

State Representative

Don Hineman

Don's Legislative Update
December 30, 2014

Large Budget Shortfalls Await Solution

In recent weeks it has become apparent that the upcoming legislative session will deal with some very significant budget shortfalls. Each November the state's Consensus Revenue Estimating Group releases its estimate of revenues for the current fiscal year (ending on June 30, 2015) and the next fiscal year. The [report this year](#) was not good. Revenues have continued to disappoint, and the projections for the future are dismal. The group estimates that anemic revenues will produce a \$278.7 million budget shortfall for the remainder of this fiscal year, followed by a shortfall of \$435.7 million by the end of the next fiscal year which begins July 1.

The immediate problem is to somehow address the budget shortfall for the current year since we are already halfway through the fiscal year. Governor Brownback has proposed a [solution to fill the budget hole](#). Unfortunately his proposal contains only \$73.5 million of direct cuts and primarily solves the short-term problem with \$206.5 million of one-time funds transfers. But solving this year's problem primarily with one-time funds transfers only magnifies the size of the budget shortfall for the following year. If Governor Brownback's proposal is approved by the legislature then the projected shortfall for fiscal year 2016 becomes \$648.3 million.

State general fund budgeted expenditures for the year are projected to be \$6.35 billion so the shortfall represents 10.2% of the entire budget! But keep in mind that half of the budget is comprised of expenditures for K-12 public education, a constitutional responsibility of the state. If that portion of the budget is held harmless, is it reasonable to think that all other state budgets can be cut by 20.4% to make up the deficit? Remember that plenty of budget cutting has already occurred in recent years in response to reduced state revenues during the great recession.

It is helpful to examine a pie chart of state general fund (SGF) expenditures by function, keeping in mind that SGF contains expenditures from non-dedicated revenue sources. Most revenue flowing from federal government to state government is excluded, as is most highway spending, which is financed with dedicated vehicle registration and motor fuels taxes. Obviously education is a priority of the state, as it should be. But think about this: the entire budgets for public safety and general government could be eliminated and we still would not have eliminated the \$648.3 million budget deficit for fiscal year 2016. The budgets for all elected statewide offices and cabinet-level departments could be eliminated, all legislative functions be defunded, highway patrol and KBI abolished, and all state prisoners let out on the streets, and we still would not have totally eliminated the hole in the budget.

Kansas State General Fund FY 2016



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Useful Phone Numbers

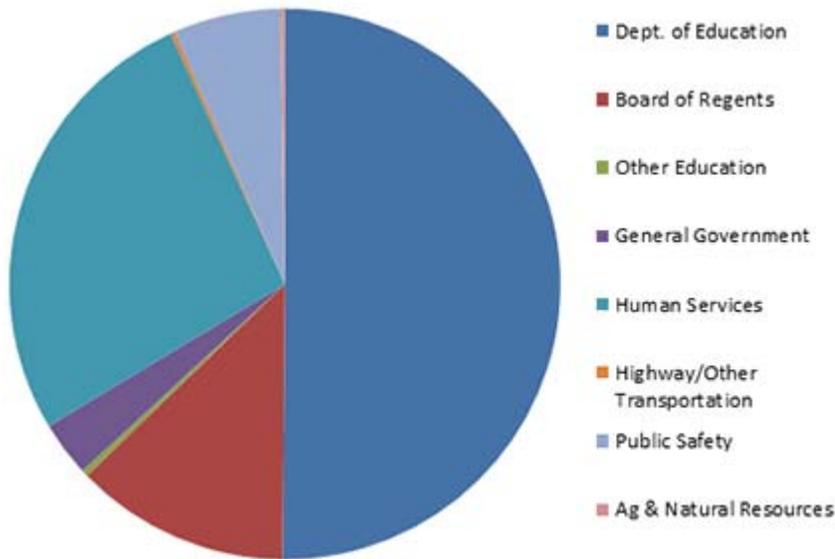
Department On Aging
800-432-3535

Child/Adult Abuse Hotline
800-922-5330

Child & Family Services
888-369-4777

Consumer Protection
800-423-2310

Crime Tip Hotline
800-252-8477



Crime Victim Assistance
800-828-9745

Gov- Brownback
800-748-4408

Highway Road Conditions
511 (in Kansas)

Housing Hotline
800-752-4422

KanCare Assistance
866-305-5147

Kansas Lottery
800-544-9467

Legislative Hotline
800-432-3924

Mental Health Services
888-582-3759

School Safety Hotline
877-626-8203

Social Security
800-772-1213

Taxpayer Assistance
785-368-8222

Tax Refund Status
800-894-0318

Unclaimed Property
800-432-0386

Unemployment Insurance
800-292-6333

Vital Statistics
785-296-1400

Voter Registration
800-262-8683

Welfare Fraud Hotline
800-432-3913

Worker's Comp
800-332-0353

It is my opinion that cuts of this magnitude cannot be made responsibly without drastically affecting the services that state government provides. As just a few examples, access to the state's court system could be affected, prisoners could be released well before their scheduled parole date, Medicaid recipients and providers could experience cuts to reimbursement rates and services, and scheduled highway maintenance projects could be postponed. That is unacceptable to me and many of my legislative colleagues.

As a life-long Republican and a fiscal conservative I recognize that government must operate as efficiently as possible and that continues to be a focus for me. But I was also elected to insure that state government continues to provide the services its citizens depend upon and that government delivers those services in a manner that is as user-friendly as possible. I have concluded that it will be impossible to fill the looming budget deficits with nothing but budget cuts. Some form of additional revenue will be required.

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How Did We Get in Such a Fix?

The situation we find ourselves in is fairly unique among the states since most states are currently experiencing expanding revenues. So why is Kansas different? Any budget shortfall has multiple causes. Increased caseloads for social services and K-12 education have added to the state's burden, and a change in federal tax law is also blamed for part of the problem. But by far the majority of the problem is due to the income tax cut enacted during the 2012 legislative session. It was sold to a majority of legislators on the promise that leaving more money in the pockets of the taxpayers would grow the economy and actually lead to greater state revenue receipts. The first part of that promise is valid, and there can be no doubt that granting a tax break can have a stimulating effect on the economy. But the second part of the promise is highly controversial. President George H. W. Bush once called the theory "voodoo economics".

And it becomes even more problematic in Kansas when we are hoping to replace income tax revenues, which are income-elastic, with sales tax

revenues which are income-inelastic. That means that if a taxpayer were to suddenly have twice the income that he had the year before he is very unlikely to go out and purchase twice as much sales-taxable stuff. In other words, attempting to replace income tax revenues with sales tax revenues just will not happen, even when we fully account for the dynamic effect of the tax cut. Evidence continues to build that the “shot of adrenaline to the heart” of the Kansas economy that Governor Brownback touted has not and will not happen.

I did not vote for the tax cut in 2012.

Although I recognize that tax cuts can stimulate the economy I also understand that we can overdo it in the short run and create serious problems for the state budget. During debate on the 2012 tax bill I argued that the plan went “too far too fast” and I continue to believe that is so. Recently others have come to [agree with me](#).

[An editorial board which endorsed Governor Brownback only two months ago has now joined the chorus.](#)

So what do we do now? There are no easy solutions. Those of us who voted no in 2012 would vote to reverse part of the tax cuts, but those who voted yes will resist that solution. Other options are available but all carry negatives of some sort. Do we raise sin taxes on liquor or cigarettes? How about another increase in sales tax, which would send even more Johnson and Wyandotte County folks across the state line to do their shopping? Or maybe we increase the motor fuels tax. We will also look closely at exemptions to the present sales tax. If we were to put a tax on services instead of just goods we could actually reduce the sales tax rate and perhaps even remove the sales tax on food. But I am guessing most of you would resist a tax on legal, accounting, engineering, or medical services. There are no ideal alternatives but I have become convinced that some sort of “revenue enhancement” must be part of the budget solution.

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Shortchanging KPERs

Governor Brownback’s plan for solving the budget shortfall this year involves several one-time funds transfers, and I have major problems with two of them. He proposes transferring \$95.7 million from Kansas Department of Transportation (KDOT). This is not a new idea, and nearly \$2 billion has been transferred from KDOT to the general fund since 1992. However I recently learned that two renovation projects on I70 in western Kansas (in Thomas and Trego Counties) have been pushed back from 2015 to 2019. Total cost of those projects was to have been \$90 million. I have been cautioned not to try to “connect the dots” between the funds transfer and the delay of these projects but it is difficult to avoid the conclusion that current budgetary shortfalls are beginning to impact KDOT projects in a very real way. And as I have warned in the past, when budgets get cut it is rural Kansas that feels the effects the most.

The governor also proposes transferring \$15 million out of the Kansas Endowment for Youth and the Children’s Initiative Fund. These funds are designed to provide early childhood education and intervention services in an effort to get Kansas infants and young children off to a good start. Research shows that investments in early childhood pay big dividends to the state and to society in reduced costs for education and avoided costs for

social services and corrections. I fear that the raid on these funds will lead to reduced state commitment to early childhood, resulting in increased expense to the state in the future.

But perhaps the most troubling part of the governor's proposal is his plan to reduce the state's contribution rate to KPERS, the state's retirement system. He suggests we underfund KPERS by \$40.7 million. When I first came into the legislature in 2009 I was astounded to learn the extent to which KPERS was underfunded and what a shaky financial footing it was resting on. I was pleased when in 2012 we passed a bill to step up contribution rates for both employers and employees in an effort to return KPERS to financial security. At that time the unfunded actuarial liability of KPERS had grown to over \$10 billion. Today, thanks in part to the bill passed in 2012, the unfunded liability has shrunk to \$7.3 billion. We must not now back away from that commitment to public employees throughout Kansas. Though Governor Brownback is proposing the underfunding as a one-year deceleration of employer funding, I have seen how the legislature operates. If we ever renege on our commitment to higher level funding, doing so a second and then a third time will be even easier. Other legislators and even State Treasurer Ron Estes [have voiced their displeasure](#) with the cut to KPERS contributions.

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Committee Assignments Released

Last week Speaker Merrick released committee assignments for the 2015 legislative session. I am pleased to retain my seat on the Tax Committee and on the General Government Budget Committee. A new committee for me this year will be Federal and State Affairs. Some of you may be wondering what that committee might do. Think of it as the place where individual liberties and rights collide with governmental mandates. It should be an interesting year!

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This newsletter is primarily intended for the residents of the 118th District (all of Wichita, Scott, Lane, Logan, Gove, Trego, and Sheridan Counties and portions of Thomas and Graham Counties). However it is available to anyone who finds it of interest. Please forward to your friends, or if you are not now receiving a FREE subscription to my newsletter, [click here to sign up](#).

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Cowboy Logic

If you lend someone \$20 and never see him again, it was probably worth it.

Quote of the day

"Serving God is doing good to man, but praying is thought an easier service and therefore more generally chosen." **Benjamin Franklin**

Sermon in a sentence

Life is not a problem to be solved, but a gift to be enjoyed.

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