POLICY BRIEF

2025 Responsible Kansas Budget

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EXECUTIVE SUMMARY

- Kansas, like most states, has a spending problem, not a revenue problem.
- This amounts to $6.4 billion in excess state funds appropriations above the rate of population growth plus inflation in FY 2024 if it had been doing so since 2005. And as much as $46.6 billion in cumulative annual differences over that period. These amount to higher taxes on Kansans, slower economic growth, and fewer opportunities for people to flourish.
- The Kansas Policy Institute provides the third installment of the Responsible Kansas Budget (RKB), which state lawmakers should follow until the state adopts statutory or constitutional changes to help correct past budgeting excesses.
- For FY 2025, the RKB sets a maximum amount of state funds appropriations at $19.4 billion in all state funds (i.e., all funds minus federal funds) based on a 5.43% increase in the average rate of population growth plus inflation over the last three years. Higher appropriations than this amount would excessively raise inflation-adjusted government spending per capita, thereby overburdening taxpayers across the state.
- This approach would put Kansas on a path toward eliminating individual income taxes in Kansas by 2042, if not sooner, by following the Responsible Kansas Budget and using annual surpluses to permanently reduce income tax rates over time until they are zero.
- By following the RKB every year, Kansas can be more competitive with neighboring and all states, have more well-paid jobs available, and be a place for more vibrant futures for families, entrepreneurs, and every Kansan.

INTRODUCTION

A state government passing responsible, balanced budgets is necessary for a flourishing economy and thriving people. This form of responsible budgeting uses transparency and performance-based budgeting procedures to help state budgets contend with revenue volatility by focusing on reining in government spending to avoid deficits.[1] Massive tax cuts in Kansas in 2012 supported increased economic activity but were irresponsibly combined with excessive government spending, leading to an expected large deficit and subsequently to the state's largest tax hike in 2017.[2] Ensuring a balanced budget is a bipartisan issue as taxpayers fund excessive spending through high taxes, less economic growth, and fewer well-paid jobs.

In June 2023, Kansas ended FY 2023 with collected tax revenues at $10.2 billion – a 4.1% or $402 million increase over the collected tax revenues of FY 2022.[3] Kansas has accumulated a massive surplus since the COVID-19 pandemic. From July 2020 to October 2022, Kansas exceeded its estimated monthly tax revenues – a 27-month streak.[4] According to the Kansas Legislative Research Department, even if Kansas had enacted a flat tax bill during its 2023 legislative session, the state would end FY 2028 with $2.7 billion in its ending balance and $1.8 billion in the Budget Stabilization Fund, totaling $4.5 billion in reserves.[5,6]

The growth in spending keeps increasing, too. According to the FY 2025 Governor's Budget Report, the approved FY 2024 General Fund budget of $9.918 billion is 13.6% more than the approved 2023 budget.[7] It is also 21.0% higher than the actual spending in FY 2022.[8]

Kansas Policy Institute released the annual Responsible Kansas Budget (RKB) starting for FY 2023.[9] This accountable, sustainable budgeting model proposed a maximum limit on initial appropriations of state funds in FY 2024 of $18.2 billion, based on limiting the increase in appropriations to the rate of population growth plus inflation of 6.58%. Instead, the Legislature approved a State Funds budget of $17.7 billion – $500 million less than the RKB.

This is after FY 2023's record year of $19 billion in appropriated state funds – a whopping $3.9 billion more than the previous year. The FY 2024 RKB overshot the budget – and not for good reasons. As mentioned, the growth rate is calculated from population growth plus inflation. In 2022, the US chained-CPI inflation increased by 7.18%, while Kansas's population declined by 0.60% (before the U.S. Census Bureau recently revised the change to a decline of 0.04%) for an increase of 6.58% in the RKB. These measures aren't good: Kansas is losing population while prices of a typical basket of goods and services are increasing for residents. But the RKB should always be a maximum limit rather than a target for legislators. Given past budget excesses, there is good reason for Kansas to appropriate well below the RKB if it grows the budget.

To account for record-high inflation over recent years, the FY 2025 RKB is taking a slightly different approach by using an average of the annual rates of population growth plus inflation over the prior three years before the legislative session year. By preventing excessive appropriations to restrain the steady creep upward of taxes, a responsible budget helps reduce the growing burden of government on taxpayers and supports a more robust economy for Kansans to flourish. We outline details of the FY 2025 RKB and highlight why it is necessary, given how Kansas needs to improve in many ways to be more competitive while allowing for more opportunities that let people prosper.

Kansas's Economy

Kansas had the 35th-largest economy in the country at $174.8 billion[10] or the 20th-highest inflation-adjusted (real) gross domestic product per capita in 2022 at $56,156.[11] The median household income was the 27th highest at $73,040.[12]

The Fraser Institute's index of economic freedom, which is based on government spending, taxation, and labor market regulation—ranks Kansas as the 14th most economically free state in the country.[13] This ranking of economic freedom is important because it allows states to see how they compare with other states, and those states with more economic freedom have better economic outcomes, such as gross state product per capita. The Tax Foundation's business tax climate index considers types of taxes in states, such as income, property, sales, and unemployment taxes, and ranks Kansas 26th.[14]

Other economic measures are provided by the American Legislative Exchange Council (ALEC)[15], which ranks the state's overall performance as 39th in the nation from 2011 to 2021. The three variables considered in their analysis are state gross domestic product, absolute domestic migration, and non-farm payroll employment. However, ALEC ranks Kansas 30th for its economic outlook, which is based on 15 equally weighted policy

Table 1: Kansas vs. Other States: Economic Freedom, Government Burdens, and Economic Variables

Measure Rankings & Values	U.S.	FL	TX	OK	NE	KS	MO	CO	CA	NY
Economic Freedom of North America (2021)[13]	5th world	2nd	4th	12th	13th	14th	15th	21st	49th	50th
State Business Tax Climate (2024)[14]	–	4th	13th	19th	30th	26th	12th	27th	48th	49th
State Economic Outlook (2023)[15]	–	9th	13th	5th	36th	30th	31st	25th	45th	50th
State Migration Trends, Net Migration (2023)[18]	–	5th +0.9%	9th +0.6%	12th +0.6%	29th 0.0%	37th -0.2%	21st +0.2%	23rd +0.1%	41st -0.3%	50th -0.9%
State & Local Spending Per Capita (2022)[19]	– $12,923	46th $10,228	37th $11,507	47th $10,182	18th $14,030	30th $12,187	41st $10,803	13th $14,258	4th $18,760	2nd $20,761
S&L Spending on Public Welfare Per Capita (2021)[20]	– $2,597	48th $1,524	42nd $1,741	32nd $2,047	44th $1,639	40th $1,841	41st $1,788	32nd $2,047	4th $3,870	1st $4,249
S&L Tax Burden Share of Income (2022)[21]	– 11.2%	11th 9.1%	6th 8.6%	10th 9.0%	38th 11.5%	33rd 11.2%	13th 9.3%	19th 9.7%	46th 13.5%	50th 15.9%
S&L Property Tax Collections Per Capita (2020)[21]	– $1,810	29th $1,541	11th $2,216	46th $883	13th $2,088	24th $1,712	40th $1,114	14th $1,956	15th $1,955	4th $3,118
Composite Cost of Living Index (2023:Q3)[22]	– 100.0	30th 101.0	18th 93.0	3rd 86.8	12th 91.0	4th 87.4	6th 88.3	35th 106.9	48th 136.4	47th 126.5
Avg. U-3 Unemployment Rate (2003-22)[23]	6.0%	5.6%	5.6%	4.6%	3.5%	4.8%	5.7%	5.3%	7.3%	6.2%
Avg. Labor Force Participation Rate (2003-22)[23]	64.0%	60.6%	65.2%	62.2%	71.4%	68.7%	65.3%	69.7%	63.5%	61.5%
Avg. Annual Nonfarm Payroll Growth (2003-22)[23]	0.8%	1.4%	1.8%	0.6%	0.6%	0.3%	0.4%	1.4%	1.0%	0.6%
Official Poverty Rate (2020-22)[24]	11.5%	13.1%	13.7%	15.8%	8.1%	9.0%	11.5%	8.5%	11.4%	12.4%
Supplemental Poverty Rate (2020-22)[24]	9.8%	12.7%	12.3%	9.9%	5.9%	7.1%	8.4%	8.9%	13.2%	11.9%

Notes: Dates in parentheses are for that year or the average of that period. Data shaded in blue indicates "best," and in red shows "worst" per category by state

Table 2: Kansas State Spending Growth 2005-2024 (millions)

Spending Type	FY 2005 Appropriations	FY 2024 Appropriations	Increase
General Fund	$4,725	$9,918	110%
Other State Funds	$2,723	$8,473	211%
Federal Funds	$3,410	$6,806	100%
Total Spending	$10,858	$25,198	132%

Sources [7,8]

variables, indicating pro-growth policies are needed to improve human flourishing.

Table 1 compares Kansas with the largest four states in the country in terms of population size and economic output: California, Texas, Florida, and New York.[16] Two states, Florida and Texas, have no personal income tax.[17] The other two, California and New York, have the nation's highest marginal individual income tax rates.[17] The table also includes the neighboring states of Oklahoma, Nebraska, Missouri, and Colorado for regional comparison. The states are ordered according to the Fraser Institute's economic freedom ranking, from highest on the left to lowest on the right.

Past Kansas Budgets

The All Funds budget is the total budget that includes state funds from state-related taxes and fees and federal funds from Congress. *Table 2* shows the increases in appropriations from 2005 to 2024.

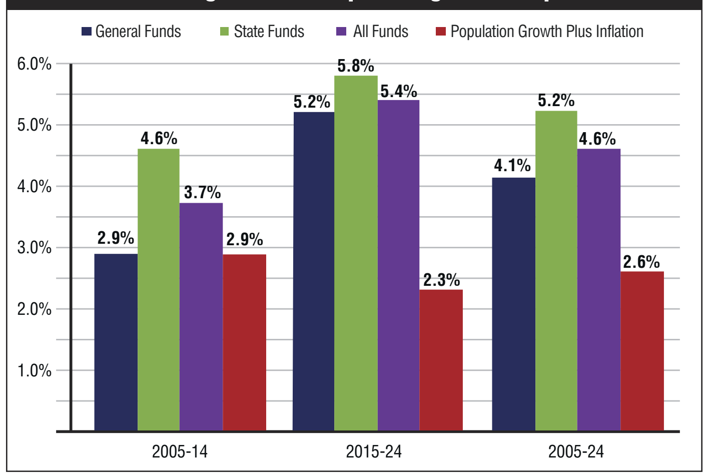
Figure 1 shows initial appropriations growth rates in Kansas from 2005 to 2024 for general funds (39% of all funds budget), state funds (73%), and all funds (includes state and federal funds).

The RKB is the maximum amount of state funds appropriations calculated by the change in the prior state funds budget for the three-year average rate of population growth plus inflation in the years directly before a legislative session. In the literature around tax-and-expenditure limits (TELs) like the RKB, the rate of population growth plus inflation is found to be less volatile and connected with the average taxpayers' ability to pay for government spending.[25] 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 three-year average annual rate of Kansas's population growth plus U.S. chained-Consumer Price Index (CPI) inflation.

Figure 2 shows the annual changes from 2005 to 2024 for initial appropriations and what would have been appropriated by following the Responsible Kansas Budget.

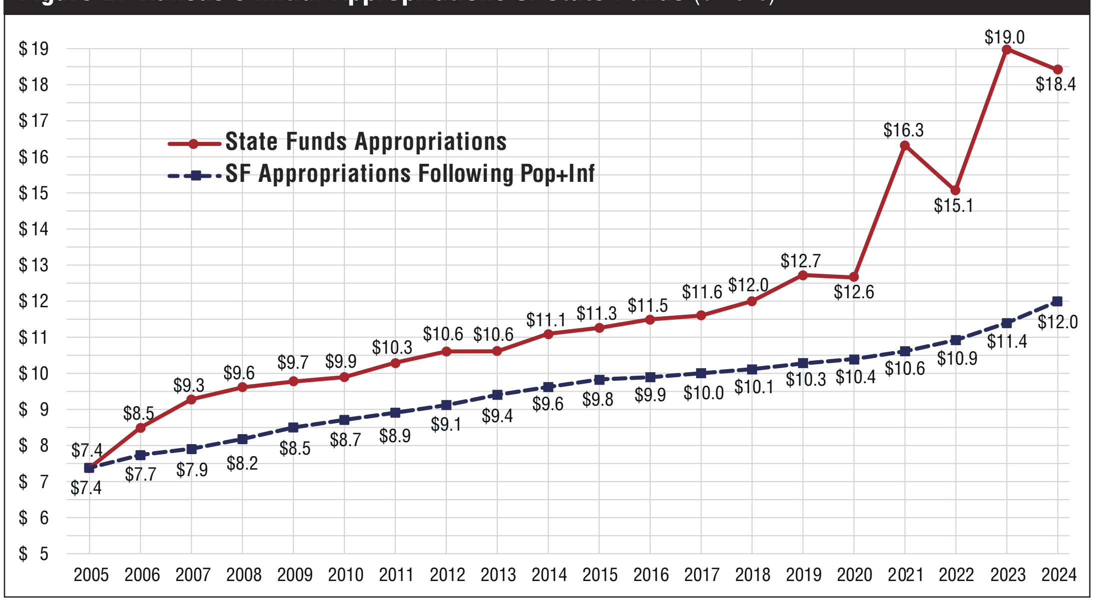
The RKB operates as a form of a TEL (tax-and-expenditure limit). TELs could slow budget growth by 0.75 to 1.11 percentage points.[26] On average, states with a TEL have higher gross state product growth, personal income growth, and population growth.[27] Studies have found that TELs reduce the size and growth of property taxes, and are a strong approach for states trying to deal with large debt amidst increasing spending habits.[28,29] However, TELs are most often undermined by alternatives to get around the limit, such

Figure 1: Kansas's Average Annual Spending Growth per Period



Sources [7,8,31,32]

Figure 2: Kansas's Initial Appropriations of State Funds (billions)



Sources [7,8,31,32]

as issuing debt.[30] 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 as the commitment and action to balance the budget they affect. 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 an estimate of 2024 is 7.1% higher than in 2005.[31] We use the U.S. chained-CPI for inflation because it accounts for the substitutions of goods and services when their prices change, and it is used to index federal income tax brackets after the 2017 Tax Cuts and Jobs Act. From 2005 to an estimate for 2024, chained-CPI inflation is up 55.2%.[32] Accounting for the compounding of the annual rates of population growth plus inflation over this period, the rate is 61.6%, less than half of the growth rate of state funds appropriations of 147%.

If state funds spending had been limited to the rate of population growth plus inflation since 2005, the 2024 appropriations would have been $12.0 billion, or $6.4 billion less than what was appropriated in 2024. That difference amounts to $2,160 per resident in Kansas this year in higher taxes and fees. For a family of four, this is an average cost of $8,640 more. Restraining appropriations could leave more money in Kansans' pockets, thereby increasing the potential for economic activity and well-paid jobs.

The cumulative difference between the population growth and inflation-limited state funds budgets against the actual budgets since 2005 is $46.6 billion. That represents $15,848 per person in expenses over 20 years. Therefore, a family of four has paid $63,390 more in taxes and fees to pay for excessive spending than they would have had the budget been capped by the RKB since 2005.

At the start of FY 2022, Kansas's Budget Stabilization Fund – or Rainy Day Fund – ranked last in the country because its balance was $0. Legislators set aside a portion of the recent budget surpluses to alleviate some of the risks of high tax hikes during a recession or other detrimental circumstances afflicting a budget. Flash forward to the end of FY 2023, and the Budget Stabilization fund now holds $1.6 billion.[33] Having this money on hand is a reminder that high revenue receipts are not a sign to spend more just because the money is available. A Budget Stabilization Fund supports a healthy state. However, Kansas's surplus continues to grow and grow. Now, some of that cash should be returned to the taxpayers, many of whom are still struggling amidst inflation and paying some of the nation's highest state and local tax rates.[34]

RESPONSIBLE KANSAS BUDGET

The 2025 Responsible Kansas Budget sets a maximum threshold on the state funds budget based on the average annual rate of population growth plus inflation during the prior three years before a legislative session year. With a base approved state funds budget of $18.4 billion in 2024, the 2025 RKB is a maximum of $19.4 billion.[35,36]

The maximum spending is based on the fiscal rule calculated with the following:

a) State funds appropriations in FY 2024, and
b) Three-year average rate of population growth plus inflation.

Table 3 shows the growth rates for the fiscal rule to provide a 5.43% rate of population growth plus inflation for the average annual rate over the 2021-23 period.

Figure 3 provides the FY 2025 Responsible Kansas Budget for state funds that increase by no more than 5.4%.

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. 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.[38] Kansas uses a performance-based budget approach, which 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 unrelated to program goals, impossible to control, or completely missing.[39,40]

Figure 3: FY 2025 Responsible Kansas Budget

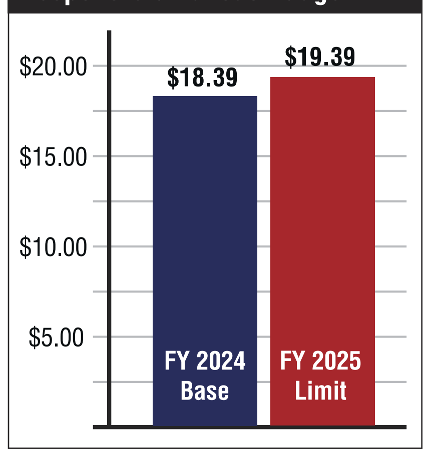


Table 3: Rate of Population Growth Plus Inflation

Year	Kansas Resident Population Growth	Chained CPI Inflation	Population Growth + Inflation Limit
2021-23	+0.03%	+5.40%	+5.43%

Table 4: Economic Comparison of Income-Taxing and Non-Income Taxing States

State	Spending Per Resident 2021	BEA Job Growth 1998-2021	Wage Growth 1998-2021
Colorado	3,577	46.1%	196%
Kansas	4,932	13.2%	116%
Missouri	2,962	14.6%	112%
Nebraska	5,074	21.4%	145%
Oklahoma	4,122	7.9%	130%
Non-Income-Taxing States	2,836	56.8%	196%
Income-Taxing States	5,112	25.0%	141%

Source [37]

Efficiency, one of the main purposes of a PBB approach, was not mentioned.

In 2016, Kansas commissioned an efficiency audit from the firm Alvarez & Marshall that suggested $2 billion in savings by following through on 105 recommendations.[41] As of 2019, 43 of the suggestions had been implemented, but 42 were explicitly not implemented, with another 15 lacking a response or listed as "not available."[42] For instance, the Department of Education declined a K-12 Benefit Program Consolidation that would save $80 million annually because they reported it was in the purview of the Department of Administration. The Department of Health and Environment didn't provide a response to increase training in new program integrity units, instead replying that they were reviewing different, new oversight requirements.

Efficiency audits are valuable to identify waste and abuse of taxpayer dollars. Texas and Louisiana have already been using them to help identify improvements in safety net programs, such as the Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP). These programs should be easy for recipients to navigate, produce better outcomes, and empower individuals to return to work for long-term self-sufficiency. There are multiple approaches to these efficiency audits. Texas does them through the State Auditor Office, either with government employees or through an independent, private firm.[43] Louisiana does theirs through the Legislative Auditor's Office.[44] There are opportunities for Kansas to do something similar in order to not only pass responsible budgets and keep taxes lower than otherwise but also to ensure money is going to the intended recipients. These efficiency audits should be done with a state department's current budget in order to not further grow the government.

Another key recommendation to help improve the budget process and increase the transparency of using taxpayer dollars is for the state to pass a spending limit in statute and amend it to the constitution based on the Responsible Kansas Budget approach.

Reducing the Burden of Individual Income Taxes in Kansas

Kansas's state government has a spending problem, not a revenue problem. The Responsible Kansas Budget would place a strong fiscal rule on legislators that represents the average taxpayer's ability to pay for government spending. This stronger fiscal restraint would allow the Legislature to deliver substantial tax relief and place sustainable controls on the future rate of increase in the tax burden and in state spending if done appropriately.

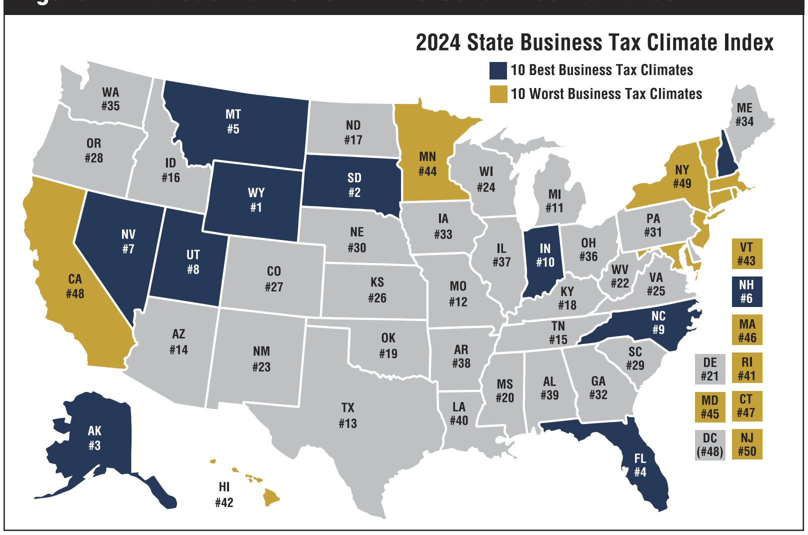
Legislators should first look for tax relief of burdensome personal income taxes that have a progressive top tax rate of 5.7%, for which Kansas ranks 26th in the country (see *Figure 4*).[45] The lowest flat income tax rate could soon be in North Carolina at 2.49%.[46]

Tax Relief Scenarios

The 2023 report *Reforming Kansas Tax Policy* was a collaboration between Kansas Policy Institute and the Buckeye Institute of Ohio that modeled five different tax relief scenarios and their effects on the state's budget and economic growth.[47]

The first scenario represents a combination tax package similar to SB 169, a flat tax bill vetoed by Governor Laura Kelly that failed to be overridden during the 2023 Legislative Session.[48] The scenario models a $370 million personal income tax cut, a $50 million corporate income tax cut, and a $50 million sales tax cut. This package would support $390 million more in economic growth and $220 million more in business investment in the first year compared with the baseline scenario.

Figure 4: Kansas Ranks 26th in Personal Income Taxes



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2023 (the beginning of Fiscal Year 2024). Source: Tax Foundation[14]

The scenario that produced the most growth was a $500 million corporate income tax cut that supported $550 million more in economic growth and $360 million more in business investment than the baseline scenario. Another scenario with a $500 million personal income tax cut was close behind with $430 million more in economic growth and $240 million more in business investment.

Given these scenarios, the first scenario offers the most balanced way to provide relief to the most constituents ranging from everyday families to small businesses.

Putting Individual Income Taxes on a Path to Elimination

While these scenarios would improve the state's competitiveness and, more importantly, better the livelihoods of Kansans, the Legislature should work to advance a path to eliminate income taxes. The state would join just seven other states without individual income taxes. There are opportunities to achieve a path to zero, as Figure 2 shows that state funds have increased far faster than the average rate of population growth plus inflation over the last decade. Based on the latest Consensus Revenue Estimate data, it would take about $80 million in surplus funds to reduce each 0.1-percentage point of the 5.7% income tax rate on a static basis.[14]

We consider all state funds, which are what we include in the RKB above and are 73% of the total budget (i.e., state funds plus federal funds). State funds includes general funds, which are 39% of all funds or 54% of state funds. We do so because legislators have the most discretion over general funds. But they also have control over state funds and even all funds, which includes federal funds, but those have more tradeoffs associated with them. The state is estimated to collect $4.6 billion in individual income taxes in FY 2024.

Here are the income tax relief options, based on the latest Consensus Revenue forecast,[7] that were missed for potential surpluses of general funds and state funds appropriations above the rate of population growth plus inflation:

General Funds:

- Lower general funds appropriations of $2.3 billion in FY 2024 could have helped flatten personal income taxes and reduced the flat rate substantially, as this amount is about half of personal income taxes collected.
- The cumulative amount of lower appropriations per year over the last decade of $12 billion could have also substantially reduced income taxes over that decade, if not eliminated entirely.

State Funds (i.e., general funds plus other funds):

- Lower appropriations of $6.4 billion for FY 2024 would have eliminated personal income taxes.
- The cumulative amount of lower appropriations over the last decade of $46.6 billion could have also substantially reduced income taxes over time, if not eliminated them.

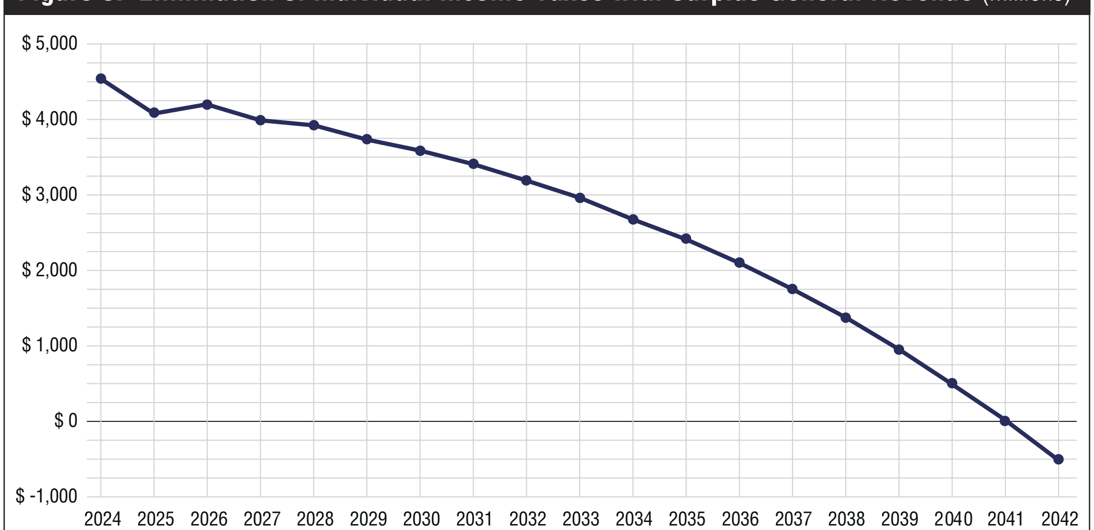
The state's Consensus Revenue Estimate of $10.3 billion in general revenue results in an annual average increase of 6.3% over the last decade. The average annual rate of population growth plus inflation has increased by 2.6%, resulting in an annual surplus of 3.6%. Individual income taxes of $4.6 billion in FY 2024 have grown by 7.9% over that decade.

Figure 5 illustrates that by using 85% of the expected surplus each year to permanently reduce the individual income tax rate, those taxes could be eliminated by 2042.

These projections, however, are based on a "static" analysis without incentive effects from lower income tax rates that would support more economic activity. The increased economic activity from "dynamic" effects would support more job growth and higher wages that could result in increased general fund revenue. This would then contribute to offsetting the static revenue decline from lower income tax rates and speed up the elimination of state income taxes.[49]

Moreover, if general fund appropriations are limited to lower than the rate of population growth plus

Figure 5: Elimination of Individual Income Taxes with Surplus General Revenue (millions)



inflation to correct for past excesses, there would likely be larger surpluses. Given that these are pro-growth policies, Kansas could eliminate individual income taxes, and even corporate income taxes, much faster than in 2042. Given our assumptions and the possibility of much better results, our estimates are very conservative.

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 $19.4 billion for FY 2025 will help provide a step toward an environment in Kansas where families and businesses have more opportunities to flourish. This includes a path to using surplus funds to reduce individual income tax rates every year until those taxes are eliminated, which could be by 2042, if not sooner, with more budget restraint and faster economic growth. Given the economic situation in Kansas and 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.

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