



Kansas State Spending: A Policy Primer

April 2009

Kansas Government is out of money. There are now no more hidden funds or accounting tricks that can hide this fact. How did Kansas get put in this spot, was it a tax revenue problem or a spending problem?

The chart to the right tracks State General Fund (SGF) tax receipts growth since 1999. Contrary to what many are suggesting, does this look like a state has seen a “crash” in tax revenue? Since 2002, SGF tax receipts have increased almost \$2 billion; this is an increase of 38%.

As recently as FY '05, revenues were \$4.8 billion and now as revenues are projected to run \$5.38 billion for FY 2010, despite those who seem to believe that the state is hemorrhaging tax revenue. (If you add in federal stimulus money, then FY 2010 revenue is \$5,777)

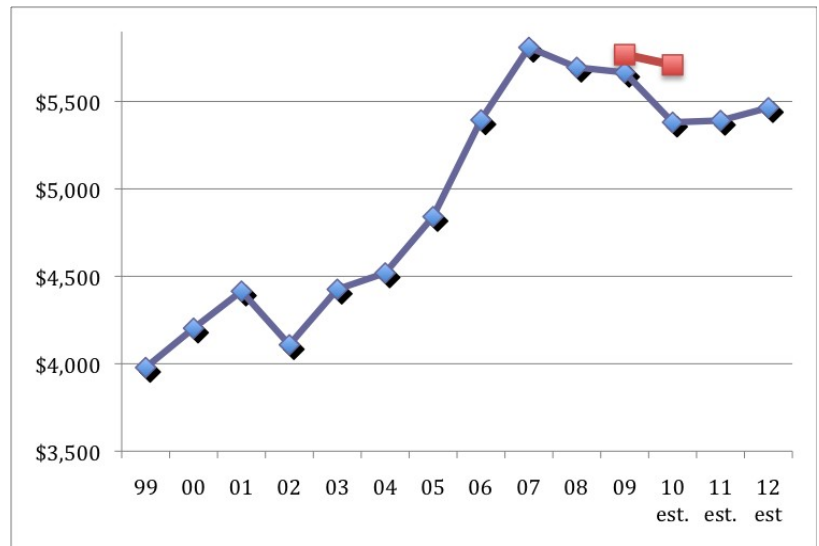
The “massive budget shortfall” may make for great press, but consider that revenues are still projected to be flat from FY '08 to FY '09.

If you include Federal Economic Stimulus

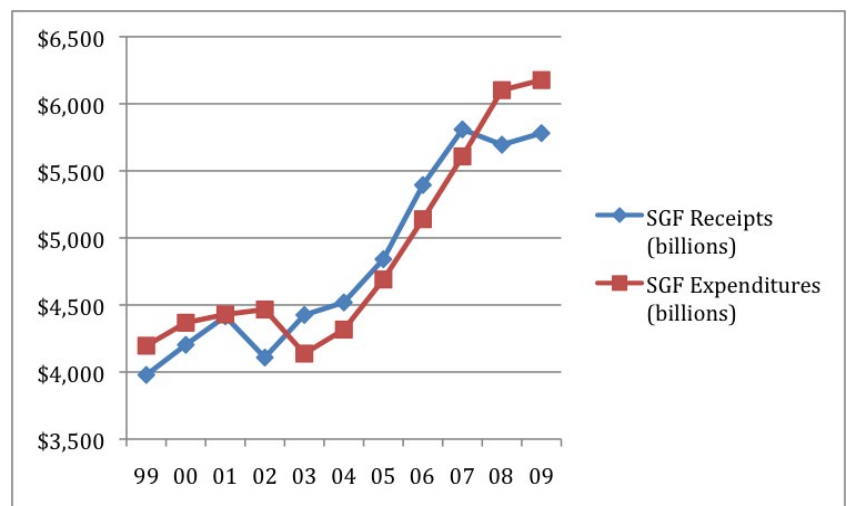
As the chart to the right shows, spending is at the heart of the fact that the state is now out of money. As tax revenues grew leaps-and-bounds from 2002, state spending kept up right along with it. However, as tax revenue growth began to flatten (as it always eventually does), note that spending kept right on increasing. SGF spending increased 48% from 2004 to 2008 while inflation during the same time was only 13% and population is increasing less than 1/2 of 1% a year (.45% annual).

Now Kansas, one of only four states without a rainy day fund, is facing a situation where spending has outpaced receipts and we did not put any money “in the bank” to help weather this type of financial storm.

SGF Tax Receipts Since 1990



SGF Tax Receipts and Expenditures



(more on reverse)

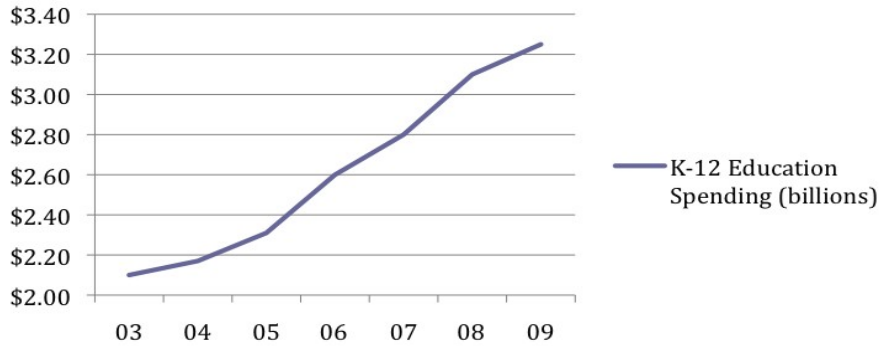
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K-12 Education Spending (billions)



Education has been a huge beneficiary of the massive spending increase Kansas has experienced. As this chart shows, Education spending has increased over \$1 billion since 2003, despite student enrollment that statewide is flat.

For example, in the state's largest school district, USD 259 (Wichita), student enrollment since 2003 has decreased by 201 students.

How many chances do they need?

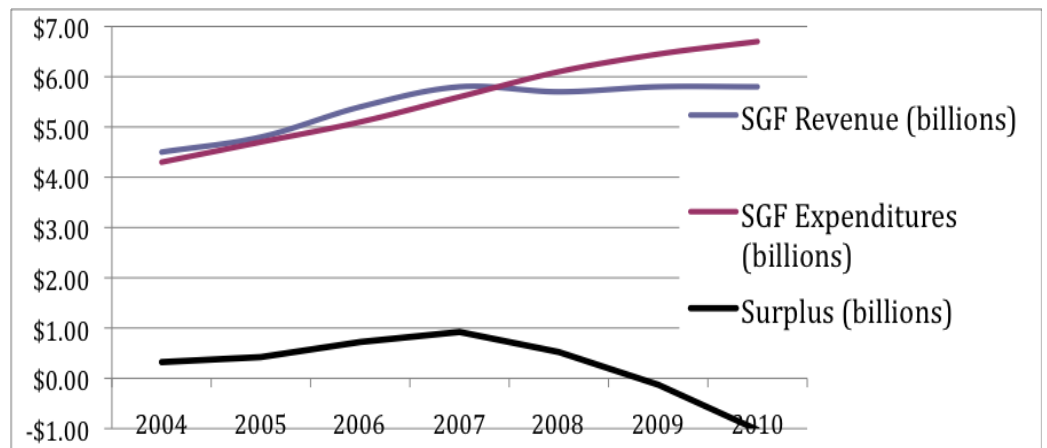
The Governor and Legislature have had many opportunities over the last several years to avoid this problem we face. For example, since just 2004:

- As revenues continued to rise, surplus monies should have been put in a rainy day fund for use in more difficult budget times.
- As revenues began to flatten in '07-'08, increased spending should have been reduced (not cut!) just "less of an increase" to match revenues, not outpace them. This was not done.
- As far back as 2007, Legislative Research has been predicting what has just happened for FY 2010. In a memo dated 5/2/2007, Legislative Research predicted that by FY 2010, the state's ending balance would be **-\$272 million**. As it turns out, they were right about the potential negative ending balance, they just underestimated its size.

What Happened to the Budget Surplus

Still no Solution

According to Legislative Research, Kansas ended FY 07 with \$934 million in reserves. It is now projected that Kansas will end FY 09 with \$29 million in reserves. That means the Governor and Legislature spent **OVER \$900 MILLION MORE THAN THEY TOOK IN** during just two fiscal years. To put it another way, Kansas increased its budget \$900 million in two years, but did it by draining the savings account to almost zero, instead of using income tax dollars.



If we had just spent what the state took in tax receipts, we could enter this 2010 shortfall with over \$900 million. This is why we have a problem, spending more than we took in from FY 07-09 and nothing else. You might think that with the Governor and Legislature in the midst of this deepening fiscal crisis, they would be working on crafting a longer-term solution to our budget problems. This would be wrong.

A memo dated April 5, 2009 from Legislative Research shows that the current path the Legislature is taking is only a temporary fix. According to Kansas Legislative Research, the estimated FY 2011 ending balance will be **-\$240 million** and the FY 2012 deficit will be **-\$822 million!** This means despite all the talk of "serious cuts" that will "balance our book" the Legislature still has Kansas on a path that is estimated to spend over \$1 billion more than we take in starting with just the next Legislature's budget, FY 2011.