

A Five-Year Budget Plan for the State of Kansas

How to balance the budget and have healthy ending balances without tax increases or service reductions.

Introduction

Setting aside various philosophical differences over tax reform, there remains one fundamental issue that must be soon addressed: spending must be brought in line with revenue. The vast majority of the revenue decline in FY 2014 was planned, but bi-partisan resistance to reduce spending in conjunction with tax reform remains alive and well. A lot of media and political hype is focused on Kansas having lower revenue but the real issue – as identified by Moody’s and Standard and Poor’s – is that Kansas has yet to deal with the structural imbalance between revenue and spending.

There is no question that Kansas can reduce spending without cutting services. Every state provides the same basic basket of services such as public education, social services and highways. Some states simply find ways to provide those services at a much better price.¹ Data from the National Association of State Budget Officers shows that income-taxing states spent 49 percent more per-resident in 2012 than states without an income tax, the last year for which data is available. Similarly remarkable spending differences exist between The Tax Foundation’s ranking of the ten states with the highest and lowest combined state-and-local tax burdens.

Having a low tax burden is not about having access to unusual revenue sources. A state could have all of the oil in the world and still have a high tax burden if it spent a lot more. The key to reducing taxes is to provide government services and functions at a better price.

Many people associate reduced spending with a reduction in services, perhaps largely because that is the false choice most often presented by government. Government also often speaks in terms of across-the-board spending reductions but that is the worst possible approach to take. Spending decisions should be driven by a Better Service / Better Price mentality – how to get the same or better quality of service at a better price. That is the premise upon which our Five-Year Budget Plan is built.

Extensive discussions of the Better Service / Better Price methodologies and rationale exist in two other KPI publications.² This analysis merely provides brief explanations of the elements in this Budget Plan. It is by no means intended to be a complete list of all of the opportunities; if anything, it is perhaps the big tip of a very large iceberg.

A bi-partisan refusal to adjust spending at the time tax reform was implemented only delayed the need to do so. Revenue declines in the second calendar quarter of 2014 related to federal capital gains taxation changes certainly exacerbated the issue, but the same can be said of spending more than necessary in prior years. General fund spending outpaced inflation and population growth by 18 percent since 1990. To put that in perspective, General Fund spending would have spent \$936 million less in FY 2014 had it increased by the same rate as inflation and population since 1990.

The purpose of the KPI 5-Year Budget Plan is to demonstrate that, while structural changes are necessary, the General Fund budget can be balanced by making more effective use of existing resources. No tax increases or reductions in services are necessary. In fact, this Budget Plan retains a \$215 million spending increase for K-12 projected by the Kansas Legislative Research Department (KLRD) as well as \$299 million more for Medicaid caseload increases. We do so not to endorse KLRD’s assumptions, but to emphasize that funding for essential services need not be reduced as media and others are predicting. This Budget Plan also provides healthy ending balances every year.

Table 1: 2012 Actual Spending Per-Resident

State Grouping	Amount	Variance
No Income Tax	\$2,491	
Income Tax	\$3,702	49%
Lowest State/Local Tax Burden	\$2,781	
Highest State/Local Tax Burden	\$3,901	40%
Kansas	\$3,409	

Source: National Association of State Budget Officers, The Tax Foundation, U.S. Census. State spending totals exclude federal funds and bond issue proceeds.



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Table 2: Base KLRD Profile

	FY 2015 Est.	FY 2016 Est.	FY 2017 Est.	FY 2018 Est.	FY 2019 Est.
Beginning Balance	379.8	29.4	0.0	0.0	0.0
Revenue	5,974.6	6,187.0	6,365.7	6,507.9	6,515.0
Total Available Revenue	6,354.4	6,216.4	6,365.7	6,507.9	6,515.0
Expenditures	6,325.0	6,454.2	6,391.0	6,546.1	6,696.0
Reductions to maintain zero balance	0.0	(237.8)	(25.3)	(38.2)	(181.0)
Total adjusted spending	6,325.0	6,216.4	6,365.7	6,507.9	6,515.0
Ending Balance	29.4	0.0	0.0	0.0	0.0

Source: Kansas Legislative Research Department, August 8, 2014 Profile

Methodology

This five-year Budget Plan uses the August 8, 2014 Profile prepared by the Kansas Legislative Research Department (KLRD) as its starting point.³

Revenue for FY 2015 comes from the April Consensus Revenue Estimate Group (CREG); revenue for subsequent years is estimated by KLRD. CREG is composed of representatives of the Division of the Budget, Department of Revenue, Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. Since revenue fell considerably short of CREG projections for April and May, it is widely believed that revenue estimates for FY 2015 will be reduced when CREG is next scheduled to meet in November.

Accordingly, three versions of this Budget Plan are presented, predicated upon small, medium and large revenue reductions for FY 2015. (The reductions used are not what KPI believes will or should take place; they are presented to show a variety of scenarios.) Revenue in subsequent years is increased from each revised base year at the same percentage as applied by KLRD.

The KLRD profile reflects their standard format of maintaining a zero ending balance. Our Budget Plan is predicated upon maintaining an ending balance of at least three percent in FY 2015, at least five percent in FY 2016, and 7.5 percent thereafter, as reflected in statute. While 7.5 percent is a statutory requirement, the Legislature has modified the statute five times since 2001 (essentially to say “except this year”).⁴

Revenue Opportunities

The revenue items selected for inclusion in this Budget Plan are those that Kansas Policy Institute believes should be enacted, and we will add more opportunities of this nature over time as further research is conducted. Table 3 shows the annual or one-time impact of each opportunity, followed by brief explanations.

Transfer a portion of KDOT fund balance to the General Fund

What is often referenced as ‘robbing the bank of KDOT’ really amounts to taking back operating surpluses. In other words, KDOT received more sales tax than was necessary to fund projects and operations and/or had lower costs than anticipated. This Budget Plan transfers \$150 million out of KDOT’s ending balance, which leaves some operating balance and the full amount of restricted funds in the State Highway fund as calculated by the state’s auditors. However, it should be remembered that even this restricted amount is only restricted

Table 4: KDOT Ending Balance Transfer (millions)

Restricted Balances	FY 2012	FY 2013
KDOT financials	350,270	352,270
Audited CAFR	76,544	84,987
Variance	273,726	267,283

Source: Kansas Dept. of Transportation

Table 3: Recommended Revenue Opportunities (millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Transfer KDOT fund balance	0.0	150.0	0.0	0.0	0.0
Reduce KDOT sales tax transfer to 2013 level	90.0	183.3	188.8	194.5	200.3
Remove KBA statutory funding	0.0	35.0	35.0	35.0	35.0
Freeze PEAK at the current level	0.0	6.0	12.0	18.0	24.0
Eliminate Job Creation Fund	0.0	7.5	7.5	7.5	7.5
	90.0	381.8	243.3	255.0	266.8

because KDOT issues their bonds separate from the rest of the state's bonding, which is performed by the Kansas Development Finance Authority (K DFA).⁵

The amount transferred that can be used for expenditures within the State General Fund is a matter of some confusion. KDOT presents a different picture in the unaudited numbers they provide to the Governor's Budget Report⁶ than emerges when those numbers are audited and issued within the Kansas State Consolidated Annual Financial Report (CAFR).⁷ Table 4 highlights the differences for the last year audited financials are available.

The audited numbers are the numbers any prudent financial entity would use to assess the amount of available funds. KDOT's own records admit that the balances are actually composites of the amounts required to satisfy debt service on bonds, provide for orderly payment of bills, or funds allocated by statute for distribution to specific programs.

The auditors established the restricted amount each time to be approximately \$270 million less than the amount that KDOT indicated were restricted. Every state agency has to make orderly payment of bills and, just like other agencies, KDOT receives a yearly allocation of funds that remove the need for this amount to be held as "restricted." Quite possibly a transfer of an ending balance greater than the \$150 million that we suggest be transferred to State General Fund in this plan can be done without violating any statute or creating any cash flow issues for KDOT.

Legislators should investigate how much should be transferred in total to both the State General Fund for one time usage and/or transferred and included in the State General Fund ending balance. We also encourage consideration of ending the practice of separate bonding authority for KDOT, which would eliminate the requirement for bonding restricted funds completely so long as the satisfactory ending balances are retained the General Fund.

Reduce KDOT sales tax transfer to the FY 2013 level

In addition to motor fuel taxes, KDOT receives 17.073 percent of all general sales and use tax as a direct transfer, which means that money does not go through the General Fund or any budgeting process.⁸ The current sales tax allocation went into effect on July 1, 2013; immediately prior, the transfer rate was 11.233 percent. Since KDOT was running surpluses prior to receiving the increased sales tax allocation and the Department continues to identify operating efficiencies, we believe it is prudent to return the transfer amount to 11.233 percent.⁹ A comprehensive review of future needs for highway funding, including a thorough cost/benefit analysis and potential for additional savings through cooperate efforts with the Kansas Turnpike Authority, should also be con-

Table 5: Sales Tax Transfer (millions)

	FY 2014	FY 2015
FY 2014 retail sales tax	2,102,239.0	2,170,000.0
FY 2014 use tax	344,017.0	360,000.0
	2,446,256.0	2,530,000.0
KDOT allocation	17.073%	17.073%
Gross tax collection	2,949,890.9	3,050,876.1
Allocated at 17.073%	503,634.9	520,876.1
Allocated at 11.233%	331,361.2	342,704.9
Difference	172,273.6	178,171.2

Source: Kansas Legislative Research, Kansas Statutes. FY 2014 based on tax receipts; actual transfer to KDOT may vary due to a lag in receipts attributable to the law change on July 1, 2013. FY 2015 based on April Consensus Revenue estimate.

ducted by the Legislature and KDOT. The recommended sales tax transfer reduction of \$183.3 million for FY 2016 represents a three percent increase over the anticipated amount for FY 2015; each year thereafter is also increased by three percent. The recommendation for FY 2015 is based on a partial year change.

To be clear, reducing the sales tax transfer and a portion of KDOT's ending balance as described above will not prevent the T-Works Transportation plan from being completed. These recommendations are simply about making efficient use of existing resources. If a thorough recasting of expected costs for T-Works shows more funding is truly needed, the sales tax transfer could be increased. As discussed later, full implementation of the KPI Budget Plan would result in ending balances in excess of 10 percent, providing flexibility to increase KDOT funding if necessary.

Remove KBA statutory funding

State funding for the Kansas Bioscience Authority (KBA) is statutorily set at \$35 million, which causes future estimates to be listed at that amount even though actual funding has been much lower in recent years.¹⁰ KBA funding takes the form of a direct revenue transfer, meaning that the funding is a non-transparent reduction of revenue that is not listed as a budgeted line item. Our recommendation is to eliminate the statutory transfer amount and thereby increase available revenue by \$35 million per year. Funding for KBA should listed as an expenditure at the 2014 amount of \$10 million, which we include in our Expenditure Opportunities section. Funding for FY 2015 is budgeted at \$32 million; that amount could be reduced but no adjustment is included in this Budget Plan as the amount would depend upon what has not been transferred when the Legislature reconvenes in January.

Freeze PEAK at current levels

The Promoting Employment Across Kansas (PEAK) program allows companies that create 100 new jobs within a specified two-year period to retain 95% of employee withholding taxes for up to 10 years. Immediately freezing the cap at the current level and eliminating the program going forward to prevent new obligations generates significant savings going forward for the state. A recent analysis from Kansas City’s Kauffman Foundation found that, “PEAK incentives recipients are statistically not more likely to generate new jobs than similar firms not receiving incentives.”¹¹ PEAK is considered a reduction of revenue that is factored in to Consensus Revenue Estimates but is not listed as a budgetary line item. The cap for FY 2015 is \$18 million and is scheduled to grow annually in increments of \$6 million, reaching \$42 million in FY 2019.¹²

Eliminate the Job Creation Program Fund

The Job Creation Program Fund, or the “deal closing” fund as it is often called, allows the state to extend incentives aimed at attracting or retaining businesses within a range of statutory guidelines. Like PEAK, this is considered a reduction of revenue that is factored in to Consensus Revenue Estimates but is not listed as a budgetary line item. The cap for FY 2014 and FY 2015 was set at \$7.5 million, which results in increased revenue in future years if the fund is shut down.¹³ Employers will accept incentives if offered (as part of their fiduciary responsibility to stakeholders) but giving taxpayer money to select businesses puts their competitors at a disadvantage and shifts the tax burden to other people.

Expenditure Opportunities

Just as with the “Revenue Opportunities” discussed previously, the expenditure items selected for inclusion in this Budget Plan are those that Kansas Policy Institute believes should be enacted, and we will add more opportunities of this nature over time as further research is conducted. Table 6 shows the annual or one-time impact of each opportunity, followed by brief explanations.

Additional expenditure adjustments may need to be made depending upon various revenue assumptions and the degree to which the revenue and expenditure opportunities recommended herein are implemented. This is further explored later in this analysis

Fund KBA at the FY 2014 level

As discussed earlier, funding for the Kansas Bioscience Authority is a direct revenue transfer and is not reflected in General Fund expenditures. Removing the statutory funding from a direct transfer as recommended therefore requires a new line item for KBA funding in Expenditures.

Capture federal reimbursement of K-12 KPERS costs

States are entitled to be reimbursed by the federal government for the pension costs of school employees engaged in the delivery of federally-funded services, such as Special Education and Food Service. Kansas, however, foregoes federal reimbursement because many school districts’ payroll systems lack the ability to properly capture the necessary information. (Estimates are not permitted; the information must flow through payroll systems.) The State should require that school districts utilize a single state-provided or outsourced payroll system to capture annual federal reimbursement of \$21 million.¹⁴ There would also likely be cost savings due to the consolidation of the payroll function but no allowance for that savings is included.

Require partial use of unspent K-12 aid from prior years

As shown in Table 7, school districts used \$430 million in state and local aid to increase cash reserves between 2005 and 2013. (2014 balances are not available at this writing.) This Budget Plan recommends a formula change to use a portion of school districts’ unspent aid from prior years as additional “local effort” that is deducted from next year’s state aid. This concept is already applied to any remaining balance in districts’ general fund; and it was also applied to a few other funds until 2005.¹⁵

During the 2011 legislative session, the Kansas Department of Education determined that balances in the funds under consideration can be transferred to districts’

Table 6: Recommended Expenditure Opportunities (millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Fund KBA at current level	0.0	10.0	10.0	10.0	10.0
Capture federal reimbursement of school KPERS	0.0	(21.0)	(21.0)	(21.0)	(21.0)
Require partial use of unspent K-12 aid	(147.8)	0.0	0.0	0.0	0.0
Require partial use of unspent higher ed fees	(37.8)	0.0	0.0	0.0	0.0
Put KPERS new hires in a defined contribution plan	0.0	(12.3)	(24.6)	(43.0)	(67.4)
	(185.6)	(23.3)	(35.6)	(54.0)	(78.4)

Table 7: Impact of Using Cash Balance Increases as Additional Local Effort (millions)

Description	Amount
Total unencumbered carryover cash July 1, 2013	\$888.2
Total unencumbered carryover cash July 1, 2005	\$458.2
State and local aid used to increase cash	\$430.0
Unspent aid required to be used	\$147.8
Remaining cash reserves based on 2013 balance	\$740.4

Source: Kansas Dept. of Education. Operating funds only; no capital, debt or federal funds included. No transfers from new districts.

general fund as described in SB 111 (2011 legislative session). These ‘SB 111’ funds are At Risk pre-school, At Risk K-12, Bilingual, Virtual, Driver Training, Professional Training, Parents-As-Teachers, Summer School, Special Education, Vocational Education and Textbooks and Materials. By statute, only one-third of the Special Education balance can be transferred. Balances in Contingency funds are also eligible but this Budget Plan does not consider any transfers from increases in Contingency funds; funds for districts created through consolidation since 2005 are also excluded, as those districts had no beginning balance and would therefore lose all of their money otherwise.

This one-time requirement to use aid previously provided but not spent only applies to those districts that didn’t use all of prior years’ aid – and only a portion of such money. Districts that did not increase cash balances in the eleven funds would see no change as a result of this recommendation. Collectively, districts’ operating cash reserves would still exceed \$740 million (based on available data), which would be 62 percent higher than in 2005.

Require partial use of unspent higher education fees

Universities also have significantly increased their carryover cash balances over the years. There may be other opportunities to require the partial use of these cash build-ups and temporarily reduce state aid but our plan focuses on just one type – General Fee Funds. The increase in these funds represents tuition collected but not spent. Table 8 shows that universities collected \$75.6 million in unspent tuition between 2003 and 2014. The KPI Budget Plan recommends requiring the use of half of that money

through a one-time reduction in state aid; we also recommend that universities offer a one-time reduction in tuition with the balance of the increase and retain an \$11.8 million reserve as existed in 2003.¹⁶ It is difficult to say how much unencumbered cash universities would have in total with any degree of certainty because each entity maintains dozens of different funds, some of which are restricted for bond projects, but universities would still have significant cash reserves after implementing this recommendation, to ensure sound financial management and provide satisfactory reserves to facilitate potential future bonding.

Place new hires in a defined contribution retirement plan

The Kansas Legislature created what is called a Cash Balance hybrid retirement plan for new hires effective July 1, 2015 to prevent more employees from being enrolled in the current Defined Benefit plan. However, the Cash Balance plan had two major flaws: 1) the ability for the state/schools to incur new unfunded liabilities was not eliminated, and 2) it did nothing to address the unfunded liability of the existing system, according to the Kansas Division of the Budget.¹⁷

However, there is an opportunity to address the KPERS issue and also increase funding to the State General Fund. The Kansas Division of the Budget (KDoB) contracted a study of a conversion for new members to a true Defined Contribution system for new members. Table 9 (on page 6) is from a spreadsheet prepared for KDoB by the actuarial firm shows the estimated savings per year of a properly-designed conversion.¹⁸

The plan design includes a very lucrative employer contribution for the new members in their Defined

Table 8: Increase in Unspent University Tuition (millions)

University	General Fee Fund Balances at June 30		
	2003	2014	Change
University of Kansas	4,298,027	18,245,992	13,947,965
KU Med Center	395,796	2,588,538	2,192,742
Kansas State	2,880,363	25,898,894	23,018,531
Wichita State	1,688,333	14,671,818	12,983,485
Emporia State	770,621	4,416,540	3,645,919
Pittsburg State	798,680	6,611,411	5,812,731
Fort Hays State	971,169	15,016,212	14,045,043
Total above	11,802,989	87,449,404	75,646,415

Source: Kansas Dept. of Administration; data obtained in Open Records request.

Table 9: Estimated KPERS Savings Per Year of a Properly-designed Conversion

	Current Tier 1 and Tier 2						2015+ Actives in DC Plan				Total of Both Plans				
	Current Provisions						DC Cont.	Add'l. Cont.	Salaries	ELARF	Total	Statute	Earnings Cont.	w/ELARF	Savings Per Year
	Normal Cost	UAAL Amort.	DB Cont.	Statute	Fund Status	Salaries									
2016	2.85%	18.87%	21.71%	12.24%	53.23%	\$4,669,111	5,477	31,832	\$351,627	\$39,940	20.94%	12.13%	12.13%	12.92%	\$12,251,045
2017	2.79%	20.15%	22.94%	13.44%	52.78%	\$4,486,020	11,581	64,661	\$700,590	\$40,390	21.31%	13.10%	13.10%	13.87%	\$24,636,117
2018	2.75%	16.48%	19.23%	14.64%	64.48%	\$4,321,559	18,662	96,743	\$1,034,639	\$40,850	17.67%	13.97%	13.97%	14.73%	\$42,982,866
2019	2.70%	18.02%	20.72%	15.84%	65.30%	\$4,167,524	26,646	129,444	\$1,366,050	\$41,310	18.42%	14.75%	14.75%	15.50%	\$67,417,568
2020	2.63%	19.11%	21.74%	17.04%	66.33%	\$4,022,068	35,491	163,180	\$1,698,004	\$41,770	18.76%	15.46%	15.46%	16.19%	\$96,291,942

Source: Kansas Division of the Budget

Contribution account of three percent of salary increasing by one percent per year until it reaches a maximum of eight percent of salary. The design also addresses the long term debt issue while producing the shown savings. Since the Cash Balance plan has a guaranteed benefit level, it requires the accrual of future liabilities similar to the Defined Benefit plan. A Defined Contribution plan, however, has no liability accrual so no funding is required for those liabilities associated with new hires and additional savings are generated.

There is another element of the KDoB plan that can produce further savings for taxpayers while improving the funded status of KPERS.¹⁹ KDoB proposed issuing \$2 billion of bonds to pay off part of KPERS unfunded liability and creating the revenue stream for paying off the bond from the savings noted above from a conversion. The net effect of such a transaction would be to bring KPERS to a satisfactorily funded level for the bond rating agencies, reduce the amount of funding needed for KPERS, and provide for a better, more transferrable benefit to employees. The documentation of the large one time savings and the yearly savings of the inclusion of the bond issue were not available to the authors and therefore are not included in the KPI Budget Plan.

Only minor efficiency gains needed under KPI Budget Plan

Full implementation of these recommendations avoids or minimizes the degree of structural spending reductions, depending upon the assumed FY 2015 revenue base. Indeed, a \$225 million revenue reduction for FY 2015, which would reduce revenue by \$1.186 billion over five years, would require that government operate a mere 1.59 percent more efficiently in FY 2015 and 1.90 percent in FY 2016. No further efficiency savings would be necessary through FY 2019.

This plan also retains KLRD’s projected \$299 million increase for Medicaid caseloads and \$215 million for additional K-12 aid. We make no judgment as to the necessity of these increases by including them in our Budget Plan; we do so to emphasize that tax reform can be successfully implemented without “devastating” cuts to education and other services as some legislators and media have predicted. General Fund spending will still set new records over the next few years with full implementation of the KPI Budget Plan, even if revenues are significantly reduced from current estimates.

The KPI Budget Plan allows for marginal income tax rates to continue declining as scheduled and also retains

healthy ending balances of three percent for FY 2015, five percent for FY 2016, and a minimum of 7.5 percent thereafter. The ending balances for FY 2018 and FY 2019 reach double-digits under each of the reduced revenue scenarios, which would give legislators great flexibility to modify the plan in earlier years.

Chart 1: Kansas General Fund Spending

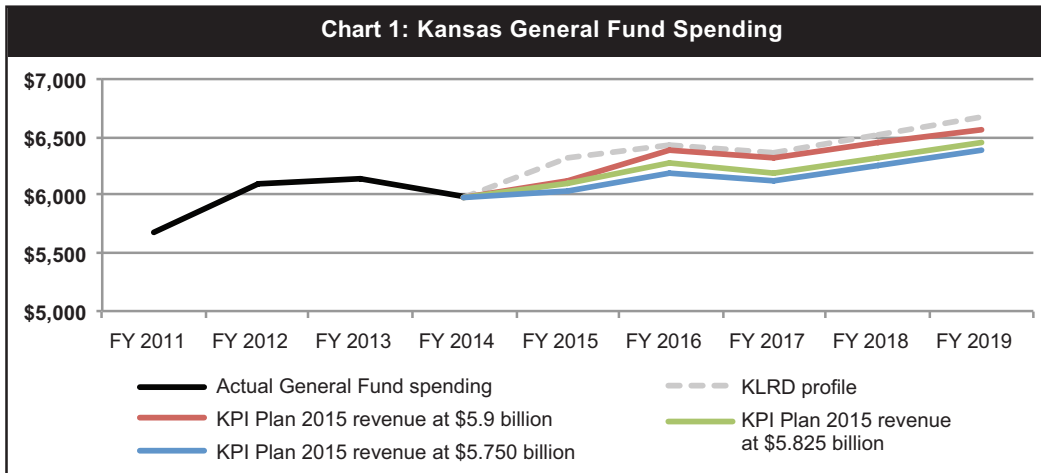


Table 10: Budget Plan with FY 2015 Revenue as Currently Estimated (millions)

Budget Plan Adjustments	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	\$379.8	\$305.0	\$442.9	\$696.6	\$967.4
General Fund revenue	5,974.6	6,187.0	6,365.7	6,507.9	6,515.0
Transfer KDOT fund balance	0.0	150.0	0.0	0.0	0.0
Reduce KDOT sales tax transfer to 2013 level	90.0	183.3	188.8	194.5	200.3
Remove KBA statutory funding	0.0	35.0	35.0	35.0	35.0
Freeze PEAK at the current level	0.0	6.0	12.0	18.0	24.0
Eliminate Job Creation Fund	0.0	7.5	7.5	7.5	7.5
Total Available Revenue	\$6,444.4	\$6,873.8	\$7,052.0	\$7,459.5	\$7,749.2
Expenditures per KLRD August 8 profile	\$6,325.0	\$6,454.2	\$6,391.0	\$6,546.1	\$6,696.0
Less adjustment to prior year base	0.0	0.0	0.0	0.0	0.0
Fund KBA at current level	0.0	10.0	10.0	10.0	10.0
Put KPERs new hires in a defined contribution plan	0.0	(12.3)	(24.6)	(43.0)	(67.4)
Capture federal reimbursement of school KPERs	0.0	(21.0)	(21.0)	(21.0)	(21.0)
Require partial use of unspent K-12 aid	(147.8)	0.0	0.0	0.0	0.0
Require partial use of unspent higher ed fees	(37.8)	0.0	0.0	0.0	0.0
Adjust spending to maintain 3% ending balance for FY 2015, 5% for FY 2016 and 7.5% thereafter	0.0	0.0	0.0	0.0	0.0
Final Spending	\$6,139.4	\$6,430.9	\$6,355.4	\$6,492.1	\$6,617.6
Ending Balance	\$305.0	\$442.9	\$696.6	\$967.4	\$1,131.6
Ending Balance Percentage of Expenditures	5.0%	6.9%	11.0%	14.9%	17.1%
Gov't. efficiency improvement to reduce spending	0.00%	0.00%	0.00%	0.00%	0.00%

Table 11: Budget Plan with FY 2015 Revenue at \$5.9 billion (dollars in millions)

Budget Plan Adjustments	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	\$379.8	\$230.4	\$320.0	\$523.1	\$741.6
General Fund revenue	5,900.0	6,109.7	6,286.2	6,426.6	6,433.6
Transfer KDOT fund balance	0.0	150.0	0.0	0.0	0.0
Reduce KDOT sales tax transfer to 2013 level	90.0	183.3	188.8	194.5	200.3
Remove KBA statutory funding	0.0	35.0	35.0	35.0	35.0
Freeze PEAK at the current level	0.0	6.0	12.0	18.0	24.0
Eliminate Job Creation Fund	0.0	7.5	7.5	7.5	7.5
Total Available Revenue	\$6,369.8	\$6,722.0	\$6,849.6	\$7,204.8	\$7,442.1
Expenditures per KLRD August 8 profile	\$6,325.0	\$6,454.2	\$6,391.0	\$6,546.1	\$6,696.0
Less adjustment to prior year base	0.0	0.0	(28.9)	(28.9)	(28.9)
Fund KBA at current level	0.0	10.0	10.0	10.0	10.0
Put KPERs new hires in a defined contribution plan	0.0	(12.3)	(24.6)	(43.0)	(67.4)
Capture federal reimbursement of school KPERs	0.0	(21.0)	(21.0)	(21.0)	(21.0)
Require partial use of unspent K-12 aid	(147.8)	0.0	0.0	0.0	0.0
Require partial use of unspent higher ed fees	(37.8)	0.0	0.0	0.0	0.0
Adjust spending to maintain 3% ending balance for FY 2015, 5% for FY 2016 and 7.5% thereafter	0.0	(28.9)	0.0	0.0	0.0
Final Spending	\$6,139.4	\$6,402.0	\$6,326.5	\$6,463.2	\$6,588.7
Ending Balance	\$230.4	\$320.0	\$523.1	\$741.6	\$853.4
Ending Balance Percentage of Expenditures	3.8%	5.0%	8.3%	11.5%	13.0%
Gov't. efficiency improvement to reduce spending	0.00%	0.45%	0.00%	0.00%	0.00%

Table 12: Budget Plan with FY 2015 Revenue at \$5.825 billion (dollars in millions)

Budget Plan Adjustments	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	\$379.8	\$183.3	\$313.9	\$555.6	\$811.0
General Fund revenue	5,825.0	6,032.1	6,206.3	6,344.9	6,351.9
Transfer KDOT fund balance	0.0	150.0	0.0	0.0	0.0
Reduce KDOT sales tax transfer to 2013 level	90.0	183.3	188.8	194.5	200.3
Remove KBA statutory funding	0.0	35.0	35.0	35.0	35.0
Freeze PEAK at the current level	0.0	6.0	12.0	18.0	24.0
Eliminate Job Creation Fund	0.0	7.5	7.5	7.5	7.5
Total Available Revenue	\$6,294.8	\$6,597.2	\$6,763.5	\$7,155.6	\$7,429.7
Expenditures per KLRD August 8 profile	\$6,325.0	\$6,454.2	\$6,391.0	\$6,546.1	\$6,696.0
Less adjustment to prior year base	0.0	(27.9)	(147.5)	(147.5)	(147.5)
Fund KBA at current level	0.0	10.0	10.0	10.0	10.0
Put KPERs new hires in a defined contribution plan	0.0	(12.3)	(24.6)	(43.0)	(67.4)
Capture federal reimbursement of school KPERs	0.0	(21.0)	(21.0)	(21.0)	(21.0)
Require partial use of unspent K-12 aid	(147.8)	0.0	0.0	0.0	0.0
Require partial use of unspent higher ed fees	(37.8)	0.0	0.0	0.0	0.0
Adjust spending to maintain 3% ending balance for FY 2015, 5% for FY 2016 and 7.5% thereafter	(27.9)	(119.6)	0.0	0.0	0.0
Final Spending	\$6,111.5	\$6,283.4	\$6,207.9	\$6,344.6	\$6,470.1
Ending Balance	\$183.3	\$313.9	\$555.6	\$811.0	\$959.6
Ending Balance Percentage of Expenditures	3.0%	5.0%	9.0%	12.8%	14.8%
Gov't. efficiency improvement to reduce spending	0.44%	1.85%	0.00%	0.00%	0.00%

Table 13: Budget Plan with FY 2015 Revenue at \$5.75 billion (dollars in millions)

Budget Plan Adjustments	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	\$379.8	\$181.1	\$310.0	\$548.0	\$797.8
General Fund revenue	5,750.0	5,954.4	6,126.4	6,263.2	6,270.1
Transfer KDOT fund balance	0.0	150.0	0.0	0.0	0.0
Reduce KDOT sales tax transfer to 2013 level	90.0	183.3	188.8	194.5	200.3
Remove KBA statutory funding	0.0	35.0	35.0	35.0	35.0
Freeze PEAK at the current level	0.0	6.0	12.0	18.0	24.0
Eliminate Job Creation Fund	0.0	7.5	7.5	7.5	7.5
Total Available Revenue	\$6,219.8	\$6,517.3	\$6,679.8	\$7,066.2	\$7,334.7
Expenditures per KLRD August 8 profile	\$6,325.0	\$6,454.2	\$6,391.0	\$6,546.1	\$6,696.0
Less adjustment to prior year base	0.0	(100.7)	(223.6)	(223.6)	(223.6)
Fund KBA at current level	0.0	10.0	10.0	10.0	10.0
Put KPERs new hires in a defined contribution plan	0.0	(12.3)	(24.6)	(43.0)	(67.4)
Capture federal reimbursement of school KPERs	0.0	(21.0)	(21.0)	(21.0)	(21.0)
Require partial use of unspent K-12 aid	(147.8)	0.0	0.0	0.0	0.0
Require partial use of unspent higher ed fees	(37.8)	0.0	0.0	0.0	0.0
Adjust spending to maintain 3% ending balance for FY 2015, 5% for FY 2016 and 7.5% thereafter	(100.7)	(123.0)	0.0	0.0	0.0
Final Spending	\$6,038.7	\$6,207.3	\$6,131.8	\$6,268.5	\$6,394.0
Ending Balance	\$181.1	\$310.0	\$548.0	\$797.8	\$940.7
Ending Balance Percentage of Expenditures	3.0%	5.0%	8.9%	12.7%	14.7%
Gov't. efficiency improvement to reduce spending	1.59%	1.90%	0.00%	0.00%	0.00%

Conclusion

Some structural changes are necessary since spending was not adjusted when tax reform was implemented but the General Fund budget can be balanced by making more effective use of existing resources. No tax increases or reductions in services are necessary. In fact, new spending records would be set in many scenarios and our Budget Plan includes \$215 million more in non-KPERS education funding and \$299 million more for Medicaid caseloads as projected by KLRD.

Even with a large reduction in estimated revenue, the budget could possibly be balanced without any additional efficiency savings if legislators decide to simply keep the ending balance above zero. Still, the spending reductions required for ending balance purposes in the above scenarios can easily be accomplished through a myriad of efficiency opportunities. Overhead can be reduced by further combining state agencies and commissions and moving some agency headquarters outside of Topeka where more affordable space is available. Information technology and other basic functions can be outsourced, which also would reduce future KPERS liability and funding requirements. Agency carryover cash balances can be scrutinized for one-time repurposing opportunities.

The state's Medicaid operations harbor a number of opportunities for reducing costs. Kansas' system of KanCare has only been in place a short period of time and as with all new models of operations experience can show opportunities for improvement in services and cost control. For example, prescription drug costs continue to be a large and growing cost within the program. Creating a statutory formulary that creates a preferred list of prescription medications within a therapeutic class selected based on their efficaciousness, clinical significance, cost effectiveness, and safety for clients is an option some

states have used with success and Kansas should consider.

This budget document highlighted a few of the funding sources that have been 'earmarked' by previous administrations and legislatures but a more complete and thorough review of the "Off the Tops" and other dedicated and directed revenue programs needs to be undertaken by current elected officials. These special interest arrangements contain billions of dollars of funding that never finds its way to the appropriation process and should be examined for both the appropriateness of the recipient(s) and the efficacious of the program.

There are also areas of financial management that should be ongoing for the state to meet its fiduciary obligation to the taxpayer. The state should continually review opportunities to refinance existing bond issues to lower interest rates when it is financially advantageous to Kansas taxpayers. Debt should only be issued with care and in limited applications but monitoring the debt issued by prior administrations for savings and reissuing is only prudent.

Just as private industry applies the process of constant change in order to improve their products and lower their costs the state needs to continually examine their cost of output for every delivered service. Operational costs need to be examined at the micro level instead of just the overall program level in order to identify opportunities within those costs of output that can move the state towards better services at a better price.

Finding efficiency opportunities will not be the issue; beating back bureaucratic and special interest resistance, however, will take a great deal of fortitude. It simply comes down to whether the majority of legislators are willing to embrace a "better service, better price" culture or succumb to political self-interest and continue to excessively tax and spend.

References

- ¹ There should also be no concern that providing services at a better price will reduce quality. Government, of course, could cause that to happen but that would be a matter of poor implementation rather than evidence of conceptual failure. Indeed, there is no evidence that spending more leads to better outcomes as is well-documented in the case of public education spending. Interestingly, the authors of “An Inquiry into the Nature and Causes of the Wealth of States” found that “... the zero income tax states employ and equal-weighted mean of 305 full-time equivalent employees for every 10,000 of population, while the nine highest tax rate states employ 299 full-time equivalent employees for every 10,000 of population” (page 61). It should also be noted that states with the lowest tax burdens and/or no state income tax are experiencing gains from domestic migration; at the very least, this suggests that the better-priced services offered are of acceptable quality.
- ² See “Better Service, Better Price: How privatization can streamline government, improve services, and reduce costs for Kansas” and “A Legislator’s Budget Guide” at <http://www.kansaspolicy.org/ResearchCenters/BudgetandSpending/BudgetandSpendingStudies>
- ³ Email received from KLRD on August 12, 2014; copy in authors’ possession. In order to facilitate comparisons to the KLRD profile, revenue and expenditure changes are shown as changes to their base revenue and expenditure numbers. In a normal budget environment, we would only show incremental changes to base expenditures for a given year and carry final adjusted spending forward to the next year. The percentage by which government must operate more efficiently in Table 10 through Table 13 is calculated against KLRD expenditures and would vary slightly if calculated against an adjusted base expenditure total each year.
- ⁴ Kansas Division of the Budget, FY 2015 Comparison Report page 16 at http://budget.ks.gov/publications/FY2015/FY2015_Comparison_Report--7-10-2014.pdf Ending balances were below 7.5 percent in 2002, 2003, 2009, 2010 and 2011.
- ⁵ Steve Anderson, “KDOT Bonding Authority is Bad Public Policy” <http://www.kansaspolicy.org/KPIBlog/115503.aspx>
- ⁶ http://budget.ks.gov/publications/FY2015/FY2015_GBR_Vol1--UPDATED--01-28-2014.pdf
- ⁷ Consolidated Annual Financial Report FY2011 and FY2012 Supplementary Schedules for State Highway Fund Debt Service
- ⁸ K.S.A. 79-3620(c)(8); K.S.A. 79-3710(8)
- ⁹ K.S.A. 79-3620(c)(7); K.S.A. 79-3710(7)
- ¹⁰ K.S.A. 74-99b34(h)
- ¹¹ Nathan M. Jensen, Washington University in St. Louis at http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2014/04/jensen%20whitepaper_final.pdf
- ¹² Substitute for HB 2430, 2014 Legislative session at http://www.kslegislature.org/li/b2013_14/measures/documents/summary_hb_2430_2014.pdf
- ¹³ K.S.A. 74-50,107(4)(h)
- ¹⁴ A letter is on file with Division of Budget and Kansas State Department of Education (KSDE) with the calculation of the \$21 million and the acknowledgement by the Federal Health and Human Services of the validity of the charges.
- ¹⁵ We use 2005 as the base year in this analysis because KSDE had already provided data for every year since 2005. Balances for 2014 are not available at publication. It should also be noted that there is no record of districts saying they had insufficient carryover cash reserves in 2005.
- ¹⁶ We use 2003 as the base year in this analysis because the Kansas Dept. of Administration had already provided data for every year since 2003.
- ¹⁷ http://budget.ks.gov/publications/FY2014/FY2014_GBR_Vol1--Corrected_1-28-2013.pdf Appendix A
- ¹⁸ Spreadsheet on file with Kansas Division of the Budget and general information at http://budget.ks.gov/publications/FY2014/FY2014_GBR_Vol1--Corrected_1-28-2013.pdf Appendix A
- ¹⁹ http://budget.ks.gov/publications/FY2014/FY2014_GBR_Vol1--Corrected_1-28-2013.pdf Appendix A



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