

2016 KANSAS LEGISLATIVE E-REPORT #2

Paul Johnson – January 15, 2016

BUDGETARY UNCERTAINTY

The Governor's high wire act of revenue experimentation continues to threaten the fiscal and financial stability of the State. The Kansas budget is virtually broke with an ending balance by June 30 of only \$16 million on a State General Fund of \$6.3 Billion. This assumes revenue receipts through June will meet the projections. The Governor is hoping and praying that the next few monthly revenue reports will be much better than the \$27 million loss in December. January is a very key month for the collection of income withholding taxes since companies file quarterly. There may be some increased sales tax collections from the Christmas shopping season. What is clear is that there is no plan B on the table to handle further revenue decreases outside of more budget reductions or revenue transfers. The January, February and March monthly revenue reports along with the new consensus revenue projections in mid-April will determine the true fiscal picture for finishing 2016 and writing a budget for 2017.

The 2017 State General Fund (SGF) dollars of \$6.2 Billion come primarily from individual income taxes (39%), corporate income taxes (6.6%), and from the sales tax (43.3%). Without the income tax changes of 2012, 2013 and 2015, income tax revenues would have been \$850 million higher in 2016 and \$925 million in 2017 easily building a healthy ending balance and restoring critical budget cuts. In November, the consensus revenue experts lowered the revenue estimate by \$159 million for 2016 and \$194.5 million for 2017. These experts must rely on the income tax reduction estimates by the Kansas Department of Revenue but these estimates have not been updated since the tax laws passed so questions are being raised if the initial estimates were truly objective? The experts are mystified why sales tax revenue has not jumped given the higher state sales tax and lower motor fuel costs that allow those dollars to be spent on items that are subject to the sales tax. (Kansans spent \$8 million in the last few days on the billion dollar Powerball but sales tax is not collected on lottery tickets.)

The economic outlook for Kansas looks very challenging in the near future. Kansas farm income is falling caused by lower commodity and livestock prices. The stronger U.S. dollar is a head wind for exports of agriculture and aviation. Over the last year, Kansas employment growth was just 0.9% compared to the national growth rate of 2.1%. In Wichita, neither total employment nor manufacturing employment has returned to pre-Great Recession levels. While oil sold for \$93.79 per barrel in 2014, the forecasted price for 2016 is \$35/barrel and \$45/barrel in 2017. The severance tax collected on oil and natural gas in 2015 was \$93 million but is now forecast to fall to \$39 million in 2016. As

oil continues to fall to \$30/barrel, further reductions in severance taxes are expected. While a \$384 million tax package of sales tax, cigarette tax and income tax changes were passed last June, the bulk of those increases are just starting to take effect on the 2015 tax year filings so there is great uncertainty over the accuracy of the estimates. The tax amnesty plan to reap \$30 million in back taxes netted only \$23 million. Given how tight the ending balances are, the uncertainty of tax collections and that Kansas must have a balanced budget, further budget reductions and transfers should be expected since increasing taxes in this election year seems politically suicidal.

2016 AND 2017 GOVERNOR'S BUDGET REPORT

Given the revenue declines and the pledge for no new taxes, the 2016 budget has to be balanced by June 30 and the 2017 budget – that passed in the 2015 session – must now be altered. For the 2016 budget, the Governor used his allotment authority to transfer unused funds from programs in several departments to the State General Fund as well as transferring \$50 million from the Highway Fund. \$9 million was swept from the Children's Initiative Fund with a promise of no reduction in programs or services. Enhanced federal funding for the State Children's Health Insurance Program (SCHIP) netted \$17.7 million. That was swept instead of serving more children. \$8 million is taken from the Higher Education Block Grant. 21 auditor positions are filled at the Kansas Department of Revenue with the expectation that tax collections will increase \$7.5 million. Certain unused economic development funds in Commerce were swept while the public/private Kansas Bioscience Authority is completely privatized.

For 2017, the Governor starts with transferring an additional \$25 million from the Highway Fund to the SGF. The Governor moves the entire \$50.6 million Children's Initiatives Fund (which is funded from tobacco settlements) to the SGF and spends \$44 million on children's programs. The \$6.5 million Parents as Teachers program will be means tested so that welfare block grant funds (TANF) will pay for low income parents while other parents will have to pay for the services. As the Kansas Bioscience Authority (KBA) is privatized, KBA's assets will be sold to private investors with Kansas hoping to net \$25 million. (Kansas' total investment in KBA was \$240 million.) Again the children's health program (SCHIP) gets \$25.5 million in enhance federal match but that is swept for 2017. Medicaid changes include ending KanCare Health Homes and adopting a 'Step Therapy' protocol where clients must be prescribed the cheapest drugs first. For the 39,938 state employees there is no salary increase for 2016 or 2017 which is now over six years with no salary increase. The 2017 Kansas budget will total \$16.1 Billion with 46.8% going to education, 30.7% going to human services, 10.3% to transportation, 7.4% to general government and 4.7% for public safety and agriculture.

STATE OF KANSAS EFFICIENCY REVIEW

The Kansas Legislature paid the consulting firm Alvarez & Marsal (A & M) \$2.6 million to do an efficiency study for Kansas. The first preliminary report was presented on January 12 and the final report will be on February 12. This six month study reported potential savings of \$2 Billion over five years starting in 2017. There are many smaller items covering insurance, procurement, car pools and supplies. For the state employee's health insurance plan, the recommendation is to offer only 'High Deductible Health Plans' thus saving the State \$123 million – in essence cutting the pay of state employees. Over five years force all school districts to spend down \$193 million in ending balances so the school districts can be as broke as State government. Consolidate all 286 school district employee's health plans (covering 59,000) into the State's Employee Health Plan with a projected savings of \$360 million. Kansas has a very high Medicaid eligibility error rate so lowering that could net \$136 million in savings. By hiring 54 more auditors for tax collections at the Kansas Department of Revenue, the projected revenue increase over five years is \$272 million. This 260 page A & M report will be thoroughly reviewed by the budget committees over the next two months with specific recommendations detailed for implementation.

COURT BUDGET BATTLES

Senate Bill 320 and House Bill 2449 have passed out of the budget committees to insure that the 2016 and 2017 budgets for the judiciary are secure. In 2015, the Kansas Legislature passed legislation that included administrative changes to the courts along with the budgets for the courts. This law had a 'non-severability' clause saying that if the administrative changes were declared unconstitutional by the courts the entire budget for the courts would be negated. SB 320 and HB 2449 eliminate this 'non-severability' clause so the budgets for the courts are guaranteed for 2016 & 2017.

This is not the last word. Another 'trailer' bill will have to be introduced to clarify how certain docket fees are divided among different judicial functions. The true battle is over 'equal branches' of government and who has the final say on budgetary matters? Can the courts order the legislature to adequately fund public schools as happened in 2006? With two court cases now before the Kansas Supreme Court that may well force more school funding, how will the power of 'equal branches' be settled? If Kansas faces another 'Great Recession' and budgets must be reduced for all programs, how will the courts and the Legislature reconcile that challenge? The constitution mandates that judges must be paid first. This means that budget cuts will happen to the court staff and without adequate staff many court functions such as trials will be eliminated. 97% of the court's budget is spent on employees. The statewide cost for the courts is

approximately \$265,000 a day. A \$2 million reduction in the court's budget would probably necessitate seven days of closing the courts over a year. This debate and discussion over budgetary authority has just started.

PUBLIC SCHOOL FUNDING

It is too early to predict if the 2016 Kansas Legislature will write a new school funding formula. The block grant funding passed in the 2015 session is for two years covering 2016 and 2017 so a new funding formula is not a necessity this year. The Kansas Legislature created a 'Special Committee on K-12 Student Success' that included both Senate and House members. This committee has held a few meetings and now has written a 'draft' report by Chairman Rep. Ron Highland for consideration by the full committee. This committee should meet in the next couple weeks to consider the report from the Chairman and set action priorities for this year. The Governor wants a new school funding formula of innovative options such as alternative teacher certification, merit pay for teachers and scholarships backed by tax credits for any public or private school. The Governor's 2017 budget includes no new funding for merit pay. Block grant funding for schools is frozen for 2017.

Mark Tallman is the primary policy advocate for the Kansas Association of School Boards. He holds weekly webinars - usually on Fridays around noon - to update the public on the activities of the Kansas Legislature concerning public education. With other staff, Mark presents very detailed presentations on school funding in addition to any legislation concerning K-12 education. The website for the Kansas Association of School Boards is www.kasb.org. On this homepage at the top, click on advocacy and under that heading you will see 'webinars'. To listen live to the webinars, you have to sign in but everyone is welcome. KASB also archives these webinars so you can just click on past webinars. Mark covered the 'Special Committee' draft report on January 13 and a detailed response by the Kansas Association of School Boards, Kansas School Superintendents Association and the United Scholl Administrators of Kansas.

FOOD INSECURITY IN KANSAS

The Kansas Health Institute released a report in November 2015 titled *ONE IN SIX KANSAS HOUSEHOLDS WERE FOOD-INSECURE IN 2013*. Food insecurity means they lacked reliable and consistent access to enough food to support healthy lifestyles. More than 183,000 Kansas households (16.5%), representing approximately 460,000 people, did not have reliable access to affordable, nutritious food. Households which include children have rates of food insecurity nearly double those without children, and households led by single women are at even greater risk. 68% of Kansas' food-insecure households in 2013 consisted of working families. 65% of Kansans who sought

assistance at food pantries or emergency meal programs during 2013 reported having to choose between paying for food or utilities. The national rate for household food insecurity is 14.3% while in the breadbasket of the world it is 16.5%. Kansas ranks 44th of the 50 states in the participation rate (69%) of eligible families getting food stamps. Kansas ranks 50th in low-income children getting the Summer Food Service Program. http://www.khi.org/assets/uploads/news/14012/hungerinsecurity_issue_brief_nov15_final.pdf

STATE WATER PLAN FUND

The priorities of the State Water Plan include preserving the life of the High Plains/Ogallala Aquifer, developing watershed restoration & protection plans, and creating regional public water supply strategies. Given the importance of these priorities, the State Water Plan remains underfunded given the budget deficits faced by Kansas. By law, the State General Fund should contribute \$6 million a year to the State Water Plan but this has not happened for a few years. Likewise, \$2 million should come from the lottery funds but again this is not happening. Funding sources are solely from fees on water use, fertilizer/pesticide registrations and sand royalties totaling \$13.1 million. In 2015, the State Water Plan Fund spent \$13.2 million. In 2016, the expenditure will be \$14.7 million but fall to \$12.1 million in 2017 as the ending balance in the fund is reduced from \$3.1 million to \$87,000. \$20 million in 15-year bonds have been issued to dredge John Redmond Reservoir and fund 40-50 streambank stabilization projects above the reservoir. Debt service payments are estimated to average \$1.7 million annually from 2016 to 2030 thus competing with other vital water plan programs.

LOCAL FOOD AND FARM TASK FORCE REPORT

The seven member 'local food and farm' task force created by the 2015 Kansas Legislature has spent 2015 researching and writing a report on local Kansas food opportunities for the 2016 Kansas Legislature. Next Thursday – January 21 – before the Kansas House Agriculture and Natural Resources committee in Room 346-S at 3:30 pm, Representative Adam Lusker, member of the task force, will present the report.