

## 2024 Responsible Kansas Budget

### ■ INTRODUCTION

A state government passing responsible, balanced budgets is necessary for a flourishing economy and thriving people. Transparency, performance-based budgeting, and tax-and-expenditure limits rein in government spending to avoid deficits. This shores up state budgets in times of revenue volatility.<sup>1</sup> Massive tax cuts in Kansas in 2012 supported increased economic activity but were irresponsibly combined with excessive government spending that led to an expected large deficit and subsequently to the state's largest tax hike in 2017.<sup>2</sup> Ensuring a balanced budget is a bipartisan issue as taxpayers fund excessive spending through high taxes, less economic growth, and fewer well-paid jobs.

The last month of FY 2022, June, marked the 23rd consecutive month that state tax revenue in Kansas exceeded its monthly estimate.<sup>3</sup> In 2022, collected tax revenues of \$9.5 billion were \$438.1 million higher than estimated for the year, and \$849.5 million higher than the total collected in 2021. The growth in spending keeps increasing, too. According to the July 2023 Comparison Report, the approved 2022 General Fund budget of \$8.51 billion is \$1.24 billion or 17.1% more than the actual in 2021.<sup>4</sup>

Last year, Kansas Policy Institute released its first edition of the Responsible Kansas Budget (RKB) for 2023.<sup>5</sup> This model for accountable, sustainable budgeting proposed a limit on All Funds (state funds plus federal funds) initial appropriations in 2023 at \$21.0 billion based on limiting the increase to population growth plus inflation. Instead, the Legislature approved an All Funds budget of \$22.9 billion - nearly \$2 billion more than the RKB. This year, KPI is taking a different approach with the RKB by limiting initial appropriations of State Funds. This is a better representation of the budget directly controlled by the legislature excluding the billions of one-time dollars sent to the state by Congress. By preventing excessive spending to hold back the steady creep upward of taxes, a responsible budget reduces the growing burden of government on taxpayers and supports a more robust economy for Kansans to flourish.

**Table 1: Kansas State Spending Growth 2005-2023 (millions)**

Spending Type	FY 2005 Actual Spending	FY 2023 Approved Budget	Increase
General Fund	\$4,690	\$9,169	95%
Other State Funds	\$2,485	\$7,916	219%
Total State Funds	\$7,175	\$17,085	138%
Federal Funds	\$3,410	\$5,821	71%
Total Spending	\$10,585	\$22,906	116%

*Sources*<sup>6,7</sup>

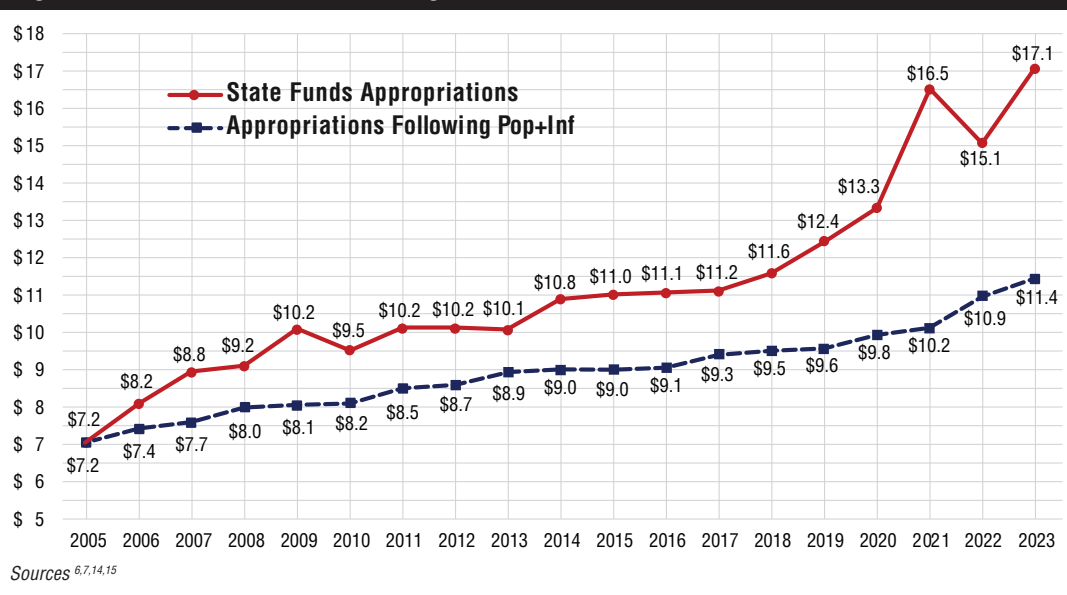
### Past Kansas Budgets

The All Funds budget includes State Funds received from state-related taxes and fees and Federal Funds received from Congress. In Table 1 for 2005 to 2023, state funds appropriations have increased by 138.1%, from \$7.2 billion to \$17.1 billion, for an average annual increase of 5.2%.<sup>6,7</sup> Splitting this 19-year time period into two shows that State Funds increased by \$2.9 billion from 2005 to 2013, equating to 40.5% growth overall or an average growth of 4.5% annually. From 2014 to 2023, State Funds increased by \$7 billion, equating to 70% growth overall or an average growth of 5.7% per year.

The RKB is a maximum amount of State Funds appropriations calculated by the change in the prior State Funds budget for the rate of population growth plus inflation in the year directly before a legislative session. In the literature around tax-and-expenditure limits (TEs) like the RKB, the rate of population growth plus inflation was found to be less volatile and connected with the average taxpayers' ability to pay for government spending.<sup>8</sup> The combined rate tends to be a predictable, stable rate of growth highly connected to consumer spending and thus economic activity. The appropriation's growth over these periods has far outpaced the average annual rate of the state's population growth plus U.S. chained-consumer price index (CPI) inflation (2.6% from 2005 to 2023, 2.7% from 2005 to 2013, and 2.6% from 2014 to 2023).

Figure 1 shows the annual changes from 2005 to 2023 for actual/approved spending and what would have been spent by following a Responsible Kansas Budget.

**Figure 1: Kansas' State Funds Budget (billions)**



than half of the growth rate of state funds appropriations of 138%. 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 State Funds spending has been limited to the rate of population growth plus inflation since 2005, the 2023 appropriations would have been \$11.4

The RKB operates as a form of a TEL (tax-and-expenditure limit). TELs could slow budget growth by 0.75 to 1.11 percentage points.<sup>9</sup> On average, states with a TEL have higher gross state product growth, personal income growth, and population growth.<sup>10</sup> Studies have found that TELs reduced the size and growth of property taxes, and are a strong approach for states trying to deal with large debt amidst increasing spending habits.<sup>11,12</sup> However, TELs are most often undermined by alternatives to get around the limit, such as issuing debt.<sup>13</sup> Another study found that stricter TEL laws were associated with local governments receiving more state aid or diversifying their revenue sources to circumvent the TEL. These limits are only as effective to the commitment and action to balance the budget that they're intended to invoke. Specifically, amending the constitution with a TEL is better than instituting a statute that could be easily ignored.

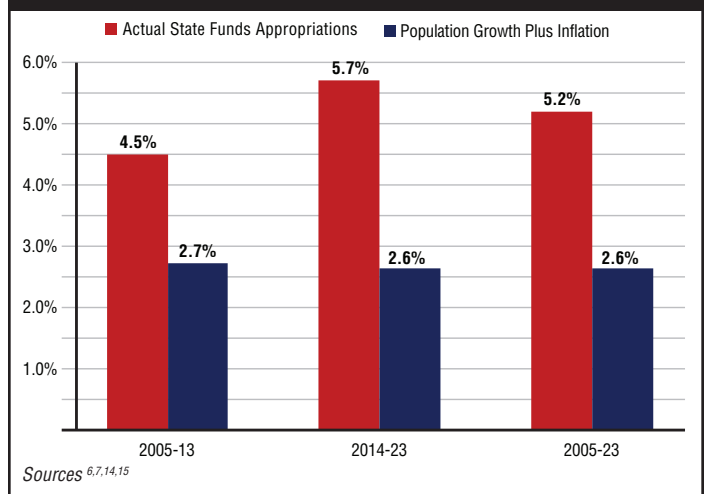
In Kansas, population growth and inflation have increased since 2005 but not as much as appropriations. Kansas's resident population for 2023 is estimated to be 6.0% higher than in 2005.<sup>14</sup> For last year's RKB, inflation was calculated using the Kansas consumer price index (CPI). However, given the high amount of inflation and lack of accounting for substitutions of goods and services depending on someone's cost of living, this year the RKB uses U.S. chained-CPI. This measure's calculations better account for the substitution effect when people replace their purchases with alternatives because of factors like change in income or price.<sup>8</sup> Chained-CPI was used to index federal income tax brackets after the 2017 Tax Cuts and Jobs Act, and is studied closely by the Federal Reserve. From 2005 to a 2023 estimate, chained-CPI inflation is up 50.4%.<sup>15</sup> Accounting for the compounding of the rates of population growth plus inflation over this period, the rate is 59.3%, which is less

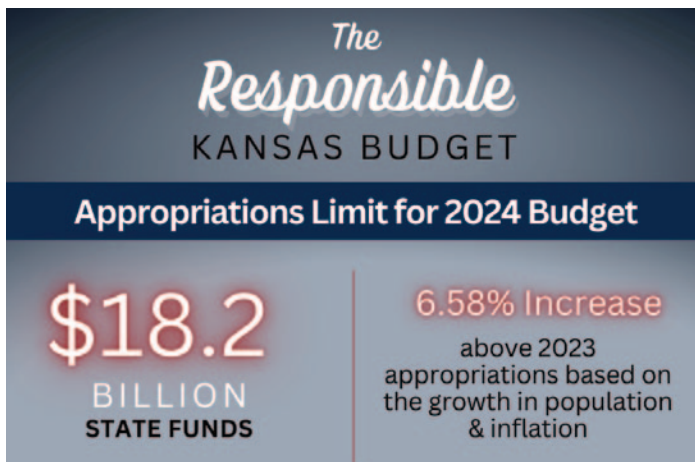
billion, or \$5.7 billion less than what was appropriated in 2023. That \$5.7 billion difference amounts to \$1,942 per resident in Kansas this year in higher taxes and fees than if the budget had been limited. For a family of four, its an average cost of \$7,768 more. Restraining appropriations could leave more money in Kansans' pocket thereby increasing the potential for economic activity and well-paid jobs.

The cumulative difference between the population growth and inflation-limited State Funds budget against the actual and approved budgets since 2005 is \$42.6 billion. That represents \$14,645 per person in expenses over 18 fiscal years. A family of four has therefore paid \$58,580 more in taxes and fees to pay for excessive spending than they otherwise would have since 2005 if the budget had a capped growth rate.

Figure 2 compares State Funds appropriations with the rate of population growth plus inflation in each period, which appropriations have consistently exceeded this

**Figure 2: Kansas' State Funds Budget vs. Population Growth Plus Inflation**





key measure, which is a reason why Kansans are not able to reach their potential.

Over the last year, Kansas went from having the dead last-ranked Rainy Day Fund in the country because it was empty to nearly \$1 billion at the end of 2022.<sup>16</sup> Legislators made a choice to set aside budget surpluses to alleviate some of the risks of high tax hikes during a recession or other detrimental circumstances afflicting a budget. High revenue receipts is not a sign to spend more just because the money is available. Instead, that cash should be returned to the taxpayers, many of whom are still struggling amidst inflation and paying some of the highest state and local tax rates in the nation.<sup>17</sup>

## Responsible Kansas Budget Overview

The 2024 Responsible Kansas Budget (RKB) sets a maximum threshold on the State Funds budget based on the rate of population growth and 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 US chained CPI. In 2021, the US chained-CPI inflation increased 7.18%, and its population growth declined 0.60%.<sup>14,15</sup> The sum of these values, an increase of 6.58%, serves as the maximum growth rate for State Funds appropriations in 2024. With a base approved State Funds budget of \$17.1 billion in 2023, the 2024 RKB is a maximum of \$18.21 billion.<sup>6,7</sup>

## Spending Control is the Key to Responsible Budgeting

Spending control often raises the specter of cutting services, but it can be accomplished by reducing the cost of providing services.

Former Indiana Governor Mitch Daniels has accomplished an 11-year tuition freeze as President of Purdue University.<sup>18</sup> His successful strategy in keeping a balanced budget is a continual process of targeting and eliminating waste across the University.

Daniels famously said, “This place was not built to be efficient. [But] you’re not going to find many places where

you just take a cleaver and hack off a big piece of fat. Just like a cow, it’s marbled throughout the enterprise.”<sup>19</sup>

Within hundreds of different programs and initiatives scattered across the enterprise of state government, there unquestionably is room to reduce unnecessary spending, as some states are already doing it. In 2020, the states with an income tax spent 52% more per resident than the states without an income tax.<sup>20</sup> Every state provides the same basic basket of services, but some do so much more efficiently and pass on the savings in the form of lower taxes.

Performance-based budgeting (PBB) is an effective way of examining the entire enterprise. Every program and function is critically analyzed for efficiency and effectiveness.<sup>21</sup> Kansas has a performance-based budgeting that was signed into law in 2016, but thus far has effectively been ignored. The first report published in December 2021 included thousands of poor measurements that are unrelated to program goals, impossible to control, or completely missing.<sup>22,23</sup> Efficiency, one of the main purposes of a PBB process, was not mentioned.

Given the need for real spending restraint that will also help improve the budget process and increase transparency of the use of taxpayer dollars, we recommend strengthening the state’s spending limit by passing a Responsible Kansas Budget and amending it to the constitution.

## CONCLUSION

The Responsible Kansas Budget is a foundation to help restrain government spending, which is the ultimate burden of government, while ensuring fiscal stability and tax relief over time so that Kansans can thrive. While we have created this as a maximum limit, it should ultimately be used to amend the constitution 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.

While there exist many ways to model a TEL and all share the same goal of constraining the growth of government spending, the RKB uses the rate of population growth plus inflation because it most accurately represents the average taxpayer’s ability to pay. It is simple to calculate, understand, and implement without additional strings attached. The predictable nature of the RKB means deficits can be avoided while giving the budget reasonable room to grow if needed.

The RKB is a forward-looking approach and should not be misconstrued as saying certain spending in prior years was necessary. Even in an RKB-capped budget, there would be waste to eliminate. It’s a continual process and commitment to save taxpayer cash that gives effective results.

In an unpredictable economy, state legislators have control over spending and the types of taxes in the



Sunflower State. Keeping a steady course for the state's economy is dependent on a balanced budget that is least burdensome to taxpayers. Responsible spending leads to lower taxes and regulations, as you do not need to tax or regulate as much if you do not excessively fund the state, supporting a stable budget that does not overly distort economic activity. Achieving a Responsible Kansas Budget of a maximum State Funds budget of \$18.2 billion will help provide a step toward an environment in Kansas where families and businesses have more opportunities to flourish. And given the economic situation in Kansas and from what is going on in D.C. that has created an uncertain future, there should be every attempt to spend less so that there can be maximum tax relief for Kansans.

## ■ ENDNOTES

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