# Legislator BRIEFING BOOK

2023
JANUARY

The 2023 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

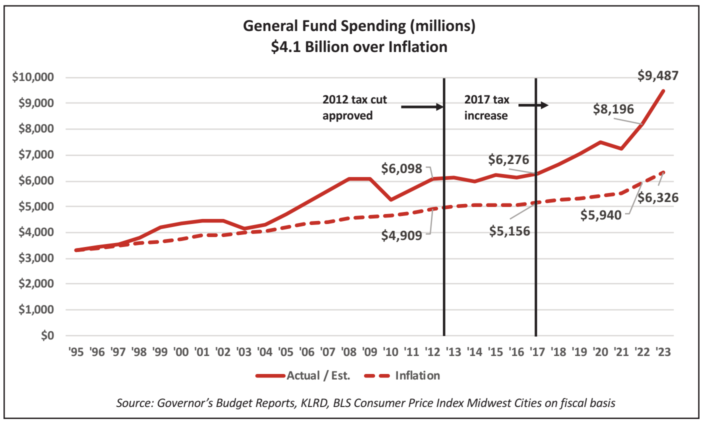
# SECTION 1 State Spending



## General Fund

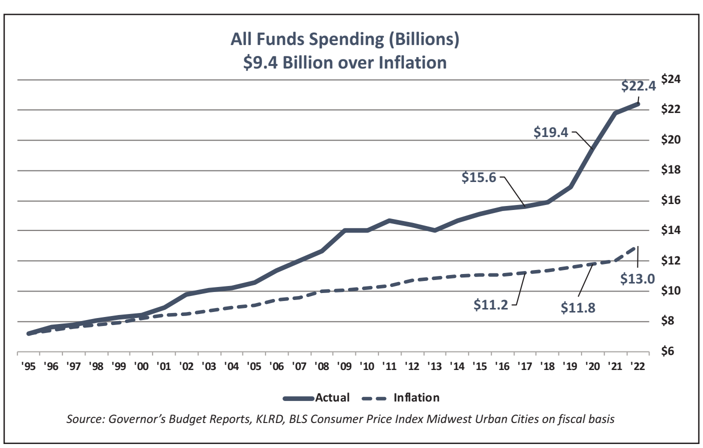
Contrary to media reports, General Fund spending routinely set records during the Brownback years. The total was $6.277 billion in FY 2017, the year that tax reform was overturned and income tax rates were dramatically increased.

The approved budget for FY 2023 is almost $9.5 billion, which is a 35% increase over the last four years. SGF spending is now $3.1 billion higher than if it been increased for inflation since 1995.




## All Funds

According to Legislative Research, expenditures in the All Funds budget can be divided into four major areas of expenditure: (1) state operations expenditures (incurred in the direct operations of state government, such as salaries and wages, rent, and travel); (2) 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); (3) other assistance, grants, and benefits (payments to individuals and agencies that are not governmental units, such as Medicaid payments and unemployment insurance payments); and (4) capital improvements (repairs and construction of State-owned facilities, including highways and debt service principal payments). 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 $22.4 billion (approved budget) for FY 2022 and is $9.4 billion higher than if increased for inflation since 1995.

## Spending Per Resident

The table of 2020 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 debt. Census population estimates for 2020 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 52% more per resident than the nine states that do not tax income ($4,771 per resident compared to $3,145). Kansas spent $4,887 per resident, or 55% more than the states without an income tax.

**2020 State Spending Per Resident**

| State | Amount | State | Amount |
|---|---|---|---|
| Alabama | $3,889 | Montana | $4,586 |
| Alaska[1,2] | $9,742 | Nebraska | $5,095 |
| Arizona | $3,153 | Nevada[1,2] | $3,252 |
| Arkansas | $6,012 | New Hampshire[1,2] | $2,907 |
| California[3] | $5,115 | New Jersey[3] | $5,204 |
| Colorado | $4,071 | New Mexico | $5,885 |
| Connecticut[3] | $7,182 | New York[3] | $5,488 |
| Delaware | $9,035 | North Carolina | $3,331 |
| Florida[1] | $2,405 | North Dakota | $6,762 |
| Georgia | $3,874 | Ohio | $3,913 |
| Hawaii | $10,001 | Oklahoma | $3,938 |
| Idaho | $3,681 | Oregon[3] | $8,237 |
| Illinois[3] | $4,643 | Pennsylvania | $4,590 |
| Indiana | $3,369 | Rhode Island[3] | $6,189 |
| Iowa | $5,144 | South Carolina[2] | $3,417 |
| Kansas | $4,887 | South Dakota[1,2] | $3,335 |
| Kentucky | $4,747 | Tennessee[1,2] | $3,167 |
| Louisiana[2] | $3,518 | Texas[1,2] | $2,999 |
| Maine | $4,612 | Utah | $3,785 |
| Maryland[3] | $5,193 | Vermont | $6,234 |
| Massachusetts | $6,353 | Virginia | $5,575 |
| Michigan | $3,608 | Washington[1] | $4,862 |
| Minnesota[3] | $5,292 | West Virginia | $7,387 |
| Mississippi[2] | $3,624 | Wisconsin[3] | $6,666 |
| Missouri | $2,852 | Wyoming[1,2] | $6,635 |

*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 2022), we find that the ten states with the highest combined burden spent 54% more per resident than the ten states with the lowest burdens ($5,365 per resident compared to $3,473).

## 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% expenditures. Inflation-driven tax revenues are producing large budget surpluses recently, but there have been many times in the past (and probably in the future) when the ending balance was less than the 7.5% requirement.

The adjacent budget profile produced by Legislative Research in November, 2019 shows an estimated $121.2 million deficit at the end of FY 2022, which was just the amount needed to end the year with a zero ending balance – not unlike running your personal checking account down to zero.

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 have required $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 leaving a zero ending balance inevitably leads to larger deficits in the future.

## Other Information

Spending by agency for the General Fund and the All Funds budget for the fiscal years 2005 through 2022 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.

**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 FY2022 |
|---|---|---|---|---|---|
| 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*

SECTION

# 2 Tax Facts

## Uncompetitive Tax Climate

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

Kiplinger 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 Illinois and New Jersey performed worse than Kansas.

The Tax Foundation shows Kansas has the ninth-highest state and local combined sales tax rate, at 8.71%. According to SalesTaxHandbook.com, the rate exceeds 10% in some Kansas cities, whereas New York City is 'just' 8.875%.

The Lincoln Institute of Land Policy's study for taxes payable in 2020 shows Kansas has some of the highest effective tax rates in the nation, particulary in rural areas. For example, an Iola, Kansas home appraised at $150,000 was charged $3,494 in property tax, but the same value property in Savannah, Tennessee was just $957. The disparity on a $1 million commercial property is even worse ($62,903 in Iola vs. $16,062 in Utah).

Property taxes are among the highest in the nation based on Lincoln's calculation of effective tax rates (taxes due as a percent of appraised value).

## National Rankings

- Corporate tax climate – 21st highest *(Tax Foundation)*
- Individual income tax – 22th highest *(Tax Foundation)*
- State and local sales tax – 9th highest *(Tax Foundation)*
- Urban residential property tax – 29th highest *(Lincoln Institute)*
- Urban commercial property – 15th highest *(Lincoln Institute)*
- Rural residential property tax – 4th highest *(Lincoln Institute)*
- Rural commercial property – #1 highest *(Lincoln Institute)*

## General Fund Tax History

Income tax collections from corporations, individuals, and financial institutions comprised 58% of the $9.758 billion total General Fund taxes collected in FY 2022. (The state also generates about $760 million in the 20 mills of property tax for schools that doesn't flow through the General Fund).

Sales and compensating use tax was the next largest category, generating $3.5 billion or about 36% of the total. Excise taxes on tobacco and alcohol produced $248 million (2.5% of the total), taxes on insurance premiums totaled $196.4 million (2% of the total). The state also collected severance tax on oil and gas, a motor carrier tax, and miscellaneous taxes.

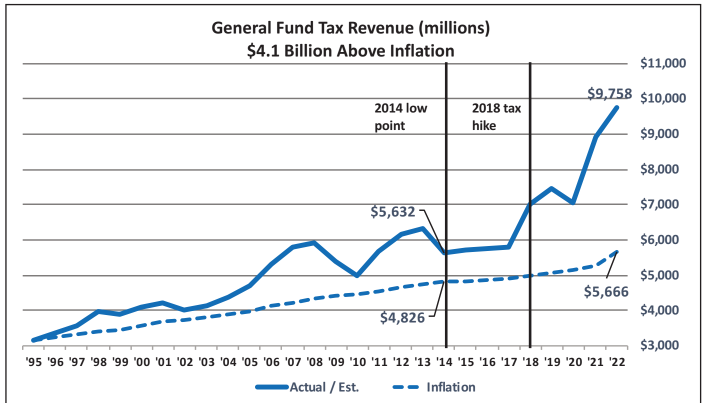
| FY 2022 General fund Tax Receipts (000) | | |
|---|---|---|
| Tax Type | Amount | % Total |
| Income tax | $5,704,393 | 58.5% |
| Sales and Use | $3,534,436 | 36.2% |
| Excise tax | $247,940 | 2.5% |
| Severance tax | $48,261 | 0.5% |
| Insurance premium tax | $196,373 | 2.0% |
| Motor carrier | $13,758 | 0.1% |
| Other tax | $12,946 | 0.1% |
| Total | $9,758,107 | 100.0% |

*Source: Kansas legislative Research*

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. Tax revenue for FY 2022 was $9.758 billion, or about $4.1 billion more than if taxes had been increased for inflation since 1995. Tax revenue for FY 2023 is estimated at $10.059 billion.

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




*Source: Kansas Division of Budget and Consensus Revenue Estimates, BLS Consumer Price Index Midwest Urban Cities on fiscal basis*

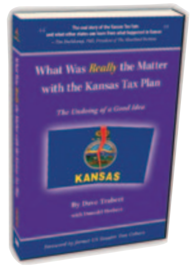
## *"What Was Really the Matter with the Kansas Tax Plan"*

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. Cutting taxes and increasing 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.

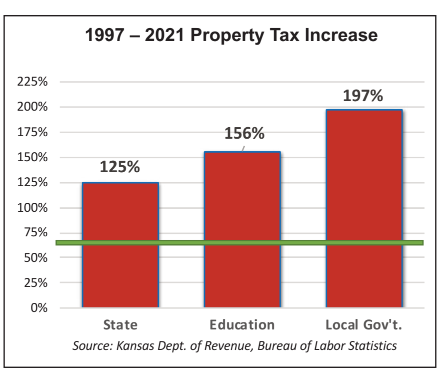
## Property Tax Allocation

Property tax exceeded $5.4 billion statewide last year (assessed in 2021 for payment in 2022). Only $61 million of the total – about 1% - was for state operations, which is an automatic transfer for university and other state building maintenance. The amount collected increased by 125% since 1997.

Property tax for education, which includes K-12 and community colleges, consumed $2.4 billion or about 44% of the total; education property tax increased 156% since 1997, while inflation was 61%.

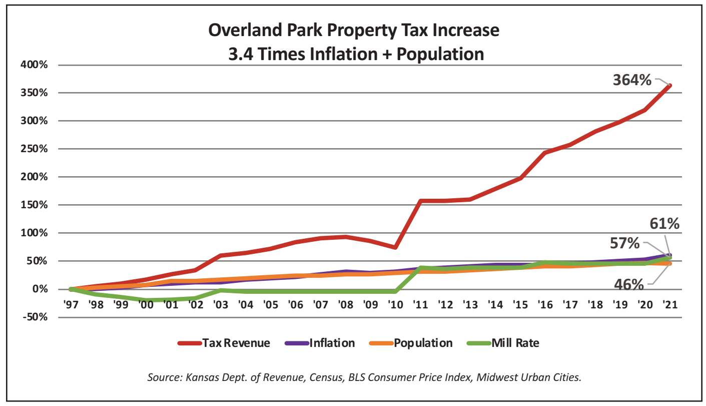
The largest portion, $2.97 billion and 55% of the total, was for local government operations (e.g., cities, counties, townships, fire districts). Local government property taxes increased the most, jumping 197% since 1997.

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.



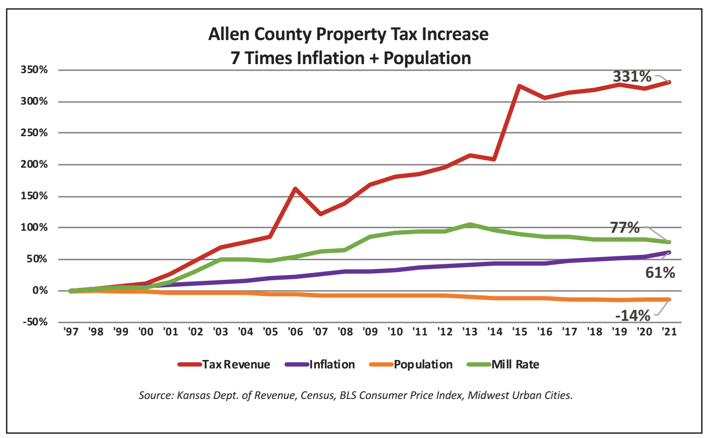

## City and County Property Tax Increases

Charts comparing property tax increases with changes in inflation, population, and mill rates are 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 364% between 1997 and 2021, while inflation was 61%, population increased by 46%, and the mill rate rose by 57%.

Over the period, Overland Park increased property tax 3.4 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 331%. With population down 14% and inflation at 61%, Allen County's property tax has increased seven times as fast as inflation and population combined. The county mill rate was 77% higher in 2021 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.

| 2020 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 | $62,903 | 5.242% | #1 |
| Rural Commercial property | Savannah, TN | $11,868 | 0.989% | #43 |
| Rural Commercial property | Richfield, UT | $16,062 | 1.339% | #29 |
| Rural Homestead $150,000 | Iola KS | $3,494 | 2.329% | #4 |
| Rural Homestead $150,000 | Savannah, TN | $957 | 0.638% | #42 |
| Rural Homestead $150,000 | Richfield, UT | $1,064 | 0.709% | #39 |
| Classification | Largest Urban Area | Tax Owed | Effective Tax Rate | ETR Rank (1=highest) |
| Urban Commercial property | Wichita, KS | $30,811 | 2.568% | #15 |
| Urban Commercial property | Nashville, TN | $16,845 | 1.404% | #37 |
| Urban Commercial property | Salt Lake City, UT | $14,171 | 1.181% | #44 |
| Urban Homestead $150,000 | Wichita, KS | $1,762 | 1.175% | #29 |
| Urban Homestead $150,000 | Nashville, TN | $1,342 | 0.895% | #40 |
| Urban Homestead $150,000 | Salt Lake City, UT | $969 | 0.646% | #44 |

A commercial property valued at $1 million with $200,000 of fixtures would pay property tax of $62,903 in Allen County, which is an effective tax rate of 5.242%. The same property in Richfield, Utah, would only pay $16,062 and just $11,868 in Savannah, Tennessee.

An Allen County home appraised at $150,000 would pay $3,494; the effective tax rate of 2.329% is the 4th 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 $30,811 in tax, with the 15th-highest ETR of 2.568%; a $150,000 home would pay $1,762 in tax, with the 29th-highest ETR of 1.175%.

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.

Kansas passed the Truth in Taxation Act in 2021, which is modeled after the Utah law. It 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. If local taxing authorities want more tax than budgeted for the current year, they must then notify taxpayers of the full tax increase they intend to impose and after holding public hearings, take a recorded vote.

Truth in Taxation will save hundreds of millions in property tax in the coming years, and the savings are already piling up. In 2021, about 52% of local taxing authorities voted to not increase their tax revenue in 2022. As a result, real estate tax only increased by 3%, which is the smallest increase since 2014. The effective tax rate dropped to the lowest since 2011.

| FY 2022 Unbalanced Revenue Stool (000) | | |
|---|---|---|
| Tax Type | Amount | % Total |
| Income tax | $5,704,393 | 58% |
| Sales, Use, and Excise | $3,775,307 | 39% |
| Severance tax | $56,167 | 1% |
| Insurance premium tax | $196,373 | 2% |
| Motor carrier | $12,921 | 0% |
| Other tax | $12,946 | 0% |
| Total | $9,758,107 | 100% |

*Source: Kansas Legislative Research*

## 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.

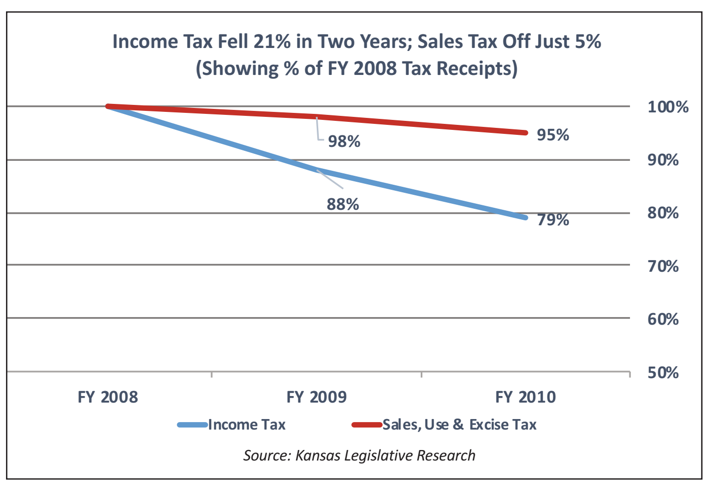
Income tax comprised 58% of FY 2022 General Fund tax revenue. Sales, Use, and Excise taxes combined was 39% of the total, and all other SGF taxes were just 3%.

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.

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 sales, use, and excise tax 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.

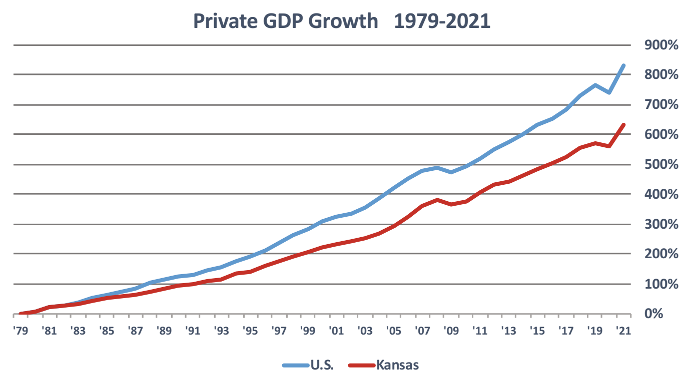
Kansas could reduce reliance on income tax by operating more efficiently and using the savings to reduce income tax rates across the board.



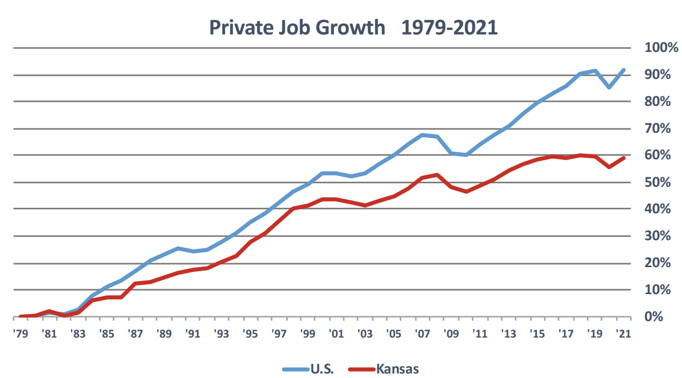
# SECTION 3 Economic Conditions

## 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.



Source: Bureau of Economic Analysis



Source: Bureau of Economic Analysis

To put the gap between Kansas and the nation in perspective, there would have been an additional 323,000 jobs in 2021 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 $26.6 billion in economic activity.

## Employment is still below pre-pandemic levels

As of November 2022, Kansas is the only regional state with private-sector employment still lower than in January 2020.

There were 16,700 fewer total jobs, with about a third of the loss (6,000) in the private sector. State government jobs, which includes universities, were 5,900 lower, local government jobs dropped by 5,300, and there were 500 more federal government jobs.

**November 2022 Employment Compared to January 2020**

| Description | Kansas | Missouri | Nebraska | Oklahoma |
|---|---|---|---|---|
| **Private Sector** | | | | |
| Number of Jobs | (6,000) | 28,100 | 13,600 | 1,200 |
| Percent Change | -0.5% | 1.1% | 1.6% | 0.1% |
| **State Government** | | | | |
| Number of Jobs | (5,900) | (2,000) | (2,500) | (2,700) |
| Percent Change | -10.8% | -1.9% | -5.4% | -3.3% |
| **Local Government** | | | | |
| Number of Jobs | (5,300) | (7,900) | (1,400) | (4,000) |
| Percent Change | -9.7% | -2.8% | -1.2% | -1.8% |
| **Federal Government** | | | | |
| Number of Jobs | 500 | (1,200) | (900) | 1,500 |
| Percent Change | 2.0% | -2.1% | -5.2% | 3.0% |
| **All Jobs** | | | | |
| Number of Jobs | (16,700) | 17,000 | 8,800 | (4,000) |
| Percent Change | -1.2% | 0.6% | 0.8% | -0.2% |

*Source: Bureau of Labor Statistics; seasonally adjusted*

Nebraska, which was not locked down by its governor, has the best results; total employment was up 0.8%, while Kansas was 1.2% lower.

Kansas is one of just 19 states that has not recouped all of its private job loss. Meanwhile, states with lower tax burdens have experienced strong private-sector growth, including Arizona (4.7%), Idaho (7.9%), North Carolina (6%), Utah (7.9%), Florida (6.7%), and Texas (6.6%).

## 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 57% between 1998 and 2021, while the other states grew by just 25%. The ten states with the lowest combined state and local tax burden (Tax Foundation) also had superior job gains compared to the ten highest-burden states (42% vs. 27%).

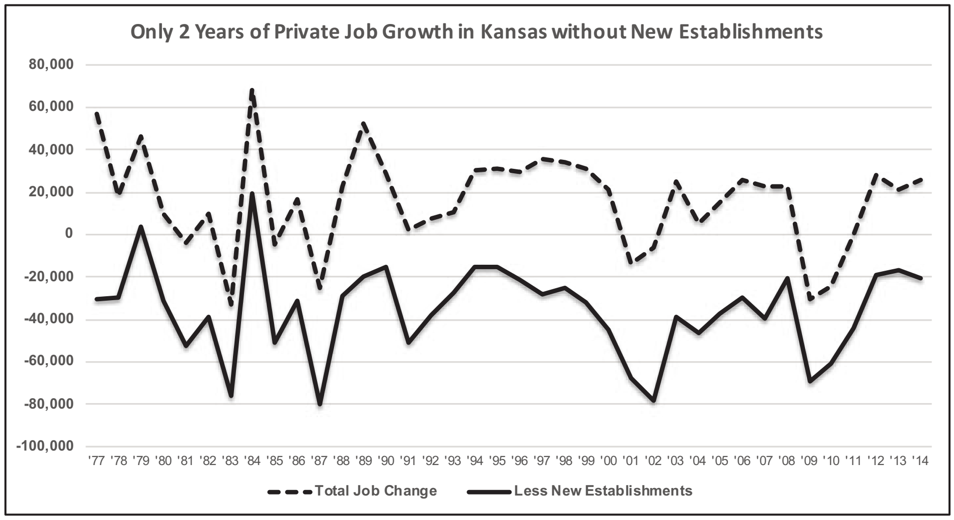
The same is true of private-sector GDP growth. The states without an income tax grew by 207% between 1998 and 2021 in current dollars vs. 150% for the other states. The ten lowest-burden states outperformed the ten highest-burden states, 172% to 160%.

## 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."

The hype over state's "mega deal" with Panasonic is another example of reality not living up to government promises. The state's agreement with Panasonic does not require the company to meet any employment requirements to qualify for the roughly $1 billion in incentives, but if the deal generates 4,000 jobs as touted that would only increase private sector employment by less than half of one percent. That hardly qualifies as what proponents call 'transformative.'

# SECTION 4 K-12 Education

## Achievement is Persistently Flat and Lower Than Claimed

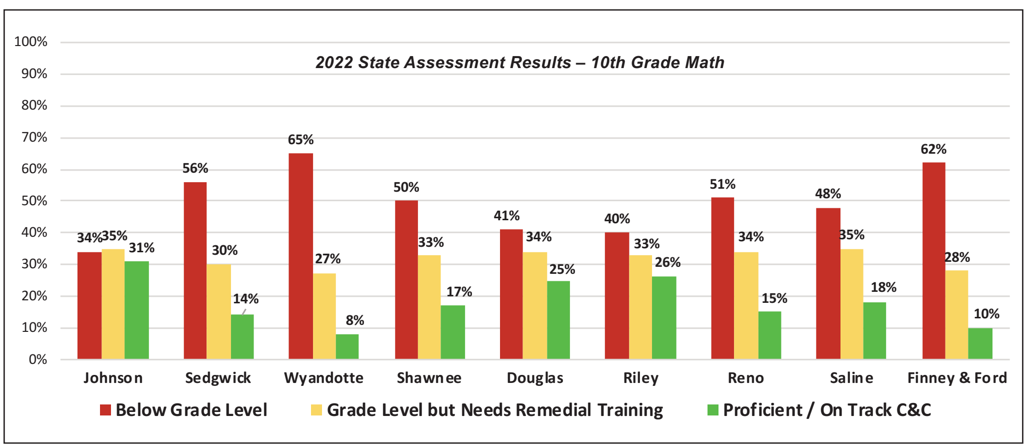
Most of the talk about education focuses on money, but student achievement is the real education crisis in Kansas. There are more students below grade level in Math and English Language Arts than are proficient and on track for college and career. This is true of all students tested (grades 3-8 and 10) and for just for high school students.

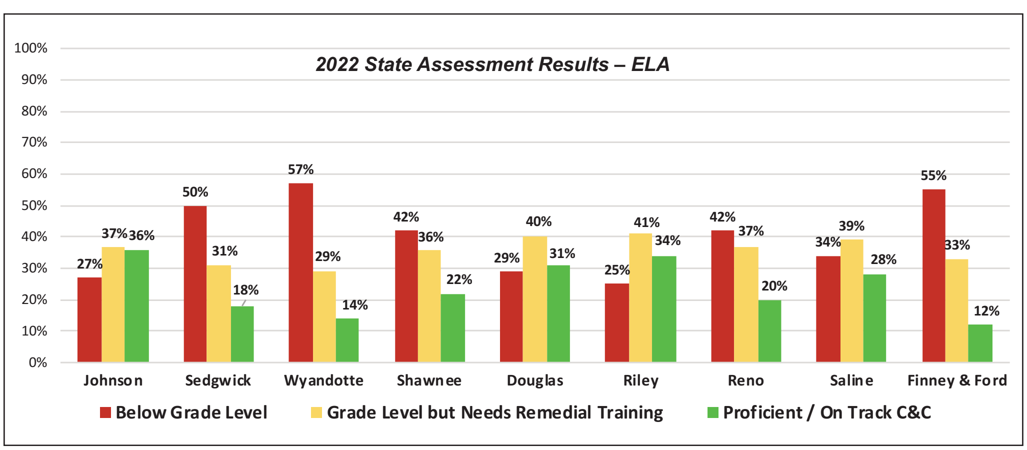
| 2022 State Assessment Results - 10th Grade | | | |
|---|---|---|---|
| Cohort / Subject | Below Grade Level | At Grade Level, Needs Remedial Training | Proficient / On Track for College & Career |
| **All Grades** | | | |
| Math | 34% | 36% | 29% |
| ELA | 34% | 34% | 32% |
| **10th Grade** | | | |
| Math | 46% | 34% | 20% |
| ELA | 39% | 36% | 25% |

*Source: Kansas Dept. of Education*

The 2022 state assessment results published by the Kansas Department of Education show 46% of 10th-graders are below grade level in Math; 34% are at grade level but still need remedial training, and only 20% are proficient.

In English Language Arts, 39% are below grade level, 36% are at grade level but still need remedial training, and only 25% are on track for college and career.




Results vary by district, but outcomes are not what most people would consider 'good' anywhere. Johnson County districts average 34% below grade level in Math and have only 31% proficient. More than half of 10th-graders in Sedgwick County (56%) are below grade level and 65% 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, half or more are below grade level in Wyandotte, Sedgwick, Finney, and Ford counties, and more than 40% are below grade level in Shawnee and Reno counties.

More detailed results are available for each district at KansasOpenGov.org in the 2022 state assessment reports. The school section of KansasOpenGov.org also includes data on spending and funding per-student, cash reserves, employment, and enrollment, showing the change in each category between 2005 and 2022.

## ACT College-Readiness

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

Only 21% of Kansas students did well enough to be considered college-ready in English, Reading, Math, and Science on the 2022 ACT. That is down from 31% in 2016 and below the national average for the third straight year.

Kansas also recorded a composite score (19.8) below the national average of 19.9.

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 participation rate jumped from 72% in 2019 to

| College-Readiness Declining Last 6 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% |
| 2021 | 20.3 | 19.9 | 79% | 25% | 21% |
| 2022 | 19.8 | 19.9 | 73% | 22% | 21% |

*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% |
| 2021 | 21.0 | 17.4 | 16.1 | 25% | 9% | 5% |
| 2022 | 20.9 | 17.5 | 16.2 | 25% | 9% | 5% |

*Source: ACT*

82% in 2020. The higher participation rate wiped out some of the state's artificial advantage and likely contributed to the lower score that year. However, participation declined in 2021 and 2022, and results still declined.

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 5% of Black students are college-ready compared to 9% for Hispanic students and 25% for White students.

## Kansas is Below Average, 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 below average in a nation that does not perform well.

| 2022 National Assessment of Educational Progress | | | | |
|---|---|---|---|---|
| Grade Level / Subject | Low Income | | Not Low Income | |
| | Percent Proficient | National Rank | Percent Proficient | National Rank |
| 4th Grade Reading | 18% | #27 | 41% | #36 |
| 4th Grade Math | 16% | #41 | 51% | #20 |
| 8th Grade Reading | 15% | #41 | 35% | #39 |
| 8th Grade Math | 10% | #44 | 34% | #33 |

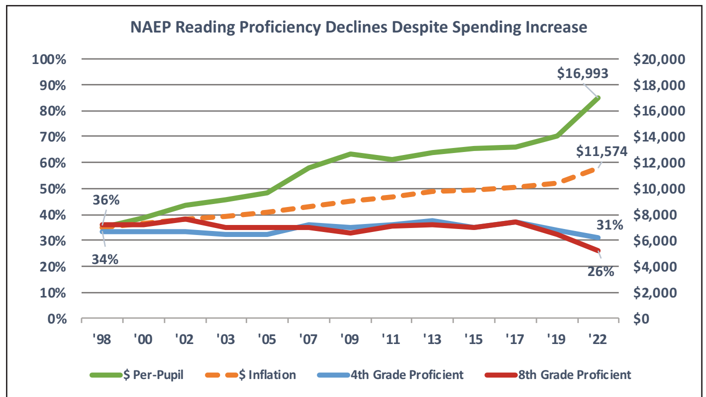
*Source: NAEP*

The most recent NAEP results from 2022 show rankings ranging from #20 to #44. But even the state's 'best' ranking – 4th grade Math for kids who are not low-income – reflects disappointing achievement, with only 51% proficient.

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 fifth 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.



*Source: KSDE, NAEP, BLS*

Reading proficiency on NAEP is lower than in 1998 when Kansas first participated in the national exam; only 31% of fourth-grade students are proficient and just 26% of eighth-graders. Per-pupil spending would have increased from about $7,000 to a little over $11,500 by 2022, but actual spending was $16,993 last year. KSDE estimates spending this year will be $17,358 per student.

Twenty-seven states had the same or better NAEP 8-score composite in 2020 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 2020 spending per U.S. Census, adjusted for cost of living).

## Per Student Funding

Total spending for FY 2022 was about $7.9 billion; that is an increase of $3.5 billion since FY 2005.

Per-pupil spending will have increased from $9,707 to $17,358.

KSDE began including KPERS payments in school funding totals in FY 2005, which is also the year before the first court-ordered funding increase.

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

| 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 | 462,543.2 | 4,903,264,060 | 717,469,924 | 1,721,601,477 | 7,339,316,561 |
| 2022 | 463,662.4 | 5,007,785,452 | 980,005,708 | 1,893,250,928 | 7,879,238,494 |
| 2023 est. | 467,400.4 | 5,297,187,132 | 1,063,452,785 | 1,752,611,968 | 8,113,251,885 |
| 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 | 10,601 | 1,551 | 3,722 | 15,867 | 6.9% |
| 2022 | 10,800 | 2,114 | 4,083 | 16,993 | 7.1% |
| 2023 est. | 11,333 | 2,275 | 3,750 | 17,358 | 2.1% |
| Source: Kansas Department of Education | | | | | |

The value of the 20 mills transferred was $590.1 million in FY 2015 or about $1,274 per student. In FY 2022, those amounts were $760 million and $1,629 respectively.

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

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.

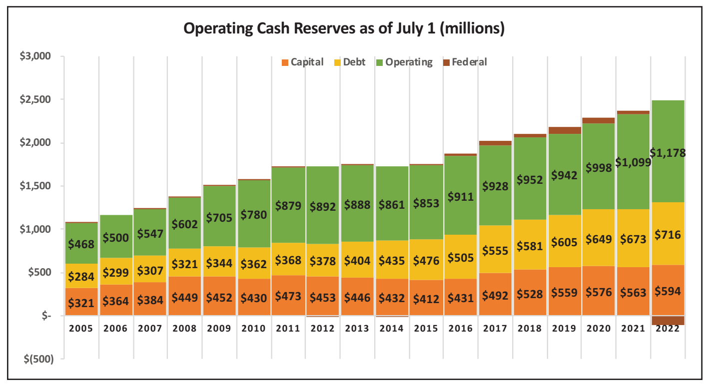
Capital outlay funds can be used for capital projects and some maintenance costs, and the funding comes from three sources:

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 almost $1.2 billion. Most of the $710 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 it 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 18.9% in 2022. 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 more than $400 million and still have the same carryover ratio each of them had in 2006.

Each district's 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 a 7% increase in enrollment since 1993 but school district employment jumped 35%. Classroom teachers increased by 16%, there are 49% more special education teachers and reading specialists; management positions increased by 56%, and all other staff increased by 52%.

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 in 2022. Class sizes, however, have reportedly increased, although KSDE does not publish that number. When class sizes increase but the student-teacher ratio is falling, it indicates a management issue rather than a funding issue.

Total employment of 72,974 in 2022 is 1,116 higher than the previous year. The largest increase of 429 positions was mangers, followed by 394 for special education paras. Other increases are found in classroom aides (240), classroom teachers (147), speech and audiology (72), and social services (71).

Some employment categories have fewer positions, including maintenance workers (81), library aides (118), food service (131), and positions classified as 'other' (93),

| FY 2022 Employment Changes | |
|---|---|
| Job Description | Number |
| Managers | 429 |
| Special education paras | 394 |
| Classroom aides | 240 |
| Teachers | 147 |
| Speech, audiology | 72 |
| Social services | 71 |
| Nurses, LPNs | 62 |
| Counselors | 46 |
| Clerical, attendance | 27 |
| Psychologists | 21 |
| Technology | 11 |
| Maintenance | -81 |
| Positions not specified | -93 |
| Library aides | -118 |
| Food service | -131 |
| All other | 19 |
| Net increase | 1,116 |

Fulltime equivalent school district employment increased by 1,820 over the last three years even though fulltime equivalent enrollment fell by 12,280 students.

The Wichita school district, for example, lost about 3,600 students but added 172 more employees. Shawnee Mission, Olathe, Hutchinson, Garden City and Bonner Springs also had significantly lower enrollment but increased employment.

A portion of the disparity between enrollment and employment is likely driven by the school funding formula, which funds districts that lose students for up to two years. That disincentivizes district management to right-size employment when enrollment declines.

| Employment and Enrollment Comparison | | | |
|---|---|---|---|
| Categories | 1993 | 2022 | Change |
| Classrom teachers | 26,371.3 | 30,685.8 | 16% |
| SPED, Reading teachers | 3,381.3 | 5,038.3 | 49% |
| Managers | 3,195.0 | 4,979.1 | 56% |
| Other staff | 21,236.2 | 32,271.2 | 52% |
| Total | 54,183.8 | 72,974.4 | 35% |
| FTE enrolled | 431,320.5 | 463,662.4 | 7% |

*Source: KSDE. Manager includes superintendents, asst. superintendents, principals, asst. principals, directors, managers, instruction coordinators and curriculum specialists. Enrollment based on the 2022 Legal Max and subject to audit.*

| Some Districts Lost Students, Added Staff | | | | | | |
|---|---|---|---|---|---|---|
| District | FTE Enrollment | | | FTE Employment | | |
| | 2019 | 2022 | % Chg. | 2019 | 2022 | % Chg. |
| Blue Valley | 22,358 | 21,976 | -1.7% | 2,953 | 2,846 | -3.6% |
| Bonner Springs | 2,665 | 2,452 | -8.0% | 384 | 418 | 9.1% |
| Dodge City | 6,811 | 6,909 | 1.4% | 905 | 907 | 0.2% |
| Garden City | 7,281 | 7,163 | -1.6% | 1,060 | 1,099 | 3.7% |
| Hutchinson | 4,339 | 4,069 | -6.2% | 827 | 882 | 6.7% |
| Kansas City | 21,968 | 20,430 | -7.0% | 3,999 | 3,327 | -16.8% |
| Lawrence | 11,846 | 10,890 | -8.1% | 1,752 | 1,627 | -7.1% |
| Olathe | 29,249 | 28,459 | -2.7% | 4,127 | 4,274 | 3.6% |
| Salina | 7,077 | 6,725 | -5.0% | 1,654 | 1,593 | -3.7% |
| Shawnee Mission | 26,997 | 25,918 | -4.0% | 3,384 | 3,523 | 4.1% |
| Topeka | 12,923 | 12,297 | -4.8% | 2,238 | 2,057 | -8.1% |
| Wichita | 48,206 | 44,594 | -7.5% | 6,422 | 6,594 | 2.7% |
| State Average | 476,482 | 463,662 | -2.7% | 71,155 | 72,974 | 2.6% |

*Source: KSDE*

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