centers in every state; there are 62 of them. PIRCs provide training to schools, school districts, teachers, and administrators, and to parents to support them in helping their children to learn.

Ms. Groff distributed the following:

- Information on the No Child Left Behind Act, Title I, Section 1118: Parental Involvement (Attachment 10) which states, in general, a local educational agency may receive funds under this part only if such agency implements programs, activities, and procedures for the involvement of parents in programs assisted under this part consistent with this section. Such programs, activities, and procedures shall be planned and implemented with meaningful consultation with parents of participating children.
 - School Parent Involvement Policy 2009-2010 (Attachment 11) which highlights the school's and/or district's commitment to parental involvement.
 - Kansas Family and Community Involvement Guide to Student Achievement (on file: Kansas Parent Information Resource Center www.kpirc.org).
 - Creating Family, School, & Community Partnerships (on file: Kansas Parent Information Resource Center www.kpirc.org).
 - Working Together, A Parent Involvement Guide for Kansas Teachers (on file: Kansas Parent Information Resource Center www.kpirc.org).

A brief question-and-answer session followed the presentation.

Vice-Chairperson Daniels announced the next meeting for the 2010 Commission will be October 1-2, 2009. The meeting was adjourned at 3:15 p.m.

Prepared by Pat Matzek
Edited by Sharon Wenger

Approved by Commission on:

October 2, 2009
(Date)