

## 2023 Responsible Kansas Budget

### ■ INTRODUCTION

Responsible government spending is key to keeping taxes low and limiting unnecessary growth of government. In FY 2021, the Kansas Division of the Budget's reported actual collected tax revenue was \$8.9 billion, which was \$758 million higher than the estimate for the year.<sup>1</sup> This record-high tax revenue collection supported record-high spending of \$8.02 billion in the General Fund.<sup>2</sup> The actual collected revenue was also a whopping 26.4%, or roughly \$1.85 billion, higher than it was in FY 2020. The monthly tax revenues from June to October 2021 were about \$440 million greater than the state's estimates as well.<sup>3</sup>

While legislators may be quick to advocate new spending upon seeing these numbers, they should remember Kansas' recent history of boom-and-bust budgeting. Motivated by a large budget surplus in the early 2010s, the Kansas Legislature cut income taxes in 2012.<sup>4</sup> But that policy, combined with increased government spending, created a fiscal deficit resulting in the largest tax hike in Kansas history in 2017 to close the budget gap.<sup>5</sup> Democrats and Republicans alike learned the hard way during the Brownback era that not balancing revenue intake and spending can quickly sour economic conditions.

Kansas legislators have an opportunity to cement much-needed fiscally responsible spending for FY 2023 and beyond. This Responsible Kansas Budget (RKB) serves as a model for accountable budgeting. By setting a maximum threshold on the state's All Funds appropriations based on population growth plus inflation, the RKB helps prevent excessive spending, thus reducing taxpayer burdens and making the state more competitive.

### Past Kansas Budgets<sup>6</sup>

From FY 2005 to the approved budget in FY 2022, Kansas All Funds spending increased by 93.7% to \$20.5 billion. The All Funds budget encompasses the General Fund, Other State Funds, and Federal Funds. From FY 2005 through FY 2017 (13 fiscal years), All Funds spending increased by about \$5 billion (a 47.1%

**Table 1: Kansas State Spending Growth 2005-2022 (millions)**

Spending Type	FY 2005 Actual Spending	FY 2022 Approved Budget	Increase
General Fund	\$4,690	\$8,143	74%
Other State Funds	\$2,485	\$8,097	226%
Federal Funds	\$3,410	\$4,259	25%
Total Spending	\$10,585	\$20,499	94%

*Source: Governor's Budget Reports, July Comparison Report*

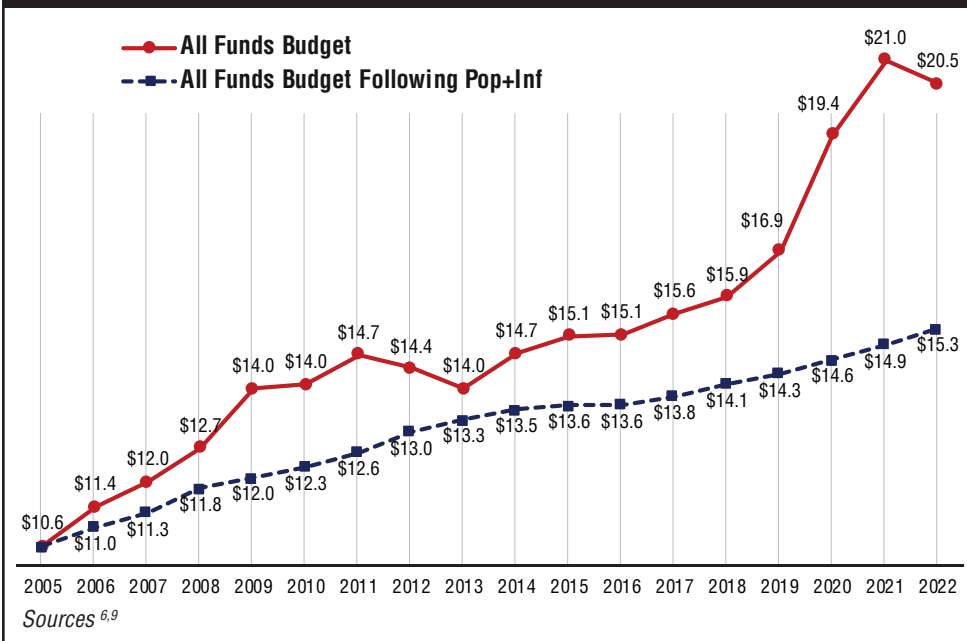
increase). Between FY 2017 to the suggested FY 2022 budget (5 fiscal years), it increased by \$4.9 billion (a 31.6% increase). **Table 1** elaborates on these changes from FY 2005 to FY 2022.

This spending has far outpaced the rate of population growth plus inflation. This metric has been found to be a good measure of the average taxpayer's ability to pay for government spending while also stabilizing expectations for taxpayers. This is because the combined rate tends to be a predictable, stable rate of growth (excluding the recent, sudden inflation spike) that results in better economic predictions.<sup>7,8</sup> From 2005 to a 2022 estimate, the Kansas resident population grew by 6.9% while the Kansas consumer price index (CPI) grew by 35.0%, which accounting for compounding of population growth plus inflation over this period, results in a growth rate of 44.1%. While it works to sum population growth and inflation from one budget period to the next, compounding the growth is necessary over longer time horizons to account for the growth in the base for multiple periods. If All Funds spending had been limited by the growth of population plus inflation, the FY 2022 budget would be \$15.3 billion, which is 26% lower than the approved FY 2022 budget.

**Figure 1** shows the year-by-year change for the All Funds budget and the budget if it had followed population growth plus inflation since FY 2005.

Excess government spending above population growth plus inflation over this period means that Kansans are paying much more in taxes and fees than they should.

**Figure 1: Kansas' All Funds Budget Over Time (billions)**



Brownback tax cut years (2013-2017), total spending continued setting records. The growth of total spending between 2005 and 2017 (3.3%) was less than the growth between 2018 and 2022 (5.8%), but both periods' spending growth exceed the combined growth of population and inflation. Overall, total spending is up on an annual basis almost twice as much as this metric over the last 18 budgets, explaining the large discrepancy in taxes owed today compared with a lower amount owed if real per capita spending had been held constant.

Despite this increase in spending, at the beginning of the COVID-19 pandemic there was widespread

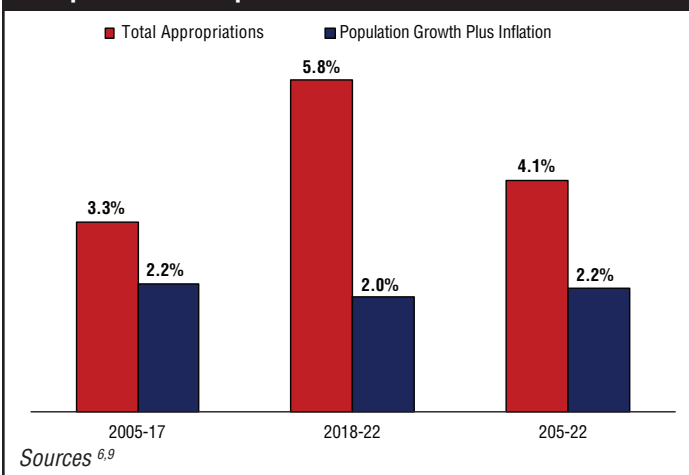
For example, if the Kansas Legislature had followed this metric since FY 2005, the budget would be \$5.2 billion less, which translates to less of a tax burden on families. Sales taxes, income taxes, property taxes, federal taxes, tuition, and other fees together pay for All Funds spending and must, by necessity, increase when spending increases. The cumulative excess in spending each fiscal year totals to \$36.4 billion, which means that a family of four has paid about \$49,600 more in taxes and fees than otherwise over this period since FY 2005. These amounts mean a lot to Kansas families. They could provide food, college, transportation, savings, and other things that could enhance their well-being rather than higher spending by the state government.

**Figure 2** shows the consistent trend of Kansas' All Funds budget exceeding population growth plus inflation between FY 2005 and FY 2022. Contrary to media reports that alleged spending cuts during the

fear of a budget deficit because of Kansas' weak infrastructure for emergency responses—specifically, the state's limited rainy-day fund.<sup>10</sup> Kansas has had one of these statutory funds since 2016.<sup>11</sup> However, it has recently ranked dead last in the country for its health according to the Tax Foundation, because the state had no money in the fund at the end of FY 2020.<sup>12</sup> This puts taxpayers at risk of large tax hikes during a recession or another detrimental circumstance such as a pandemic because the state starts to see its tax revenue decrease.

The other option is to rein in government spending by freezing real (inflation-adjusted) per capita spending as we recommend with our proposed Responsible Kansas Budget, which could be paired with efforts to fill the state's rainy-day fund and provide tax relief. Taxpayers would immediately see more controlled state spending and taxation while at the same time, Kansas would be prepared for any additional fiscal woes.

**Figure 2: Average Annual Kansas All Funds Budget Compared with Population Growth Plus Inflation**



## Overview of a Responsible Kansas Budget

The Responsible Kansas Budget (RKB) sets a maximum threshold on the All Funds budget based on the rate of population growth plus inflation during the prior year before a legislative session. This is a simple calculation of finding the growth rate of the state's resident population and adding it to the growth rate of the state's CPI. In 2021, Kansas' CPI inflation increased 2.36% and its population growth declined 0.04%.<sup>9,13</sup> The sum of these values, an increase of 2.32%, serves as the maximum growth rate for All Funds appropriations in FY 2023. With a base All Funds budget of \$20.5 billion for FY 2022, the FY 2023 RKB is a maximum of \$21.0 billion.

Figure 3: 2023 Responsible Kansas Budget



The RKB operates as a form of TEL (tax-and-expenditure limit). TELs could slow budget growth by 0.75 to 1.11 percentage points, which would certainly help decrease the growth of Kansas' budget.<sup>14</sup> On average, states with a TEL have higher gross state product growth, personal income growth, and population growth.<sup>15</sup> Studies found that TELs reduced the size and growth of property taxes and are a strong approach for states trying to deal with their increasingly large debt and spending habits.<sup>16,17</sup> Policymakers should be aware of the ability to circumvent a TEL through different spending procedures, as the state's limit now covers less than half of the budget. Another study found that stricter TEL laws were associated with local governments receiving more state aid or diversifying their revenue sources to circumvent a TEL.<sup>18</sup>

For example, Texas has a state spending limit in its constitution.<sup>19</sup> However, the spending limit was weak because it covered only a small part of the budget, was based on the volatile measure of personal income growth, and could be exceeded with simple majority vote of both chambers. This created a situation where the state's total budget grew by an average of 12% on a biennial basis for six budgets from 2004 to 2015 compared with only a 7.3% average increase in population growth plus inflation. But the Texas Public Policy Foundation instituted the Conservative Texas Budget in 2015 that helped turn the tide of excessive spending. In the next four budgets from 2016 to 2023, total spending increased by an average of 5.2%, less than half of the average of the prior six budgets, and population growth plus inflation was a full percentage

point higher at 6.2%. Fortunately, the Texas Legislature noticed the benefits of this approach with lower tax and regulatory burdens over time that supported greater prosperity, and passed a stronger state spending limit into law in the 2021 session.<sup>20,21</sup> The new spending limit is likely the strongest in the nation as it covers more than half of the total budget, is based on population growth and inflation, and both chambers must have a three-fifths vote to exceed it.

A spending limit to rein in excessive government spending is a fiscal rule that the Kansas Legislature would be wise to implement.

## ■ CONCLUSION

Kansas Policy Institute's Responsible Kansas Budget sets the foundation for legislators to ensure fiscal stability and reduced future tax burdens. The most effective way to put this into effect is by creating a constitutional budget amendment that caps the maximum growth of the upcoming budget at the rate of population growth plus inflation for the year directly prior to the legislative session. In the meantime, lawmakers should use the RKB as a maximum threshold to control spending.

This paper is a forward-looking approach and should not be misconstrued as saying spending in prior years was necessary or efficient.

Legislators have the power to control taxing and spending in an unpredictable economy. It is the government's responsibility not to put an undue tax burden on citizens by controlling spending. Having a more responsible budget keeps more money in taxpayers' wallets, promotes business investment, and helps slow government creep into peoples' lives. The time is now for a Responsible Kansas Budget in FY 2023 of no more than \$21 billion to allow Kansans more opportunities to flourish.

## ■ ABOUT THE AUTHORS

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## ■ ENDNOTES

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