# Legislator BRIEFING BOOK

2021
JANUARY

The 2021 version of our Legislator Briefing Book is a quick-reference guide that provides background and perspective on state spending, taxes, education, and general economic conditions.

The charts and tables in each section are updated periodically and are available for download in our Tax and Spending media library and the Education media library at **KansasPolicy.org**.

KANSAS POLICY INSTITUTE


1 State Spending Page 1
2 Tax Facts Page 3
3 Economic Conditions Page 7
4 K-12 Eduation Page 9

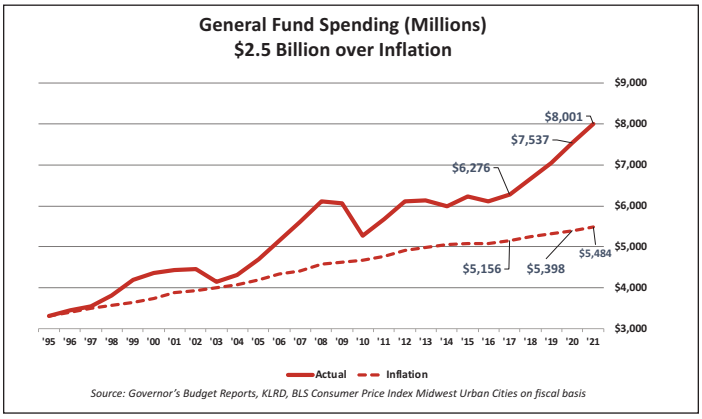
SECTION 1

# State Spending

## General Fund

Contrary to media reports, General Fund spending routinely set records during the Brownback years. The total was $6.276 billion in FY 2017, the year that tax reform was overturned and income tax rates were dramatically increased.

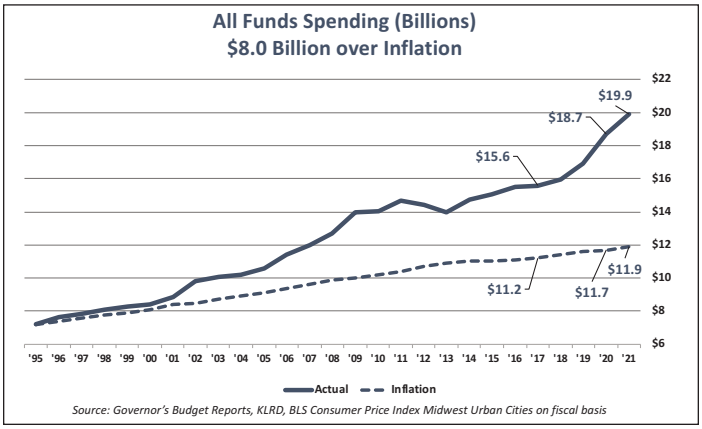
The approved budget for FY 2021 is just over $8 billion, which is a 27% increase over the last four years. SGF spending is now $2.5 billion higher than if it been increased for inflation since 1995.




Source: Governor's Budget Reports, KLRD, BLS Consumer Price Index Midwest Urban Cities on fiscal basis

## All Funds

According to Legislative Research, expenditures in the All Funds budget can be divided into four major areas of expenditure: state operations expenditures (incurred in the direct operations of state government, such as salaries and wages, rent, and travel); aid to school districts and other local units of government (payments to governmental units that provide services at the local level and, in most cases, have taxing authority); other assistance, grants, and benefits (payments to individuals and agencies that are not governmental units, such as Medicaid payments and unemployment insurance payments); and capital improvements (repairs and construction of State-owned facilities, including highways and debt service principal payments).




Source: Governor's Budget Reports, KLRD, BLS Consumer Price Index Midwest Urban Cities on fiscal basis

All federally-funded spending flows through the All Funds budget, not the General Fund.

All Funds spending increased from $15.6 billion in FY 2017 to $19.9 billion (approved budget) for FY 2021 and is $8 billion higher than if increased for inflation since 1995.

## Spending Per Resident

The table of 2018 spending per resident for each state uses spending data collected by the National Association of State Budget Officers (NASBO). It includes total expenditures less federal spending and money spent from the issuance of bonds. Census population estimates for 2018 are used to calculate the amount spent per resident.

Every state provides the same basket of services (education, social services, transportation, etc.) but some states do so at much lower costs, and that allows them to have lower taxes. Put differently, the more a state chooses to spend to provide services, the more it must tax.

For example, the 41 states with an income tax spent 55% more per resident than the nine states that do not tax income ($4,487 per resident compared to $2,883). Kansas spent $4,040 per resident, or 40% more than the states without an income tax.

**2018 State Spending Per Resident**

| State | Amount | State | Amount |
|---|---|---|---|
| Alabama | $3,420 | Montana | $3,849 |
| Alaska[1,2] | $9,069 | Nebraska | $4,686 |
| Arizona | $2,945 | Nevada[1,2] | $3,084 |
| Arkansas | $5,864 | New Hampshire[1,2] | $2,773 |
| California[3] | $4,409 | New Jersey[3] | $4,828 |
| Colorado | $5,247 | New Mexico | $5,468 |
| Connecticut[3] | $6,745 | New York[3] | $5,231 |
| Delaware | $8,383 | North Carolina | $3,302 |
| Florida[1] | $2,327 | North Dakota | $5,778 |
| Georgia | $3,402 | Ohio | $4,423 |
| Hawaii | $8,054 | Oklahoma | $3,746 |
| Idaho | $3,009 | Oregon[3] | $7,154 |
| Illinois[3] | $4,341 | Pennsylvania | $4,305 |
| Indiana | $2,995 | Rhode Island[3] | $5,709 |
| Iowa | $5,422 | South Carolina[2] | $3,243 |
| Kansas | $4,040 | South Dakota[1,2] | $3,434 |
| Kentucky | $4,836 | Tennessee[1,2] | $3,186 |
| Louisiana[2] | $4,051 | Texas[1,2] | $2,585 |
| Maine | $4,189 | Utah | $3,332 |
| Maryland[3] | $4,997 | Vermont | $5,884 |
| Massachusetts | $5,795 | Virginia | $4,808 |
| Michigan | $3,575 | Washington[1] | $4,347 |
| Minnesota[3] | $5,000 | West Virginia | $6,841 |
| Mississippi[2] | $3,750 | Wisconsin[3] | $6,300 |
| Missouri | $2,855 | Wyoming[1,2] | $6,056 |

*Source: NASBO; excludes federal spending and spending related to bond issuance. [1] No state income tax, [2] Among 10 lowest burden states, [3] Among 10 highest burden states*

Using the Tax Foundation's most recent ranking of combined state and local tax burdens (from 2012), we find that the ten states with the highest combined burden spent 61% more per resident than the ten states with the lowest burdens ($4,951 per resident compared to $3,078).

## Budget Profiles

Budget profiles produced by Legislative Research are not in compliance with state law, which requires an ending balance of at least 7.5% of expenditures. The November 19 budget profile produced by Legislative Research shows a $121.2 million deficit at the end of FY 2022, which is just the amount needed to end the year with a zero ending balance – not unlike running your personal checking account down to zero.

| KLRD State General Fund Profile FY 2018 - FY 2022 (millions) | | | | | |
|---|---|---|---|---|---|
| Description | Actual FY 2018 | Actual FY 2019 | Actual FY 2020 | Approved FY 2021 | Estimated FY 2022 |
| Beginning Balance | $108.5 | $761.7 | $1,105.1 | $495.0 | $396.7 |
| Revenue | $7,302.3 | $7,376.2 | $6,912.4 | $7,707.7 | $7,483.6 |
| **Total Available Revenue** | **$7,410.8** | **$8,137.9** | **$8,017.5** | **$8,202.7** | **$7,880.3** |
| Expenditures | $6,649.1 | $7,032.8 | $7,522.5 | $7,806.1 | $8,001.5 |
| **Total Adjusted Spending** | **$6,649.1** | **$7,032.8** | **$7,522.5** | **$7,806.1** | **$8,001.5** |
| **SGF Ending Balance** | **$761.7** | **$1,105.1** | **$495.0** | **$396.7** | **($121.2)** |
| as % of Expenditures | 11.5% | 15.7% | 6.6% | 5.1% | -1.5% |
| Revenue over (under) spending | **$653.2** | **$343.4** | **($610.1)** | **($98.4)** | **($517.9)** |
| Source: Kansas Legislative Research (11/19/2020) | | | | | |

| Legal Ending Balance State General Fund Profile FY 2018 - FY 2022 (millions) | | | | | |
|---|---|---|---|---|---|
| Description | Actual FY 2018 | Actual FY 2019 | Actual FY 2020 | Approved FY 2021 | Estimated FY 2022 |
| Beginning Balance | $108.5 | $761.7 | $1,105.1 | $495.0 | $585.5 |
| Revenue | $7,302.3 | $7,376.2 | $6,912.4 | $7,707.7 | $7,483.6 |
| Needed for 7.5% Ending Balance | $0.0 | $0.0 | $0.0 | **$ 188.9** | **$ 532.6** |
| **Total Available Revenue** | **$7,410.8** | **$8,137.9** | **$8,017.5** | **$8,391.6** | **$8,601.6** |
| Expenditures | $6,649.1 | $7,032.8 | $7,522.5 | $7,806.1 | $8,001.5 |
| **Total Adjusted Spending** | **$6,649.1** | **$7,032.8** | **$7,522.5** | **$7,806.1** | **$8,001.5** |
| **SGF Ending Balance** | **$761.7** | **$1,105.1** | **$495.0** | **$585.5** | **$600.1** |
| as % of Expenditures | 11.5% | 15.7% | 6.6% | 7.5% | 7.5% |
| Source: Kansas Legislative Research 11/19/2020 as amended by author | | | | | |

Past legislatures have so frequently ignored the statutory ending balance law that profiles are constructed on the assumption that the law will be ignored each year, allowing the ending balance to fall to zero before adjustments are necessary.

The real deficit, based on following the ending balance law, would require $721 million in spending cuts, additional revenue, or some combination thereof over two years. The adjacent Legal Ending Balance table shows revenue is $188.9 million short in FY 2021 and $532.6 million short for FY 2022.

Ignoring the ending balance law and only eliminating the $121.2 million deficit will most likely produce a deficit in FY 2023.

A 3% revenue increase, for example, would produce total revenue of $7.708 billion. But even if expenditures were held flat at $7.880 (FY 2022 of $8.001 billion less $121 million to balance the budget), that would leave a deficit of $172 million to get to a zero ending balance.

## Other Information

Spending by agency for the General Fund and the All Funds budget for the fiscal years 2005 through 2020 are available for download at KansasOpenGov.org. General Fund tax revenue by category (income, sales, etc.) is also available.

Other reports on KansasOpenGov.org include the state employee payroll list, KPERS payments, and unencumbered cash reserves by fund.

KPI collects the data from KLRD, Governor's Budget Books, and through Open Records requests and posts it on our transparency site.

SECTION 2

# Tax Facts

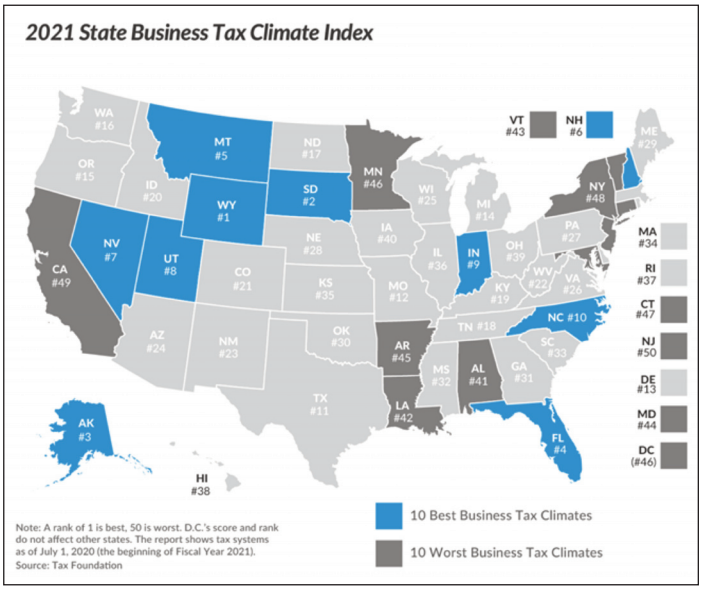
## Uncompetitive Tax Climate

By any measure, Kansas has a very uncompetitive tax climate, particularly for businesses and senior citizens.

The Tax Foundation ranks Kansas at #35 on their 2021 State Business Tax Climate, which is the worst ranking amongst contiguous states. The state's worst rankings are sales tax (#37), corporate income tax (#31), and property tax #30); Kansas is #24 for individual income tax and #13 for unemployment tax.

MoneyWise, a personal finance website, ranks Kansas as the 3rd-worst state for retirees, with property tax, sales tax, and income tax on private retirement income cited as being unattractive. Only Connecticut and Nebraska performed worse than Kansas.

MoneyWise also notes that Kansas has the 8th highest combined state & average local sales tax rate, at 8.68%. They calculated the state's effective property tax rate on a $350,000 home at 1.33%, which is the 15th-highest in the nation.




## National Rankings

*Tax Foundation*

- Corporate tax climate – 16th highest, 35th best
- Individual income tax – 27th highest, 24th best
- State and local sales tax – 8th highest
- Residential property tax – 15th highest

*Lincoln Institute of Land Policy*

- Property tax on rural commercial property – #1 highest
- Property tax on urban commercial property – 11th highest

## General Fund Tax History

Income tax collections from corporations, individuals, and financial institutions comprised 53% of the $7 billion total General Fund taxes collected in FY 2020.

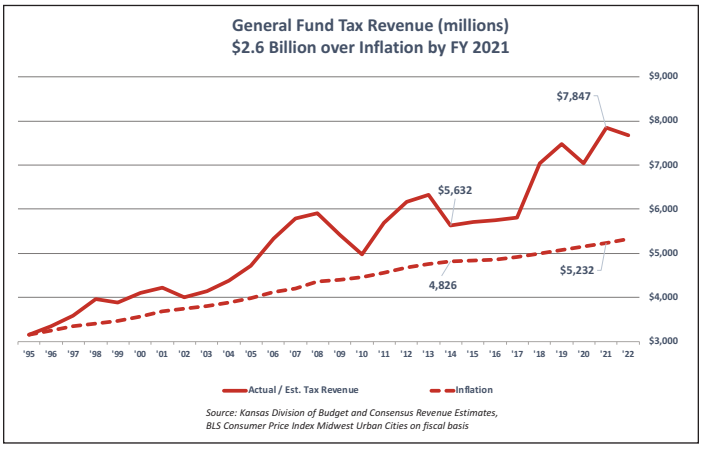
Sales and compensating use tax was the next largest category, generating $2.8 billion or about 40% of the total. Excise taxes on tobacco and alcohol produced $232.6 million (3% of the total), taxes on insurance premiums totaled $172.5 million (2% of the total). The state also collected severance tax on oil and gas, a motor carrier tax, and miscellaneous taxes.

The chart below shows tax revenue declined in FY 2014 as a result of tax reform legislation and then shot back up in FY 2018 after legislators reversed reform efforts.

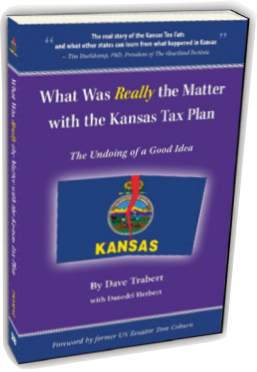
But even at the recent low point in FY 2014, tax revenue of $5.632 billion was still about $800 million higher than if tax collections had increased for inflation since 1995. This year, tax revenue is estimated at $7.847 billion; that's $2.6 billion above inflation-adjusted levels.

Annual tax collections by tax category going back to FY 1995 are available on KansasOpenGov.org.

| FY 2020 General fund Tax Receipts (000) | | |
|---|---|---|
| Tax Type | Amount | % Total |
| Income tax | $3,768,789 | 53.5% |
| Sales and Use | $2,831,583 | 40.2% |
| Excise tax | $232,631 | 3.3% |
| Severance tax | $20,692 | 0.3% |
| Insurance premium tax | $172,479 | 2.4% |
| Motor carrier | $12,502 | 0.2% |
| Other tax | $10,468 | 0.1% |
| Total | $7,049,144 | 100.0% |
| *Source: Kansas Legislative Research* | | |



## "What Was *Really* the Matter with the Kansas Tax Plan"




For all that has been written about tax reform passed by the 2012 Kansas legislature, much of its history had either not been recorded or has been skewed to fit political agendas favoring higher taxes and more government spending. The Kansas tax-relief effort was officially killed when the 2017 Kansas legislature overrode Governor Brownback's veto and imposed the largest tax increase in Kansas' history—but distortions of the real story continued in order to discourage other states from reducing taxes and they were even used to undermine federal tax reform efforts in late 2017.

In early 2018, Kansas Policy Institute published "What Was ***Really*** the Matter with the Kansas Tax Plan" to help citizens and elected officials across the nation (and maybe even future Kansas legislators) learn from the mistakes made in Kansas in their efforts to reduce taxes down the road and create the best path forward for everyone to achieve prosperity.

At the same time Kansas had its problems, other states like North Carolina, Indiana, and Tennessee successfully cut taxes. So what was different about the Kansas experience?

Many of the claims about Kansas were based on incomplete or inaccurate data but Kansas did have serious budget challenges…and most of those issues were avoidable. There were a lot of mistakes made and there were also other circumstances at play that created budget issues, including a very toxic political environment.

The three biggest mistakes were:

1. Do not cut taxes and increase spending. General Fund spending set new records most years, and Democrats and many Republicans (including Gov. Brownback) were not willing to implement many efficiency opportunities to balance the budget.
2. There was never a plan on paper to structurally balance the budget.
3. The urgent need for tax reform was not adequately explained.

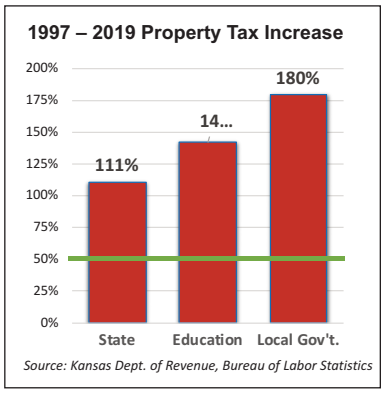
Complimentary copies of the book are available for legislators and constituents.

## Property Tax Allocation

Property tax exceeded $5.1 billion statewide last year (assessed in 2019 for payment in 2020). Only $57 million of the total – about 1% - was for state operations, which is an automatic transfer for university building maintenance. The amount collected increased 111% since 1997.

Property tax for education, which includes K-12 and community colleges, consumed $2.3 billion or about 45% of the total; education property tax increased 142% since 1997, while inflation was 52%.

The largest portion, $2.8 billion and 54% of the total, was for local government operations (e.g., cities, counties, townships, fire districts). Local government property taxes increased the most, jumping 180% since 1997.



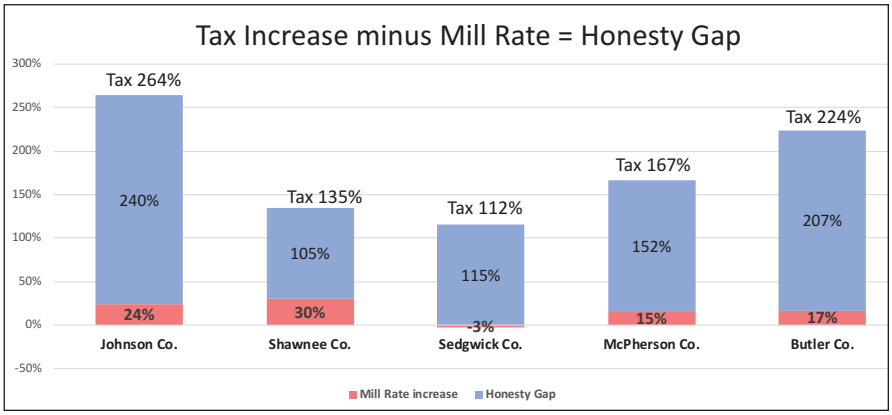

Local government property tax increases are driven solely by the amount each entity chooses to spend each year. The amount paid by each taxpayer is a function of two variables; property values, which are set by the county appraiser and mill rates, which are adjusted to deliver the amount of property tax built into each entity's budget.

## Property Tax Honesty Gap

Media and local government officials often only reference changes in mill rates when talking about property tax increases, but the real increases are usually much higher. Public polling shows taxpayers are very frustrated by what is called the honesty gap, which is the difference between the total tax increase imposed and the mill rate portion that local officials and media reference.

The chart below shows honesty gaps for a few county governments, comparing property tax in 2019 to 1997. Johnson County commissioners increased property tax revenue by 264% over the years but the county mill rate went up 24%; the 240 percentage point difference is the honesty gap.

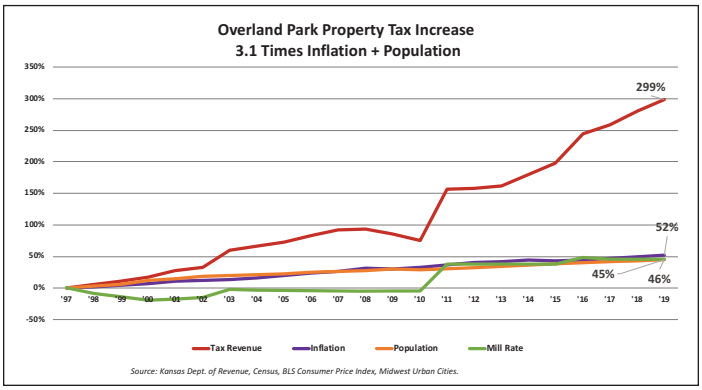
Honesty gap calculations based on data provided by the Kansas Department of Revenue are available for every county and many cities on KansasOpenGov.org.

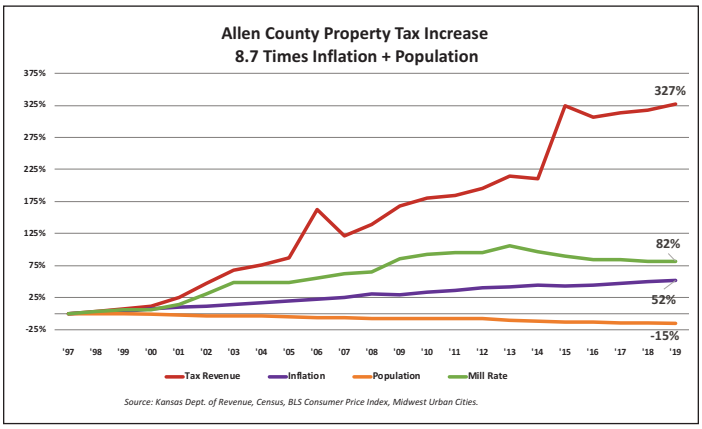


## City and County Property Tax Increases

Charts comparing property tax increases with changes in inflation, population, and mill rates are also available on KansasOpenGov.org for every county and the largest cities in Kansas.

This chart shows the city of Overland Park increased property tax by 299% between 1997 and 2019, while inflation was 52%, population increased by 45%, and the mill rate rose by 44%.




Over the period, Overland Park increased property tax 3.1 times the combined rates of inflation and population.

Allen County is one of the worst examples of county property tax increases, with a hike of 327%. With population down 15% and inflation at 52%, Allen County's property tax has increased 8.7 times as fast as inflation and population combined. The county mill rate was 82% higher in 2019 than in 1997.

The county seat of Allen County, Iola, has the unfortunate distinction of having the highest effective property tax rate in the nation for commercial property in rural areas.

The Lincoln Institute of Land Policy publishes an annual 50-state property tax analysis ranking effective property tax rates in the largest rural and urban areas in each state. The effective property tax rate is the tax paid as a percentage of appraised value. They define rural as a county seat with population between 2,500 and 10,000 that is not part of a metropolitan area.

A commercial property valued at $1 million with $200,000 of fixtures would pay property tax of $52,830 in Allen County, which is an effective tax rate of 4.403%. The same property in Richfield, Utah, would only pay $16,177 and just $12,380 in Savannah, Tennessee.

An Allen County home appraised at $150,000 would pay $2,958; the effective tax rate of 1.972% is the 14th highest among rural areas in the nation.

Wichita, the largest Kansas urban area as defined by Lincoln, also has relatively high effective tax rates. A $1 million commercial property with $200,000 of fixtures would pay $32,497 in tax, with the 11th-highest ETR of 2.708%; a $150,000 home would pay $1,776 in tax, with the 27th-highest ETR of 1.184%.

These high effective property tax rates are major deterrents to economic development. We compare Kansas to Utah and Tennessee because those states enacted property tax reform more than three decades ago that has reduced effective tax rates over time. Utah, for example, saw its ETR decline 7.5% between 2000 and 2018, while the ETR jumped 22% in Kansas.

Truth in Taxation legislation overwhelmingly passed the House (89-28) and Senate (35-2) in 2020 but Governor Kelly vetoed the bill on the last day of the session, leaving no opportunity to override her veto. Cities and counties oppose Truth in Taxation, and the governor sided with them.

Truth in Taxation places no restrictions on local units of government; it merely requires them to take a public vote on the entire amount of the property tax increase they impose. Each year, the mill rate is reduced so that new valuations deliver the same property tax revenue as the year before. Cities and counties would then notify taxpayers of the full tax increase they intend to impose and after holding public hearings, they take their vote.

**2019 Property Tax Effective Tax Rate (ETR) National Rankings**

| Classification | Largest Rural Area | Tax Owed | Effective Tax Rate | ETR Rank (1=highest) |
|---|---|---|---|---|
| Rural Commercial property | Iola KS | $ 52,830 | 4.403% | #1 |
| Rural Commercial property | Savannah, TN | $ 12,380 | 1.032% | #43 |
| Rural Commercial property | Richfield, UT | $ 16,177 | 1.348% | #30 |
| Rural Homestead $150,000 | Iola KS | $ 2,958 | 1.972% | #14 |
| Rural Homestead $150,000 | Savannah, TN | $ 1,009 | 0.673% | #42 |
| Rural Homestead $150,000 | Richfield, UT | $ 1,048 | 0.699% | #40 |
| **Classification** | **Largest Urban Area** | **Tax Owed** | **Effective Tax Rate** | **ETR Rank (1=highest)** |
| Urban Commercial property | Wichita, KS | $ 32,497 | 2.708% | #11 |
| Urban Commercial property | Nashville, TN | $ 14,513 | 1.209% | #43 |
| Urban Commercial property | Salt Lake City, UT | $ 15,440 | 1.287% | #40 |
| Urban Homestead $150,000 | Wichita, KS | $ 1,776 | 1.184% | #27 |
| Urban Homestead $150,000 | Nashville, TN | $ 1,183 | 0.789% | #41 |
| Urban Homestead $150,000 | Salt Lake City, UT | $ 1,097 | 0.731% | #45 |

## Myth of the 3-Legged Stool

One of the pushbacks against Governor Brownback's proposal to eventually phase out the state income tax was that the state was better off with a "3-legged stool" of income, sales, and property tax. The complaint was that the state's revenue model would be unbalanced with just two revenue sources, but the 'stool' has never been balanced.

The 20 mills of property tax mandated for school funding does not run through the General Fund, but even adding that $712 million to FY 2020 General Fund tax collections shows great disparity among revenue sources. Income tax would be 48.6% of the total. Sales, Use, and Excise taxes combined would be 39.5% of the total, and the $712 million of property tax would be just 9.2%.

The folksy-sounding 'need to keep the 3-legged stool balanced' retort was merely a myth to justify opposition to reducing income taxes. But more importantly, history shows the state would be more financially stable with more reliance on sales tax than on income tax.

| FY 2020 Unbalanced Revenue Stool (000) | | |
|---|---|---|
| Tax Type | Amount | % Total |
| Income tax | $3,768,789 | 48.6% |
| Sales, Use, and Excise | $3,064,214 | 39.5% |
| Severance tax | $20,692 | 0.3% |
| Insurance premium tax | $172,479 | 2.2% |
| Motor carrier | $12,502 | 0.2% |
| Other tax | $10,468 | 0.1% |
| 20 mills for schools | $711,953 | 9.2% |
| Total | $7,761,097 | 100.0% |

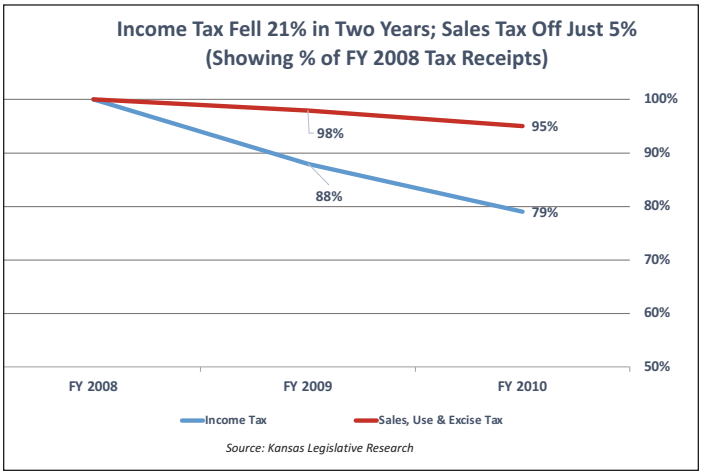
*Source: Kansas Legislative Research*

Tax revenue declined during the Great Recession but income tax had a much more precipitous decline, falling 21% between FY 2008 and FY 2010 whereas consumption tax (sales, use, and excise) was down just 5%.

Legislators had to deal with a $702 million decline in income tax, but just a $107 million drop in consumption tax.

Dealing with budget challenges would have been much different with single-digit declines in consumption tax.

Kansas could reduce reliance on income tax by operating more efficiently and using the savings to reduce income tax rates across the board.



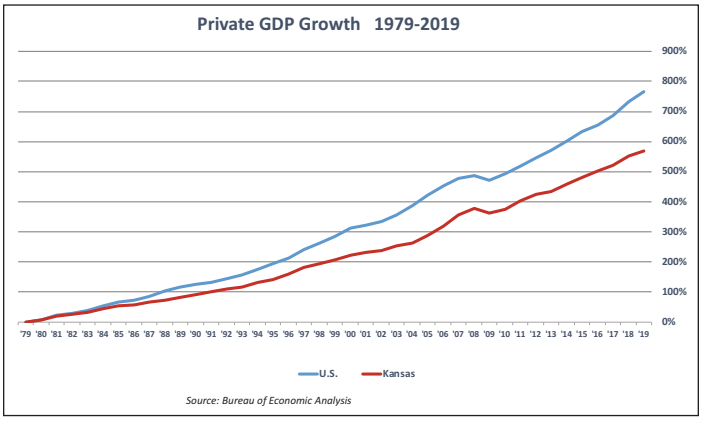
SECTION 3

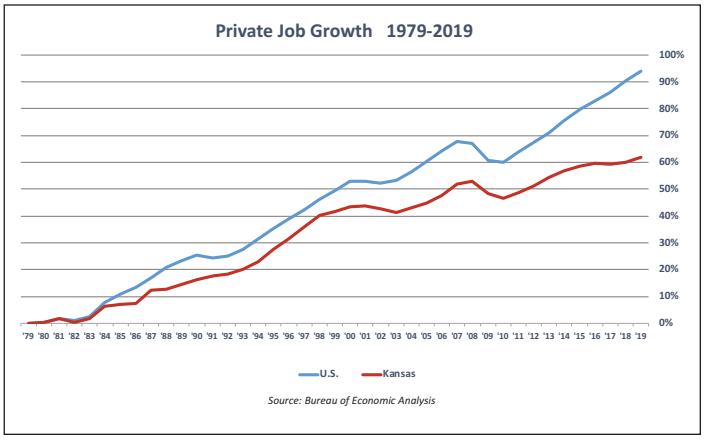
# Economic Conditions

## 5th-Consecutive Decade of Economic Stagnation

Kansas is in its fifth consecutive decade of economic stagnation, trailing the nation in economic activity (GDP) and job growth.

To put the gap between Kansas and the nation in perspective, there would have been an additional 313,000 jobs in 2019 if Kansas had grown at the national average since 1979. Had private-sector GDP growth matched the national average, Kansas would have had an additional $22.4 billion in economic activity.




## Employment Declined in 2020

The full extent of job losses for calendar year 2020 will not be finalized until sometime in February or March but the losses will be significant.

There were 69,300 fewer jobs in November than in February, with most of the loss (56,900) in the private sector. State government jobs, which includes universities, were 3,600 lower, local government jobs dropped by 9,100 and there were 300 more federal government jobs.

Neighboring states suffered less job loss. Nebraska, which was not locked down by its governor, has the best results;

| November 2020 Employment Compared to February 2020 | | | | |
|---|---|---|---|---|
| Description | Kansas | Missouri | Nebraska | Oklahoma |
| **Private Sector** | | | | |
| Number of Jobs | (56,900) | (102,900) | (28,200) | (62,800) |
| Percent Change | -4.8% | -4.2% | -3.3% | -4.7% |
| **State Government** | | | | |
| Number of Jobs | (3,600) | (4,200) | (3,100) | (1,600) |
| Percent Change | -6.8% | -4.0% | -7.0% | -2.0% |
| **Local Government** | | | | |
| Number of Jobs | (9,100) | (11,300) | (4,500) | (8,600) |
| Percent Change | -5.0% | -4.1% | -4.0% | -3.8% |
| **Federal Government** | | | | |
| Number of Jobs | 300 | 2,900 | 200 | 400 |
| Percent Change | 1.2% | 5.2% | 1.2% | 0.8% |
| **All Jobs** | | | | |
| Number of Jobs | (69,300) | (115,500) | (35,600) | (72,600) |
| Percent Change | -4.8% | -4.0% | -3.4% | -4.3% |

*Source: Bureau of Labor Statistics; seasonally adjusted*

total employment was 3.3% lower than in February while Kansas dropped by 4.8%.

Nebraska was one of seven states that were not shut down; those states lost 3.2% of private-sector jobs (November to November) whereas the states locked down by their governors suffered an average loss of 6.1%.

## States That Spend Less, Tax Less … and Grow More

Taxes are not the only thing that impacts economic competitiveness but they are a major factor. Data from the Bureau of Economic Analysis show the states without an income tax increased private-sector jobs by 49% between 1998 and 2019, while the other states grew by just 24.6%. The ten states with the lowest combined state and local tax burden also had superior job gains compared to the ten highest-burden states (42.4% vs. 27%).

The same is true of private-sector GDP growth. The states without an income tax grew by 161% between 1998 and 2018 in current dollars vs. 122% for the other states. The ten lowest-burden states outperformed the ten highest-burden states, 154% to 130%.

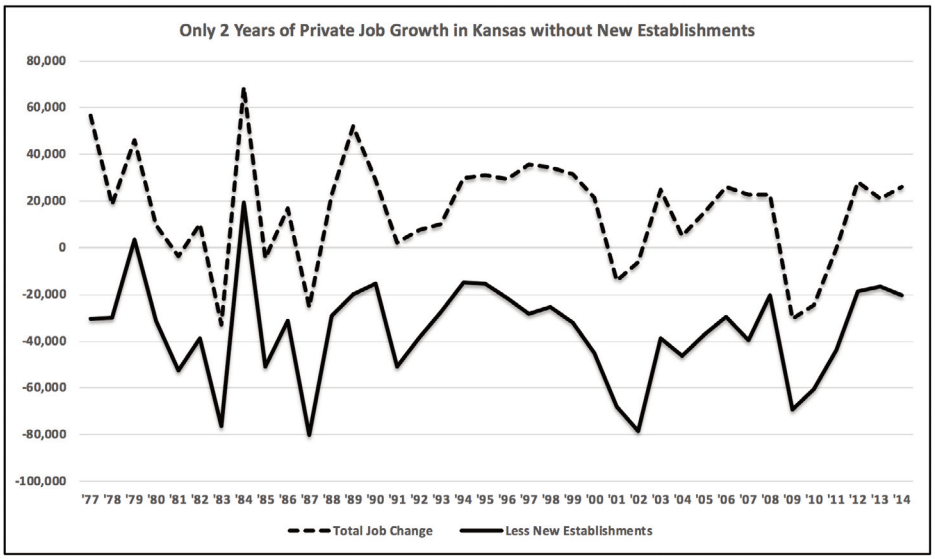
## Heavy Dependence on Jobs From New Establishments

Economic development efforts are largely focused on enticing companies to move across state lines, but research studying the life cycle of businesses shows why those efforts generally fail.

This excerpt from "What Was ***Really*** the Matter with the Kansas Tax Plan" explains.

> As explained in A Thousand Flowers Blooming – Understanding Job Growth and the Kansas Tax Reforms, "Job growth [in Kansas] is critically dependent on new business formation. Several studies have found that start-ups and young firms drive overall job creation. A key academic study found that 'firm births contributed substantially to both gross and net job creation.'" To see how this has played out over time in Kansas, [the chart below] shows the trend of total job creation and jobs created excluding those created by new establishments from 1977 through 2014, the most current data available from the Census Bureau.
>
> Census defines an establishment as "a single physical location where business is conducted or where services or industrial operations are performed;" they define a firm as "a business organization consisting of one or more domestic establishments that were specified under common ownership or control, with the firm and the establishment being the same for single-establishment firms." For example, new establishments could be a new bio-tech startup, a proprietor opening a new restaurant, or even a new Walmart location.
>
> The authors drive home the importance of jobs from new establishments in Kansas and throughout the United States, referencing research pioneered by Dr. Hall. "In Kansas, with the exception of 1979 and 1984, the total number of jobs created would actually have been negative if not for the job creation from new establishments."

Dr. Arthur Hall, Executive Director of the Brandmeyer Center for Applied Economics at the University of Kansas, confirms that Kansas would still not have experienced a single year of private-sector job growth if not for jobs from new establishments.




## Studies Show Subsidy Programs Are Not Effective

Subsidy programs that award taxpayer-funded incentives to a few select businesses are the primary focus of state and local officials, even though academic studies show such programs are ineffective.

Most recently, Dr. Arthur Hall completed an analysis of several STAR bond projects that found they mostly rearranged economic activity within the community rather than create new, incremental activity.

> Understanding economic development as an organic process driven by trial-and-error, rather than a mechanistic process driven by strategic planning and engineering, offers a crucial perspective for concerned citizens seeking to enhance Wichita's economic future through civic minded endeavors like Project Wichita. The primary driver of regional economic growth relates to the formation of new businesses (or activation of existing businesses) that grow quickly because they have discovered – by luck or design – a market with under-served demand. Almost by definition such businesses emerge from a dynamic market process of trial-and-error because they would be abundant if people already knew how to create them. This fact explains why government-subsidization of specific enterprises or groups of people through targeted economic development rarely produces net-new economic growth. What may look like economic growth on the surface ends up being, upon closer scrutiny, an expensive exercise in the rearrangement of existing business activity.

The state PEAK program (Promoting Employment Across Kansas) was studied by Dr. Nathan Jensen, then with Washington University at St. Louis. Jensen concluded that companies receiving PEAK incentives were no more likely to add jobs than companies that did not receive the subsidy.

Jensen writes, "My findings from the establishment-level data indicate that incentive programmes have no discernable impact on firm expansion, measured by job creation. In addition, the survey data suggest that incentive recipients highly recommend this programme to other firms, but few firms actually increased their employment in Kansas because of these incentives; similarly, very few firms would have left the state if they had not benefited from this programme. Thus, incentives have little impact on the relocation or expansion decisions of firms."

SECTION 4

# K-12 Education

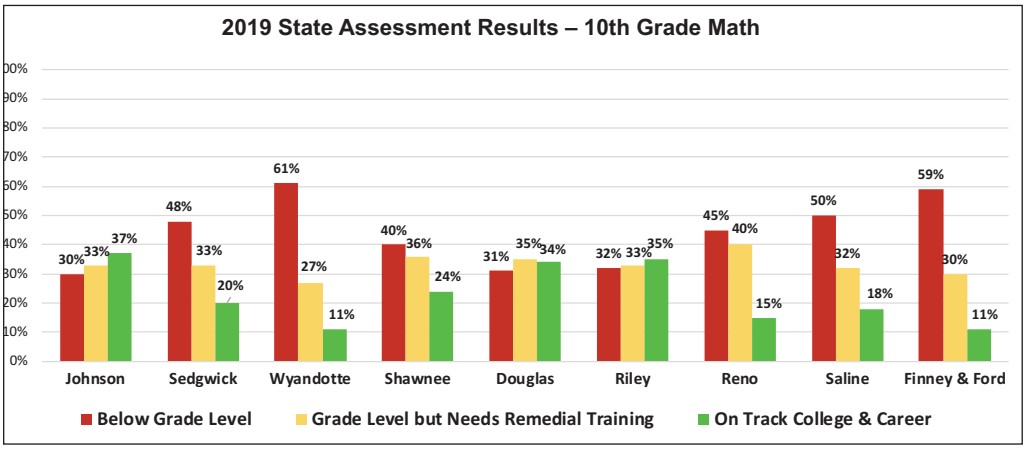
## Achievement is Persistently Flat and Lower Than Claimed

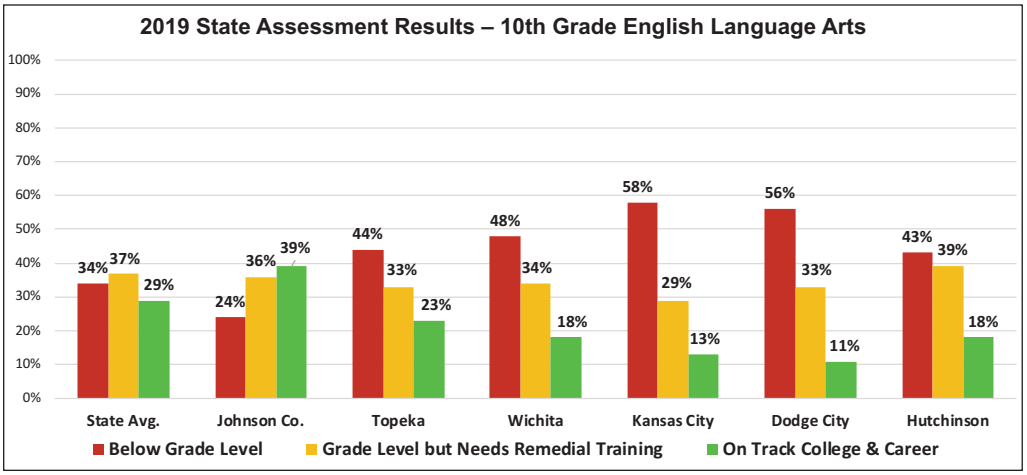
Most of the talk about education focuses on money but student achievement is the real education crisis in Kansas. More 10th-graders are below grade level in Math and English Language Arts than are on track for college and career and the results are getting worse, not better.

| 2019 State Assessment Results - 10th Grade | | | |
|---|---|---|---|
| Subject | Below Grade Level | At Grade Level, Needs Remedial Training | On Track for College & Career |
| Math | 41% | 34% | 25% |
| ELA | 34% | 37% | 29% |
| *Source: Kansas Dept. of Education* | | | |

The 2019 state assessment results published by the Kansas Department of Education show 41% of 10th-graders are below grade level in Math; 34% are at grade level but still need remedial training, and only 25% are on track for college and career.

In English Language Arts, 34% are below grade level, 37% are at grade level but still need remedial training, and only 29% are on track for college and career. The state assessment was not given in 2020.




Results vary by district but results are not what most people would consider 'good' anywhere. Johnson County districts average 30% below grade level in Math and have only 37% on track for college and career. Almost half of 10th-graders in Sedgwick County (48%) are below grade level and 61% are below grade level in Wyandotte County.

English Language Arts results are similarly low. A quarter of Johnson County 10th-graders are below grade level, more than half are below grade level in Kansas City and Dodge City, and more than 40% are below grade level in Topeka, Wichita, and Hutchinson.

More detailed results are available for each district at KansasOpenGov.org in the District Snapshot reports. Each district snapshot also includes data on spending and funding per-student, cash reserves, employment, and enrollment, showing the change in each category between 2005 and 2020.

## ACT College-Readiness

The poor showing for 10th-graders on the state assessment is reflected in ACT college-readiness scores.

Only 23% of Kansas students did well enough to be considered college-ready in English, Reading, Math, and Science on the 2020 ACT. That is down from 27% in 2019 and for the first time, below the national average of 26%.

Kansas also recorded a composite score (20.4) below the national average of 20.6.

State average scores are skewed by two major factors – demographic differences among the states and participation rates (the percentage of students taking the ACT in each state).

Participation rates affect average state scores because in states where the ACT is not mandatory, only students planning to attend college are likely to take the test and that will artificially increase average state scores over states where the ACT is mandatory for all students. The

Kansas Legislature recently approved paying for all students to take the ACT and the state's

| College-Readiness Declining Last 5 Years | | | | | |
|---|---|---|---|---|---|
| School Year | U.S. Avg. All Students | Kansas Avg. All Students | Kansas Participation Rate | College Readiness | |
| | | | | U.S. Avg. | Kansas |
| 2016 | 20.8 | 21.9 | 74% | 26% | 31% |
| 2017 | 21.0 | 21.7 | 73% | 27% | 29% |
| 2018 | 20.8 | 21.6 | 71% | 27% | 29% |
| 2019 | 20.7 | 21.2 | 72% | 26% | 27% |
| 2020 | 20.6 | 20.4 | 82% | 26% | 23% |
| *Source: ACT* | | | | | |

| Kansas ACT Achievement Gaps | | | | | | |
|---|---|---|---|---|---|---|
| School Year | Composite Score | | | College Readiness | | |
| | White | Hispanic | Black | White | Hispanic | Black |
| 2016 | 22.8 | 19.2 | 17.6 | 36% | 15% | 8% |
| 2017 | 22.6 | 19.2 | 17.5 | 35% | 14% | 6% |
| 2018 | 22.5 | 19.0 | 17.7 | 34% | 13% | 8% |
| 2019 | 22.2 | 18.5 | 17.0 | 32% | 11% | 7% |
| 2020 | 21.4 | 18.0 | 16.4 | 28% | 11% | 6% |
| *Source: ACT* | | | | | | |

participation rate jumped from 72% in 2019 to 82% in 2020. The higher participation rate wiped out some of the state's artificial advantage and likely contributed to the lower score.

There are also large achievement gaps between white students and students of color, and also between low-income students and everyone else. As a result, states with higher portions of minorities and low-income kids will appear to have lower average scores.

ACT does not publish income-based demographics but the achievement gaps between White, Hispanic, and Black students are significant and persistent. Only 6% of Black students are college-ready compared to 11% for Hispanic students and 28% for White students.

## Kansas is Middle of the Pack, Not Top Ten as Claimed

The Kansas Association of School Boards (KASB) claims Kansas is one of the Top Ten states for student achievement, but that simply is not true. Results from ACT and the National Assessment of Educational Progress (NAEP) show Kansas is about average in a nation that does not perform well.

The most recent NAEP results from 2019 show rankings ranging from #19 to #34. But even the state's 'best' ranking – 4th grade Math for kids who are not low-income – reflects disappointing achievement, with only 57% proficient.

| 2019 National Assessment of Educational Progress | | | | |
|---|---|---|---|---|
| Grade Level / Subject | Low Income | | Not Low Income | |
| | Percent Proficient | National Rank | Percent Proficient | National Rank |
| 4th Grade Reading | 20% | #34 | 48% | #30 |
| 4th Grade Math | 25% | #29 | 57% | #19 |
| 8th Grade Reading | 19% | #26 | 44% | #25 |
| 8th Grade Math | 20% | #20 | 46% | #29 |
| *Source: NAEP* | | | | |

Less than half of the state's 4th-grade and 8th-grade students who are not low income are proficient in Reading and Math, and less than a quarter of the low-income kids are proficient.

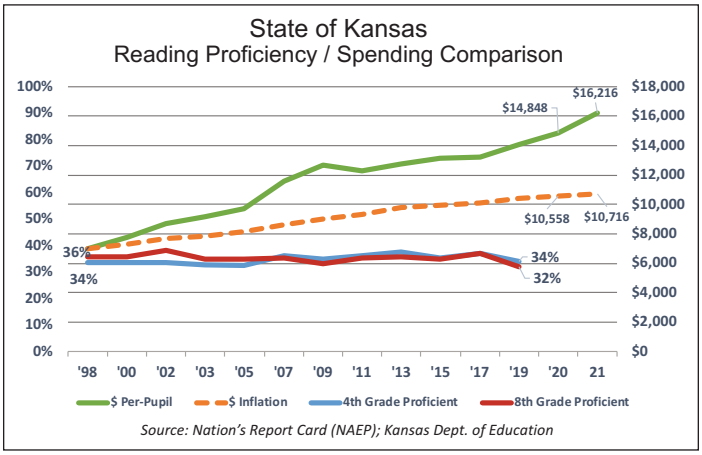
## Spending More Does Not Cause Achievement to Improve

Contrary to claims by school officials, Supreme Court judges, and others, spending more money does not cause student achievement to improve.

The chart below shows Reading proficiency on NAEP declined from an average of 35% to 33% since 1998 when Kansas first participated in the national exam. Per-pupil spending would have increased from about $7,000 to a little over $10,000 by 2019, but actual spending was $14,085.

KSDE says spending was $14,848 per pupil last year and estimates it will be $16,216 this year.

Nineteen states had the same or better NAEP 8-score composite in 2019 than Kansas and spent less per student (4th-grade and 8th-grade Reading and Math for low-income kids and students who are not low-income compared to 2018 spending per U.S. Census, adjusted for cost of living).




## State, Federal, and Local Funding Per Student

KSDE began including KPERS payments in school funding totals in FY 2005, which is also the year before the first court-ordered funding increase. KSDE Deputy Commissioner of Finance Craig Neuenswander estimates total spending this year will be just over $7.3 billion; that is more than a $3 billion increase since FY 2005.

Per-pupil spending will have increased from $9,707 to $16,216.

The only accounting change since 2005 occurred in 2015, when the Legislature discovered that the 20 mills of property tax it mandates for school funding was being recorded as Local aid; beginning in 2015, that money was sent to the State and deposited in a separate fund (i.e., not included in

| Total Expenditures by Revenue Source | | | | | |
|---|---|---|---|---|---|
| School Year | FTE Enrolled | State | Federal | Local | Total |
| 2005 | 441,867.6 | 2,362,223,172 | 398,667,040 | 1,525,990,822 | 4,289,414,543 |
| 2006 | 442,555.7 | 2,657,971,383 | 382,782,642 | 1,650,894,229 | 4,689,294,566 |
| 2007 | 444,878.7 | 2,888,960,769 | 385,393,086 | 1,868,974,224 | 5,142,076,915 |
| 2008 | 446,874.0 | 3,131,495,347 | 376,985,620 | 1,940,052,328 | 5,446,453,325 |
| 2009 | 447,615.1 | 3,287,165,278 | 413,624,558 | 1,965,551,201 | 5,666,731,992 |
| 2010 | 453,324.3 | 2,867,835,438 | 726,587,277 | 1,997,207,913 | 5,589,549,135 |
| 2011 | 454,865.7 | 2,961,769,735 | 666,576,422 | 1,958,698,173 | 5,587,044,331 |
| 2012 | 456,000.5 | 3,184,163,559 | 447,417,409 | 2,139,429,840 | 5,771,010,808 |
| 2013 | 457,896.6 | 3,198,060,481 | 460,323,467 | 2,191,583,924 | 5,849,967,872 |
| 2014 | 461,088.3 | 3,267,998,852 | 485,563,067 | 2,221,955,762 | 5,975,517,681 |
| 2015 | 463,266.4 | 3,968,905,979 | 510,199,401 | 1,600,892,280 | 6,079,997,660 |
| 2016 | 463,167.7 | 3,950,412,825 | 485,268,953 | 1,593,236,144 | 6,028,917,922 |
| 2017 | 460,095.6 | 4,005,386,032 | 496,644,072 | 1,582,548,379 | 6,084,578,483 |
| 2018 | 476,672.6 | 4,331,222,299 | 484,412,006 | 1,676,578,151 | 6,492,212,456 |
| 2019 | 476,481.7 | 4,399,813,150 | 530,693,304 | 1,807,414,453 | 6,711,048,885 |
| 2020 | 476,454.3 | 4,847,062,500 | 486,713,815 | 1,741,250,945 | 7,074,465,085 |
| 2021 est. | 451,007.6 | 4,946,386,000 | 591,713,000 | 1,775,436,000 | 7,313,535,000 |
| **Amount Per Pupil** | | | | | |
| School Year | | State | Federal | Local | Total | % Change Total |
| 2005 | | 5,346 | 902 | 3,454 | 9,707 | 5.11% |
| 2006 | | 6,006 | 865 | 3,730 | 10,596 | 9.15% |
| 2007 | | 6,494 | 866 | 4,201 | 11,558 | 9.08% |
| 2008 | | 7,008 | 844 | 4,341 | 12,188 | 5.45% |
| 2009 | | 7,344 | 924 | 4,391 | 12,660 | 3.87% |
| 2010 | | 6,326 | 1,603 | 4,406 | 12,330 | -2.60% |
| 2011 | | 6,511 | 1,465 | 4,306 | 12,283 | -0.38% |
| 2012 | | 6,983 | 981 | 4,692 | 12,656 | 3.0% |
| 2013 | | 6,984 | 1,005 | 4,786 | 12,776 | 0.9% |
| 2014 | | 7,088 | 1,053 | 4,819 | 12,960 | 1.4% |
| 2015 | | 8,567 | 1,101 | 3,456 | 13,124 | 1.3% |
| 2016 | | 8,529 | 1,048 | 3,440 | 13,017 | -0.8% |
| 2017 | | 8,706 | 1,079 | 3,440 | 13,225 | 1.6% |
| 2018 | | 9,086 | 1,016 | 3,517 | 13,620 | 3.0% |
| 2019 | | 9,234 | 1,114 | 3,793 | 14,085 | 3.4% |
| 2020 | | 10,173 | 1,022 | 3,655 | 14,848 | 5.4% |
| 2021 est. | | 10,967 | 1,312 | 3,937 | 16,216 | 9.2% |

*Source: Kansas Department of Education*

General Fund spending totals) and returned to school districts so the money is properly recorded as State aid.

The value of the 20 mills transferred was $590.1 million in FY 2015, or about $1,274 per student. In FY 2020, those amounts were $710.7 million and $1,492 respectively.

The adjacent table also reflects an unusual increase in full-time equivalent enrollment in FY 2018, when kindergarten began being counted as full-time instead of half-time. Most of the increase that year was attributable to that change.

KSDE estimates a 25,000 drop in enrollment this year due to kids transferring to private or homeschooling when many districts would not offer full-time in-person learning. The funding did not decline, however, because schools do not lose money for declining enrollment for up to two years. As a result, taxpayers will provide approximately $163 million to districts this year for students who are not enrolled (35,625 weighted enrollment times $4,569 BASE aid).

Each district's state, federal, and local funding history is available at KansasOpenGov.org.

## Carryover Cash Reserves

School district funds fall into four broad categories – operating, debt service, capital outlay, and federal. The chart below excludes federal funds because the balances are very low (just $67 million in FY 2020).

Capital outlay funds can be used for capital projects and some maintenance costs, and the funding comes from three sources:

1. Up to eight mills of property tax can be levied by school districts,
2. districts that qualify as being 'poor' based on property valuation per-pupil get additional funding from the state budget for equalization, and
3. districts can transfer money into the capital fund from other funds.

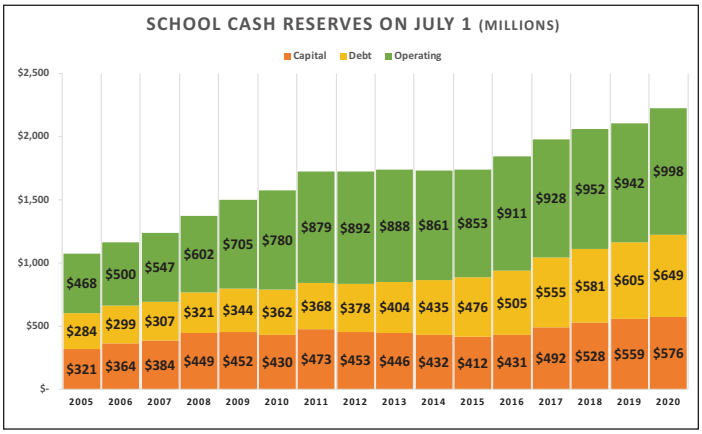
Debt service funds can only be used to make principal and interest payments on bonded indebtedness from property taxes collected for that purpose and from state equalization aid for those that qualify.

Operating cash reserves are in multiple funds that are used for current operating costs, coming from state aid, local operating budget property tax, fees, gifts, grants, and interest income.

Funds function the same as personal checking accounts; the ending balance is higher than the beginning balance if more money is deposited into the fund than is spent each year. School districts finished the 2005 school year with $468 million in operating reserves and they finished last year with $998 million. Most of the $530 million increase over the years comes from state and local aid that was not spent.

Much of the money in school district operating funds can be spent going forward, but history indicates that will only take place with legislative intervention.

Reserve balance charts like the one above are available for every district at KansasOpenGov.org.




## Operating Carryover Ratio

The amount of operating carryover reserves at the end of the year expressed as a percentage of that year's operating expense is called the carryover ratio. For the purpose of matching cash reserves to expenditures, operating expense excludes capital outlay, debt service, federal expenditures, and KPERS pension funding (the KPERS fund always has a zero balance).

The median operating ratio has almost doubled since the 2006 school year, going from 9.7% to 17.4%. The majority of districts had less than 10% in reserve for the 2006 school year but now, the majority have more than 15% in reserve. But dozens of districts consistently operate with less than 10% in reserve, so it is clearly possible for many districts to spend down reserves with good cash management practices.

To put that in perspective, districts collectively could spend reserves down by about $318 million and still have the same carryover ratio each of them had in 2006.

Each district's carryover ratio history is available at KansasOpenGov.org.

## School Employment

Local school boards and administrators make all spending and employment decisions, with no input from legislators, governors, or the department of education.

KSDE publishes employment reports by district each year in their Data Central database, with an extensive range of pre-determined positions. Kansas Policy Institute publishes annual summaries of those reports with comparison to enrollment at KansasOpenGov.org.

There has been an 8% increase in enrollment since 1993 but school district employment jumped 33%. Classroom teachers increased by 17%, there are 41% more special education teachers and reading specialists, management positions increased by 42%, and all other staff increased by 49%.

**Employement and Enrollment Comparison**

| Categories | 1993 | 2021 | Change |
|---|---|---|---|
| Classrom teachers | 26,371.3 | 30,792.8 | 17% |
| SPED, Reading teachers | 3,381.3 | 4,780.5 | 41% |
| Managers | 3,195.0 | 4,550.0 | 42% |
| Other staff | 21,236.2 | 31,731.2 | 49% |
| Total | 54,183.8 | 71,854.5 | 33% |
| FTE enrolled | 431,320.5 | 463,904.7 | 8% |

*Source: KSDE. Manager includes superintendents, asst. superintendents, principals, asst. principals, directors, managers, instruction coordinators and curriculum specialists. Enrollment based on the 2021 Legal Max and subject to audit.*

Management positions include superintendents, assistant superintendents, principals, assistant principals, directors, managers, instruction coordinators, and curriculum specialists.

The student-teacher ratio dropped from 16.4 students per classroom teacher in 1993 to 15.1 this year. Class sizes, however, have reportedly increased although KSDE does not publish that number. When class sizes are increasing but the student-teacher ratio is falling, it is indicative of a management issue rather than a funding issue.

Total employment of 71,855 this year is lower than last year by 617 positions, as districts cut positions not needed with many schools not offering in-person learning. The largest reduction, 480 positions, was special education paras; there are 198 fewer food service workers, 64 fewer clerical and attendance service employees, 44 fewer regular education classroom aides, 36 fewer transportation workers, 33 fewer library positions, and 10 fewer counselors.

Some employment categories have added positions, including maintenance workers (56), teachers (48), managers (46), nurses and LPNs (46), social services (34) and business services (25).

Employment increased in some districts however, including 109 districts that also lost students.

Three Johnson County districts lost students but added staff, including Shawnee Mission (lost 1,253 students, added six employees), Gardner-Edgerton (lost 269 students, added five employees), and De Soto (lost 301 students, added six employees).

Andover, in Butler County, lost 83 students but their personnel reports reflect eight more employees.

Garden City, in Finney County, lost 131 students but hired 20 more employees. Auburn-Washburn in Shawnee County and Maize in Sedgwick County, also had significant enrollment declines (305 and 98, respectively) but added staff (4 and 23, respectively).

The state's largest district, Wichita, lost 1,867 students and eliminated 82 positions.

Enrollment numbers come from the 2021 Legal Max file prepared by KSDE; they will be updated again following the February district census and finalized by the end of the school year.

**FY 2021 Employment Changes**

| Job Description | Number |
|---|---|
| Special education paras | -480 |
| Food service | -198 |
| Clerical, attendance | -64 |
| Classroom aides | -44 |
| Positions not specified | -41 |
| Transportation | -36 |
| Library aides | -33 |
| Counselors | -10 |
| Speech, audiology | 5 |
| Psychologists | 11 |
| Technology | 15 |
| Business services | 25 |
| Social services | 34 |
| Nurses, LPNs | 46 |
| Managers | 46 |
| Teachers | 48 |
| Maintenance | 56 |
| All other | 3 |
| Net reduction | -617 |

**Some Districts Lost Students, Added Staff**

| District | Student Change | Employees Added |
|---|---|---|
| Shawnee Mission | -1,253 | 6 |
| Liberal | -76 | 2 |
| Arkansas City | -131 | 3 |
| Lansing | -64 | 25 |
| Garden City | -131 | 20 |
| Dodge City | -124 | 17 |
| Auburn-Washburn | -305 | 4 |
| Andover | -83 | 8 |
| Newton | -219 | 23 |
| Maize | -98 | 23 |
| Derby | -134 | 4 |
| Fort Scott | -98 | 7 |
| Gardner Edgerton | -269 | 5 |
| De Soto | -301 | 6 |
| Turner-Kansas City | -158 | 18 |

*Source: KSDE*

KANSAS POLICY INSTITUTE

**WICHITA OFFICE:** 316-634-0218
250 N. Water, Suite 216 • Wichita, KS 67202

**OVERLAND PARK OFFICE:** 913-213-5038
12980 Metcalf, Suite 130 • Overland Park, KS 66213

**www.kansaspolicy.org**