



AMERICANS FOR PROSPERITY'S
Commonsense Budget Proposal
FISCAL YEAR 2011

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Introduction: A Warning Unheeded

Last year Americans for Prosperity's (AFP) Commonsense Budget warned that a storm was coming in Kansas' governmental finances. This financial disaster has been building as prior Legislatures depleted the ending balance despite a statutory requirement for at least 7.5 percent of the existing State General Fund (SGF) budget to be held for such emergencies. This requirement had been "suspended" for the last seven consecutive years despite the fact that in the majority of those years, revenues were growing. The patterns of poor fiscal policy and government expansion that have played out in recent history have placed the state of Kansas in a state of fiscal jeopardy.

Already we hear the Governor and some legislators talking about raising revenue through increases in sales and tobacco taxes. Kansas legislators should not expect Kansans - who are already feeling the effects of the recession in their personal finances - to make up a deficit approaching \$1 billion in Fiscal Year (FY) 2011. State and local governments already impose a heavy enough tax burden on Kansas residents.

AFP warned repeatedly this was coming and provided a strategy to avoid this crisis. Fixing the mess once it is already upon us is more difficult than preventing it, but our Commonsense Budget has a myriad of ideas that - if applied - would help Kansas move forward despite the pressing weight of the current revenue problems. However, it is instructive to look at how we got here to begin understanding how to fix the problems.

Kansas' graduated income tax contributed to the financial crisis by creating a boom of revenue and spending during prosperous economic times. In periods of rapid growth like we experienced prior to the recession, income tax revenue increased faster than income. Just as has happened in every past "boom," legislators were pressured to increase state spending with new or expanded programs to match the growth in available revenue.

In fact, the unconstrained growth of state spending has by far outpaced the growth in personal income for the last three decades. SGF spending increased 8.6 percent, 9.6 percent and 8.6 percent in the three budget cycles prior to the recession, which created an unsustainable level of spending in Kansas government as agencies expanded programs and hired additional employees.

The sharp increases in spending, taxes and debt have resulted in a decline in the state's business climate. Throughout the last decade, Kansas has consistently ranked among the bottom group of states in business tax climate. Among the surrounding states, only Nebraska has a lower business tax climate ranking.

When a boom finally comes to a period of recession such as we recently experienced, state revenues are greatly reduced. In a recession, income tax revenue falls more rapidly than government expenditures. Politicians in the past have offset the shortfall with "temporary" taxes, fees and debt, for which we currently see the momentum growing. That additional revenue is then built into permanent spending programs, and the "temporary" taxes, fees and debt rarely disappear. With the exception of Nebraska, Kansas has already raised individual and corporate income taxes more than any other state in the region. To our south, Oklahoma aggressively reduced its tax rate over the last decade, from 7.25 percent to 5.5 percent (a trigger will soon reduce that rate to 5.25 percent) after experiencing depressed economic growth following two decades of increasing tax burdens. It is not surprising that Oklahoma has weathered this current financial storm in better stead than the majority of the states and still holds nearly \$600 million in its rainy day fund.

The opportunity to learn from past mistakes and make the corrections needed to ensure the prosperity of Kansas should not be taken lightly by the Legislature. Informed choices will need to be made on how to utilize limited resources. The errors of the past should be avoided even though they may appear to be the easy

way out. This is a historical opportunity to reposition Kansas ahead of the other 49 states – and indeed much of the globe – in the competition for businesses and jobs.

HOW TO MOVE KANSAS BACK TO THE FOREFRONT OF ECONOMIC PROSPERITY

Prior to the current recession, Americans for Prosperity Scholar Barry Poulson, researched the use of a tax and spending limit in Kansas to constrain the growth of government and stabilize the budget over the business cycle. The advice his research advocated could not have been timelier and would have helped Kansas avoid the current budget crisis in the first place.

Properly instituted spending constraints can set the stage for much-needed reform in Kansas fiscal policies, helping prevent the sort of huge deficits we currently face. Applying spending controls would ultimately allow income tax rates to be lowered to reduce the heavy tax burden on Kansas citizens. Growth generated by the transfer of businesses to Kansas would allow property tax levies to be lowered and property tax burdens reduced. This would continue to improve the business climate, attracting even more new investment and jobs and mitigating some of the effect when a particular industry is hit with hard times. In the long run, not only would Kansas experience smaller deficits in recession periods, but also higher rates of economic growth in good times, allowing Kansas' income per capita to converge toward the national average, which it has not equaled since 1982.

The major culprit in higher tax burdens on Kansas citizens is the income tax. The state has an individual income tax with three brackets. The top rate of 6.45 percent kicks in at an income level of only \$30,000, effectively making it the rate most Kansans pay. The corporate income tax has two brackets with a top rate of 7 percent kicking in at \$50,000. The graduated income tax in Kansas results in ratcheting up of revenue and spending from one business cycle to the next.

Table 1. Kansas Individual Income Tax Rates 1960-2009

<u>YEAR</u>	<u>INDIVIDUAL INCOME TAX RATE</u>
1960	1.5% - 5.5%
1970	2.0% - 6.5%
1980	2.0% - 9.0%
1990	4.5% - 5.95%
2000	3.5% - 6.45%
Current	3.5% - 6.45%

Kansas began this period with relatively low income tax rates ranging from 1.5 to 5.5 percent. Over the next two decades income tax rates were increased to a range of 2 to 9 percent. During the 1980s Kansas responded to the Reagan tax revolution by increasing the bottom income tax rate to 4.5 percent, and reducing the top rate to 5.95 percent. However, during the 1990s the bottom rate was again reduced to 3.5 percent, and the top rate increased to 6.45 percent. This ratcheting up of revenue and spending was especially evident during the most recent business cycle. In the 1990s when the economy was booming revenue grew more than 7 percent per year, outpacing the growth in income, which grew 5.2 percent per year. When a recession hit in 2001 the state experienced a revenue shortfall. Predictably, most of that revenue shortfall was due to declines in personal and corporate income tax revenue. As they had in prior recessions, politicians responded to the revenue shortfall by increasing taxes and fees, and by issuing more debt.

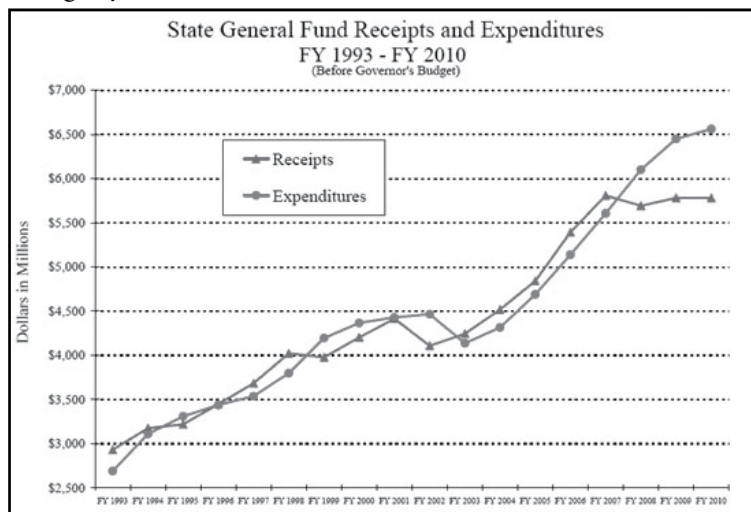
State	Effective Rate	\$ Where Top Rate Applies
Kansas	3.5% to 6.45%	Over \$30,000
Colorado	4.63%	
Nebraska	2.56% to 6.84%	Over \$27,000
Missouri	1.5% to 6.0%	Over \$9,000
Oklahoma	.5% to 5.5%	Over \$8,700

The shining star in the region was Colorado which, until legislators recently rolled it back, had put in place a spending cap. However, the effect of the cap is evident in its economic growth from 1977 to 2008 where the individual per capita income grew 15 percent more in Colorado than in Kansas over the same period (as the following chart shows).⁵

FY-2008 State-Local Tax Burden				
State	Year	Rank (1 is the highest burden)	Per Capita Taxes Paid to State-Local	Per Capita Income
Colorado	1977	15	\$910	\$7,912
Colorado	2008	34	\$4,359	\$48,300
Kansas	1977	31	\$735	\$7,502
Kansas	2008	21	\$3,911	\$40,784

The fatal flaw underlying the structural deficit in the Kansas state budget is unconstrained growth in state spending. Over the last three decades, the growth in state spending has far outpaced the growth in personal income. Over that period, the compound annual rate of growth in expenditures from all funds increased 8 percent per year. Expenditures from all funds as a share of personal income increased from 9.1 percent to 12.5 percent.⁶

The growth in expenditures from state general funds was even more rapid, increasing 10.4 percent over the last three decades. General fund spending as a share of personal income increased from 4.0 percent to 5.7 percent.⁷ Among surrounding states Kansas is second only to Nebraska in the share of government in personal income. This unconstrained growth in state spending has continued in recent years, right up to this economic crisis. The following chart from the Governor's FY 2010 Budget Proposal clearly shows the pattern of out of control spending of the last eight years.

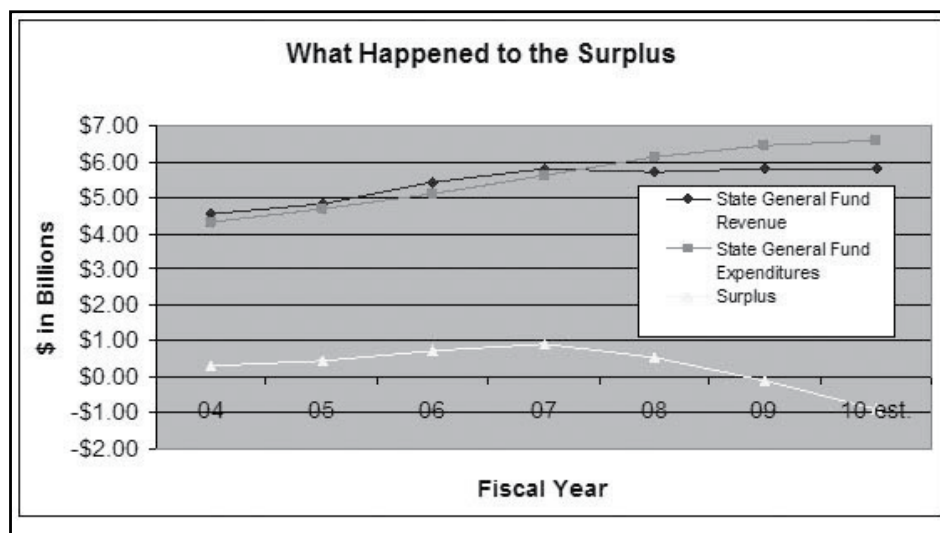


During the recession cycle that preceded the current recession, state expenditures from all funds continued to grow despite the fall in revenue. Expenditures from state general funds decreased when the 2001 recession hit, but then recovered. Even with the recovery from that recession and before this current downturn, revenue growth was insufficient to fund the spending projected under current policies. The budget is projected to incur overspending that will result in the state having a negative ending balance of over \$520 million in FY-2010. One must conclude that, in the long run, the structural deficit in the state budget is due not to a lack of revenue, but rather to unconstrained growth in spending. In periods of rapid growth the structural deficit is obscured by rapid growth in revenue. But when recession hits, as it did nine years ago and again in this current budget cycle, the structural deficit emerges as revenue falls and the state cannot sustain the high levels of spending.

Dr. Poulson's research concluded if Kansas continued to follow its fiscal policies, the state would likely experience a structural deficit punctuated by periods of fiscal crises. It did not take many years for his conclusion to be proved correct. Solving Kansas' fiscal crisis in the long run requires the elimination of this structural deficit, or we will continue to experience these overly severe booms and busts. The only way to accomplish that objective is to constrain state spending to keep within the revenue constraints that the economic cycle will create. In good times we must limit new programs and existing program growth to avoid the sort of budget holes we currently face. However, this budget proposes ways to bring the structural deficit under control, which may require more difficult decisions than would have been available had legislators heeded our warning last year.

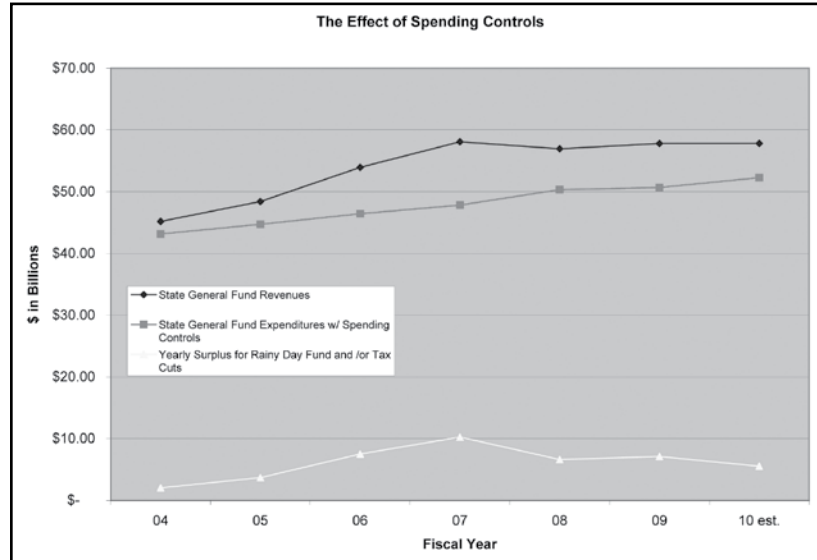
WHAT WOULD HAVE HAPPENED HAD KANSAS ADOPTED AFP'S APPROACH?

It is clear to both sides of the aisle in Topeka we are in a fiscal crisis. Would AFP and Dr. Poulson's calls for spending restraints have made a difference? As the following chart shows, a surplus of \$340 million existed in FY 2004, but the growth in expenditures erased that surplus and led to a shortfall of \$890 million in FY 2010.



If Kansas had instituted a controlled spending approach as AFP advocated, the difference would have been pronounced for state government finances. As the chart shows, instead of a deficit of \$890 million, Kansas would have experienced a surplus of \$554 million in state coffers for FY 2010. It should be noted this estimate is very likely well below what actually could be expected. With just six years of spending controls the cumulative

amount of funds that could have been returned to taxpayers would have been in excess of \$3.7 billion. This infusion of cash into the economy would have generated additional tax revenues for the state coffers while strengthening Kansas' private sector economy to weather the recession. It is obvious that putting government growth and special interests ahead of fiscal prudence has created a problem that was easily avoidable. The question now is: will Kansas legislators ignore this lesson of the past or move forward with self imposed spending controls?



PRINCIPLES THAT PROVIDE A ROADMAP TO FISCAL STABILITY

Achieving any constraint in government spending is much more difficult than it seems at face value. The complexity of many state agencies' funding sources and programs make it difficult for our elected officials to discern where the unnecessary expenditures lay. Typically advocates for every program will provide legislators all sorts of information to validate their continued existence. Special interest groups will wear out a path to the legislators' doors to make sure any program that benefits their group stays in place. How can Kansas taxpayers and legislators see through the fog of partial or misinformation? AFP has put together a comprehensive budget that provides a principle-based fiscal philosophy that any legislator can apply to the process of spending taxpayer funds, and taxpayers can use to judge legislators' adherence to spending tax dollars prudently.

A COMMONSENSE MODEL BUDGET FOR KANSAS

The model for the Commonsense Model Budget for Kansas came from the Freedom Budget, a state budget published by the John Locke Foundation, a free market think-tank in North Carolina. Following the approach of a concise but broad-ranging examination of every function Kansas state government attempts to perform, AFP has produced a budget that makes real tax cuts possible for Kansas taxpayers. AFP has gone beyond the traditional cursory examinations of state spending where the stock solutions are merely eliminating waste, fraud, abuse, and/or rooting out duplication. As the Locke Foundation noted all of these are good ideas, but by themselves will inevitably fall short of generating the savings needed to balance budgets. You cannot close billion-dollar funding gaps or finance hundreds of millions of dollars in tax cuts while continuing to invest significantly in infrastructure, public safety and the other essential functions of government with such a limited approach. Reducing problem areas coupled with a more comprehensive approach is not only possible but far

easier to enact than many are willing to admit.

THE 9 R'S OF FISCAL RESPONSIBILITY

The Locke Foundation established what it called the “9 R's of Fiscal Responsibility” – a simple set of principles that provide a readily applicable fiscal philosophy which policymakers can apply to the complex budget issues that confront them. Citizens can use these principles to wade through the disinformation that bureaucrats and tax and spend politicians use to defend their policies. An informed citizenry is the ultimate weapon against spending policies such as those that have put Kansas in this state of fiscal risk.

REFORM ENTITLEMENT PROGRAMS

State programs to provide cash assistance, medical care, or other services to the disadvantaged exist to provide a basic “safety net.” Even philosophers of limited government have justified such programs as needed to ensure order and protect public assets and spaces. But these programs must be carefully structured to minimize dependency and encourage personal responsibility. When the state pays nursing home bills for the parents of the middle class, subsidizes the day care expenses of affluent families, and perpetuates social pathologies such as out-of-wedlock births, it strays far from its constitutional moorings.

One of the biggest contributors to any state's budgetary problems is rapid growth in the state's Medicaid program and Kansas is no exception. The counter-cyclical nature of this program leads to lawmakers expanding Medicaid programs to provide new entitlements (and create new dependents) in good economic times that cannot be sustained when downturns in state revenues occur. This budget outlines spending controls and reduces entitlements to non-poverty recipients that will result in cost containment, and ensures the availability of quality services for the truly disadvantaged.

REQUIRE MORE USER RESPONSIBILITY

It is inappropriate to require those who receive core state services, such as law enforcement or public education, to cover a significant share of the cost of those services. But for many other state agencies, their programs or services are not constitutional entitlements or responsibilities. If the state is to continue involvement in these enterprises, it would be appropriate to ask those who benefit to shoulder more of the responsibility of paying for them. Services for which this budget recommends additional user responsibility include state museums, historic sites, parks, colleges and universities, some social and health services and the accommodation of prison inmates.

REDIRECT SPENDING TO HIGHER-PRIORITY USES

This principle requires sorting out which expenditures within a given department are central to the core mission of government and which are not. The state is obligated to perform its basic functions efficiently while leaving to the people as much of their hard-earned money as possible. This budget recommends that in periods of increased state revenues the state fund a “rainy day” fund on top of the meeting the statutory requirement to maintain a 7.5 percent ending balance to provide an adequate safety net in time of fiscal distress. After funding the safety net the remaining revenues should be returned to Kansas taxpayers by reducing the overall individual

income tax rate.

In times of budget shortfalls, such as Kansas is currently facing, legislators need to take a hard look at the necessity and efficiency of every program that the state funds. Not only should they examine its need to exist but to whom it provides services and how efficiently the program provides necessary services. This budget includes numerous examples of programs that should be examined and efficiencies that can be gained. This budget also provides guidance on how legislators can identify programs that are not delivering results.

REORGANIZE STATE GOVERNMENT

Government bureaucracies grow exponentially much like cell division. Not only do individual agencies increase their programs and employment, but often agencies are “spun off” from within larger agencies to become stand-alone entities. Unlike public sector spin-offs these are not market driven but usually motivated by political issues. The Kansas Department of Labor (DOL) is a recent example of this. This agency was spun off from the Department of Human Services in 2004 by Executive Order. Spending increased nearly 24 percent in the first two years alone and the agency has no less than 12 chief or director positions listed in its organizational chart. Former AFP-Kansas state director Alan Cobb pointed out, “the state ranks first in government job growth, which is clearly cause for concern. Government jobs make up 19 percent of the total work force in Kansas. The 50-state average is 16.1 percent.” In short, there are more efficient methods of organizing the state’s various departments. It is instructive to note that during the period from February 2008 through February 2009 private sector employment decreased by 1.2 percent while government employment grew by 1.9 percent.¹⁰

Government bureaucracies suffer from a number of inefficiencies and high costs because of the archaic nature of public sector management philosophies. Public sector benefit plans tend to be more costly than their private sector counterparts and less friendly to the modern work force’s mobility. Directors’ and upper level managers’ salaries are often determined by political whim with little regard to the quality or efficiency of the services the agency for which they work provides.

REVIVE FREE ENTERPRISE

Responding to economic challenges, some policymakers have concluded that state government should take a more active role in attracting investment and guiding development through tax credits, cash subsidies and other incentive programs. This is a mistake. The available public policy research on state economic development does suggest that overall tax rates, especially the marginal rates on individual and corporate income, do have a measurable impact on state economic growth rates. By eliminating incentive programs, marketing subsidies and other encroachments on free enterprise, we can achieve a reduction in marginal income tax rates. These tax changes would improve economic competitiveness across the board far more successfully than any incentive program for individual businesses can accomplish. AFP believes in putting those dollars back in the hands of tax-paying Kansans to invest and spend as they choose. We believe this cash, estimated at approximately \$441 million, put back in taxpayers’ wallets will have a far greater impact on economic development than any incentive program for an individual industry over the course of any economic cycle.

RESTORE CIVIL SOCIETY

Nonprofits and charities form a “third” or “independent” sector that delivers important services and benefits

that neither governments nor profit-seeking businesses can deliver as effectively. The state should be careful not to supplant these institutions of civil society, and in fact should seek to create “public-private partnerships” whenever possible to utilize the strengths of these organizations. With limited funds available for social programs this is the perfect opportunity for legislators to allow the private sector an opportunity to help in providing for those needs.

REMOVE ADVOCACY, WASTE, AND RACE-BASED PROGRAMS

Laws and programs that invoke racial or ethnic discrimination violate a basic principle of moral government. All such programs should be ended immediately. Similarly, state funds should not be used to subsidize groups that advocate policies or ideas before government bodies. Taxpayers should not be forced to pay for the propagation of ideas with which they may disagree. Government is instituted solely for the good of the whole, not for special interest groups that use taxpayer money to advance their agendas. This also applies to state agencies that routinely send employees to lobby legislators for funding. The funding for these positions should be removed from the agency’s budget.

RESHAPE THE STATE-LOCAL GOVERNMENT RELATIONSHIP

Local control of local revenues should be a central theme whenever possible in the relationship between state and local government. The diverse demographic nature of Kansas leads to problems in application of some state programs. For example, a program like Medicaid should be tailored to fit the most pressing needs of the disadvantaged citizens it serves. However, the health issues of rural Kansas and the large metro areas are not the same. For example, any expansions of the existing Medicaid program could be both funded and targeted at the local level. The Kansas Health Policy Authority should serve only to administrate the matching of federal funds with the local dollars and let local authorities target the expenditures to their communities’ needs. In this time of limited monies, more precise allocation of health care dollars is paramount.

REDUCE BIASES IN THE TAX CODE

Like most states, Kansas has had its state tax code distorted by lobbying pressure from special interests rather than using broad tax reform principles to build a coherent and efficient system. As a result, a variety of special rates, exemptions, exclusions, deductions and credits litter the code. In the corporate tax code alone, special tax credits for job creation, research and development, machinery, worker training and other expenditures limit corporate income taxes the state collects and gives advantages to individual industries over others. These aberrations in letting the free market determine winners and losers are borne at taxpayer expense. Government’s long track record of failure in anticipating consumer demand suggest that a better approach is to return the millions of dollars to individual taxpayers so they may determine which industries prosper based on their consumer decisions.

SOME COMMONSENSE STEPS FOR A BUDGET CRISIS

The Commonsense Budget suggests several steps legislators can apply to solve not only the current budget crisis but also help address the long term issue of making government more efficient in the expenditure of taxpayer dollars.

HIRING FREEZE

The Commonsense Budget proposes a hiring freeze for all Classified Full Time Equivalents (FTEs) positions through FY 2011 and the elimination of any budgeted FTE positions that have been unfilled for more than six months.

Legislators should look very closely at where the limited funding to the various functions of government goes. Even as the manufacturing, trade and services sectors of Kansas employment lost employees as the recession began in 2007, the Department of Labor reported government employment grew by 10,700, with much of the growth attributed to public schools.

State salaries carry with them benefit costs that are disproportionately high when compared to the private sector. For every \$4 of salary the state pays another \$1.14 in retirement, fringe benefits and payroll taxes. Uncapped growth in salaries and benefits are annualized costs that must be built into base budgets and will increase as seniority and merit raises are added each year regardless of the status of state revenues.

Agencies should be limited to only adding new employees when it is to fill an existing FTE opening resulting from employees retiring, being fired, or leaving for other opportunities. This allows agencies to still keep all needed positions filled, yet forces them to consider their allocation of FTEs between programs.

This budget also believes all new hires should be unclassified positions, even when replacing a classified position, thereby giving agency management more flexibility in allowing the dismissal of poor performers.

Commonsense would suggest that all these new hires be required to participate in a defined contribution that will give them the same type of retirement plan that the private workforce enjoys. This would also result over the long term in a significant reduction in the billions of dollars of Unfunded Accrued Actuarial Liabilities in the Kansas Public Employees Retirement System's (KPERS) archaic defined benefit plan as new unfunded liabilities will not be accruing to these new employees.

A hiring freeze and the elimination of unfilled FTEs will have some immediate impact on agency's budgets by providing savings that will help sustain needed programs. Older employees retiring will be replaced by younger who will have lower salary and benefit costs.

Even with budget cuts, there are ways agencies can fund pay raises for deserving employees. Agency directors should challenge their department managers to propose plans that would result in the consolidation and redistribution of duties. Most employees would agree to take on more responsibility if they were rewarded with higher pay. Just as private industry rewards employees for their productivity, reducing the number of FTE required to perform the same services provides excess funds to split between budget savings and providing pay increases for those employees shouldering increased work loads.

CONSOLIDATIONS

Businesses in the private sector have learned the savings and efficiencies that can be gained by outsourcing and consolidating functions and we shouldn't expect any less of our government agencies, which are financed

directly or indirectly by Kansas taxpayers. At the very least the accounting, data processing, and administrative support personnel of each of these agencies should be reviewed for consolidation if not outsourcing.

Kansas taxpayers would receive a savings of at least 10 percent of each agency's total administrative budget if support functions such as accounting were consolidated and the layers of highly paid comptrollers and other supervisory positions were eliminated. The savings compound when you consider the reduction in workspace requirements, computer hardware, software costs and other overhead costs of each of these positions. The AFP Commonsense Budget points out in individual agency write-ups where savings from consolidations should be instituted. This budget encourages our elected officials to investigate the possibility of downsizing government starting with their own support agencies.

MOVE STATE JOBS TO RURAL AREAS

The Legislature funded the Rural Opportunity Program with \$1.8 million in the Commerce Department to meet the challenge "to recruit and retain good jobs, while maintaining quality housing and basic services" for rural areas. This budget has a solution that goes beyond government merely forming a division to study the problem or throwing money at economic development schemes.

The Commonsense Budget proposes that existing state agency functions be examined for their suitability for remote office environments. In this day of server-based operations, many private firms have moved jobs not only around the country but overseas. Through the use of Virtual Private Network (VPN) systems we can move state jobs into rural areas.

The VPN technology is safe, economical and battle-tested by tens of thousands of private companies who have used this ability to place their support functions wherever it is most economical. The placement of agency jobs in rural towns would provide an instant economic impact on those communities. State jobs have insurance and retirement benefits that exceed those normally available in the rural counties of Kansas. State wage scales are really quite good compared to rural per capita incomes and would go a long way towards propping up the economies of those rural communities receiving the jobs.

Not only would rural Kansas benefit but all Kansas taxpayers could expect a savings from such a move. A review of government expenditures found a number of capital expenditures related to office space expansion and building renovation. Our elected officials should consider that rural Kansas counties contain many fine buildings on their main streets that are either currently vacant or underutilized. The rent on these buildings is significantly less than equivalent office space in Topeka and might actually be obtained rent-free by asking rural towns to compete for these state jobs.

REAL ECONOMIC DEVELOPMENT FUNDING

AFP encouraged the Legislature to review the efficiency of the many tax credit and incentive programs these agencies oversee. We were enthused legislators took our advice and ordered the review by the Legislative Division of Post Audit of the \$1.3 billion in state and local funds earmarked for economic development from 2003 to 2007. Not surprisingly the audit "found the number of new jobs created that were directly linked to such investments was only about 4 percent of the state's total for the period surveyed."

The Commonsense Budget noted the concept of supporting industries at the exclusion of others is a flawed concept. The free market provides “seed” or venture capital to firms all the time. Clearly the audit proved there is no reason to believe government bureaucrats are better than the market at identifying profitable investments for seed capital.

Venture capitalists and small business entrepreneurs are experts in identifying potentially profitable investments; the people who are most successful at it are the ones that find and produce the best products. Unlike government bureaucrats, these people also have a great incentive to be right. If they are, they make lots of money. If they are not, they lose money. These people have the knowledge and the incentive to fund profitable opportunities.

The government bureaucrat is selected for different reasons, without a natural-selection mechanism for weeding out those who make bad investment decisions. The argument can be made that projects which only are viable with the state’s incentives or tax credits programs are either bad investments that should not be funded, or are projects that the market would have funded anyway if they are good investments.

The most important difference between private investors and bureaucrats is venture capitalists and small business entrepreneurs risk their own money, not the taxpayers’ money. Common sense would suggest that the best economic growth policy a state can have is a low tax environment without unnecessary government regulation. The Commonsense Budget proposes that all these programs be considered for closure and the funding currently flowing to the credits and initiatives be used to lower the existing tax rate and benefit all Kansans.

MODERNIZING GOVERNMENT

The Commonsense Budget reduces the overall budget by approximately 15 percent in this period of economic distress. However, many programs that form the core of essential services such as infrastructure and public safety may actually receive funding increases or receive standstill budgets from the savings from elimination or reduction in those non-essential services that fail the “9 R’s Test.” Many of the remaining programs that received no additional funding increase in this budget may actually experience operational cost decreases and/or increases in revenues and/or services through administrative savings, user fees, and redesign efficiencies suggested in this budget.

There are also areas for long-term savings and some will be discussed within agency budget recommendations. For example, this budget recommends a redesign of Medicaid to better target services to truly needy individuals while giving taxpayers a more transparent view of the effectiveness of the medical care for which their tax dollars pay for. The scope of Medicaid has grown far beyond its original intended coverage of the poor and now includes non-poor children, pregnant women, and elderly residents of nursing homes whose backgrounds and family finances place them firmly in the middle class.

Another important area for reform is the restructure of state employment and retiree benefits programs. In the private sector, employers have moved away from defined benefit pension plans and replaced them with defined contribution plans (such as IRAs, 401(k)s and the like). With the latter, employees retain ownership and control of their own money. Making similar changes at the state level would lower administrative costs and improve both employee welfare and management flexibility. KPERS retirement plans currently carry billions of dollars of unfunded liabilities that threaten the long-term fiscal stability of the state. Converting to a defined contribution plan would immediately halt the growth of this debt and provide the state government

workforce the same portability in their retirement plans that privately employed Kansans enjoy. In the absence of immediate conversion to a defined contribution plan for all employees, the Commonsense Budget proposes that all new government employees be placed in a defined contribution plan.

Government accounting, unlike private sector accounting, is not structured to measure how effectively the taxpayer's money is being spent. In the private sector there is a bottom line – net profit – that is a continuing measure of the success of the entity. Government accounting is designed merely to track the sources and uses of funds. Though that is a worthwhile endeavor, it does not give the taxpayer any indication of how well those funds are being spent. One solution is to have every state program not only benchmarked against other states' programs, but also against private industries performing similar tasks. These measures must be outcome-based so legislators and taxpayers can see if the program is delivering the benefits that were promised on its inception. The flaws in Kansas' performance measure approach, known as "performance budgeting" are twofold. The goals that the performance budget approach sets and the measurements used are set by the agencies themselves. This approach is so obviously flawed that the concept of a performance budget becomes almost meaningless. An agency can defend a program by merely setting measures that are nothing but measures of outputs, such as the number of vaccinations given by the Kansas Health Policy Authority instead of a measurement that chronicles the reduction of childhood diseases relative to a control group in the state's population who are not in the Authority's Medicaid program. Legislators must take it upon themselves to institute a set of performance measures for every program performed by the state.

Every piece of new legislation that creates a program or agency should have these strong outcome-based performance measures attached, but it must go further than just relevant measurements of success. In order to fix the second fundamental flaw in the Kansas performance budgeting program, each program should be subject to penalties for failing to meet the desired outcomes. For programs with little success, these punishments could be as extreme as to act as a trip wire to dismantle the program if it cannot meet standards set by legislators. The resources can then be returned to the taxpayers or allocated to programs that actually produce results.

VIEWING STATE EXPENDITURES IN THEIR TOTALITY

An overview of spending by Kansas State Government by function from KanView, the state's transparency Web site, reveals that expenditures approached \$21 billion for FY 2009. Approximately \$8 billion is transfers between agencies or levels of government, leaving about \$13 billion in actual expenditures which is roughly split by revenue source between the general categories of taxes and fees.

Agriculture & Natural Resources	\$ 488,137,342.61
Education	\$ 6,402,457,529.85
General Government	\$ 5,108,210,935.31
Highways & Other Transportations	\$ 1,539,457,278.09
Human Resources	\$ 6,320,704,945.16
Public Safety	\$ 803,404,389.86
Total Expenditures	\$ 20,662,372,420.88

Legislators often overlook the opportunities provided within the totality of government spending to address crucial needs or provide for taxpayer relief. With the current economic crises, common sense would suggest now would be an excellent time to stimulate the state's economy by increasing the amount of money Kansans' have to spend. Unfortunately, the commonly held perception of most bureaucrats and many legislators is that demands on the SGF's reduced revenues preclude the ability to provide a tax break to citizens. AFP believes within the \$13 billion budget lurk enough waste, unnecessary services and misguided incentive plans so that even in this budget crisis, Kansas businesses and taxpayers would be provided some tax relief, while maintaining a budget funding all essential services.

This budget especially encourages legislators in the budgeting process to look at the bank accounts of state agencies at the end of the fiscal year. Unencumbered cash that has no claims made against it is often referred to as carryover. These unencumbered fund balances often tell a story of waste or excessive funding. Agencies, departments or programs will often view these as a sort of a savings account. Typically an agency, department or program director will tell legislators these funds serve two purposes. One, they provide "float" to allow them to manage the transition between fiscal years and any disbursement delays that come with it. What the bureaucrats don't mention is that their SGF revenue allocations are disbursed in 12-month increments. Just as citizens are paid on a regular basis and must budget within those parameters, we should expect our state agencies to be able to live within their allocations. The second argument bureaucrats will advance is these funds provide protection from temporary revenue shortfalls. Monies will accumulate in these unencumbered funds during periods of high revenues and they will be drawn down in periods of falling or stagnant revenues. This is especially true in the area of funds tied to tax receipts. Since these funds vary the most as revenues rise and fall, bureaucrats will more aggressively "save" in these areas.

Allowing bureaucrats to accrue these savings accounts to access during economic downturns ignores the positive impact of the efficiencies that are a natural outcome during downturns within the private sector. In a recession private businesses across the entire spectrum of goods and services have to look at their processes and products to pare costs and increase efficiencies in order to survive. Bureaucrats do not face the same pressures when they have a built-in savings account in their unencumbered funds.

The Kansas Policy Institute examined these funds and found 1,658 funds with total unencumbered balances of nearly \$2 billion. Some of these funds will have legitimate uses but others should be considered as available funds for legislators to use in determining how much to budget to that agency.

Viewing funding sources in their totality also allows the discovery of funds that can be redirected to more effective areas of expenditure. While some of these transfers may require alterations of the statutes, enabling these funds only for the care of the state's truly needy should trump turf wars and political bickering. For example, the Commonsense Budget proposes using some of the KEY funds that are currently being used for programs with questionable benefits to provide funds for Medicaid funding for underprivileged children. Most notably the \$12.5 million being provided to the Department of Education for parent education and a Pre-K pilot program should be matched with federal Medicaid money creating approximately \$31 million in funding for medical care for children living in poverty.

In addition, this budget encourages legislators to look for savings in the \$8 billion in transfers. There are costs associated with every transaction that moves these funds and finding and removing duplication and waste will save money at every level of government. For example, Medicaid expenditures are spread through several agencies, which results in additional paperwork and unnecessary overhead. This budget also strongly encourages the review of the transaction costs to local governments related to the Community Block Development Grant

Program. These are federal funds, but each state is given great leeway in the application and acceptance system. This program needs a complete system redesign that results in less bureaucratic review of applications and less time consumed by local communities wading through the paperwork.

STOP COMPETING WITH PRIVATE BUSINESS

Real economic growth is fueled by private business through the products and services they produce and subsequent payrolls they generate. Over time, we believe state government should be required to introduce competitive contracting and other privatization strategies to virtually all programs. Government should avoid competing with private enterprise whenever possible.

Outsourcing functions or forming public-private partnerships should be considered for many programs. The rule of thumb of: “If you can find the service in the Yellow Pages government shouldn’t be in the business of providing it” is a measure that should be applied to many programs. If deemed appropriate, privatization and sales of unnecessary assets can be made subject to public covenants and contractual restrictions to continue the desired public purpose while the state, and ultimately the taxpayers, benefit from the savings.

KNOW WHAT EVERYTHING COSTS BEFORE COMMITTING

Private citizens and businesses typically do not engage in transactions in which they don’t have an understanding of the cost. However, Kansas legislators are not required to practice the same commonsense approach.

Mandating that each piece of legislation has an economic impact statement enhances transparency for the general public. Legislators, bureaucrats and special interests who advocate for legislation should be prepared to face an honest inquiry on the cost of the legislation. This “cost” information should be generated by the legislative staff and be public record for inspection before a bill is ever advanced to committee. This concept is already being done in other legislatures and it has effectively controlled certain types of hidden spending bills. This budget believes this is a fundamental system design change to help legislators make important decisions on legislation that may have long-run implications for future state budgets.

APPLYING COMMON SENSE IN THE SHORT TERM

Common sense would suggest when revenues are down one would limit controllable expenditures. AFP has found some areas where a little common sense would save millions. Kansas taxpayers’ incomes are clearly down, as witnessed by the continuing drop in tax receipts to the state coffers. It seems only prudent to hold state wages in check while this recession is in place. By holding wages at current levels and foregoing longevity pay Kansas agencies will have approximately \$64 million to apply to essential programs.

When the common citizen is faced with a budget dilemma, unnecessary items are typically pared from the budget. It is only prudent to ask Kansas government agencies to do the same. Perusal of the KanView Web site uncovered out-of-state travel expenditures that exceed \$20 million. This budget removes all out of state travel from state budgets. Travel that agencies deem absolutely necessary will have to be funded by paring other areas of their budget, just as taxpayers are currently adjusting their budgets.

Legislators should avoid being lulled into believing they can cure the current budget crisis problems as they did in 2003, when then-Governor Kathleen Sebelius and the Legislature used hundreds of millions of dollars' worth of accounting moves to balance the budget so the actual cuts wouldn't be as steep. It doesn't take much common sense to understand that moves such as changing from accrual to cash-basis accounting at agencies with large amounts of expenditures are smoke-and-mirrors budgeting.

Moving a large amount of expenditures into another month and hence a different budget cycle does nothing to change the amount of those expenditures. This sort of accounting chicanery only delays the inevitability of budget problems, and in many ways exacerbates them.

With a budget hole of around \$1 billion there are no easy fixes and the theme of the agency-by-agency funding for this budget is "share the pain." Nearly every agency has been asked to find 15 percent to cut. Agency bureaucrats will attack such across the board spending cuts as unfair but taxpayers have been funding dramatic increases in agency budgets that have exceeded responsible spending limits for many budget cycles. Legislators are faced with little time to react to a budget deficit that has grown so quickly.

The low-hanging fruit will not fill this budget hole but the necessary program-by-program reviews cannot be thoroughly performed before agencies are asked to balance the budget. The only way to force tough choices on agency directors in order to buy time for implementing real reform is through restricting their funding. Legislators should be alert to the use of one-time funding sources or cuts and the mere delay of projects, and should insist that cuts remain in the base budget of each agency even when the economy recovers. It is time to end programs that have existed merely to placate special interest groups and/or that have no material effect on the well-being of Kansans. Kansas bureaucrats need look no further than their friends and neighbors to understand they are not the only ones being asked to make sacrifices.

CONCLUSION

The Commonsense Budget provides some specific examples of the application of these commonsense fiscal policies to agencies and programs to give citizens and law makers a roadmap on how to weather the current economic downturn AND reduce Kansas' individual income tax rate. This is a time of opportunity for Kansas. If we act courageously now we can provide Kansas a competitive advantage in the future and avoid a repeat of these cycles of boom and bust.

1. http://budget.ks.gov/publications/FY2009/FY2009_Comparison_Report.pdf, page 9
2. <http://www.taxfoundation.org/taxdata/show/475.html>
3. Total state and local tax burden as a share of personal income, Tax Foundation data based on Bureau of Economic Analysis and the Census Bureau of the U.S. Department of Commerce. <http://www.taxfoundation.org>
4. http://swz.salary.com/salarywizard/layouthtmls/swzl_statetaxrate_OK.html
5. <http://www.taxfoundation.org/taxdata/show/335.html>
6. Op. Cit. "Kansas Fiscal Facts", and "U.S. Census Bureau"
7. Ibid
8. Op. Cit. "Kansas Fiscal Facts", and "U.S. Census Bureau"
9. http://budget.ks.gov/publications/FY2010/FY2010_Comparison_Report.pdf, page 4
10. Governor's FY-2010 Comparison Report, page 10
11. KAKE-TV, Wichita story quoting Labor Economist Inayat Noormohmad
12. http://budget.ks.gov/publications/FY2009/FY2009_Comparison_Report.pdf ratio of salary to retirement, other benefits and payroll taxes taken from chart on page 37
13. Press release on KAKE TV Channel 10 Wichita
14. Associated Press report based on the Legislative Division of Post Audit report on economic development expenditures
15. Comparison Report FY-2010 page 109. Assumes average salary increase of 2.5 percent



Outlook for the State General Fund

(Dollars in Millions)

Beginning Balance	\$	FY-2011 AFP Budget (5.2)
Revenues *		
Revenue from Taxes	\$	5,651.0
Interest	\$	25.0
Agency Earnings	\$	55.0
Transfers:		
Special County/City Highway Fund	\$	-
School Capital Improvement Aid	\$	(85.0)
Water Plan Fund	\$	-
Regents Faculty of Distinction	\$	(4.0)
Regents Research Corp Debt Service	\$	(4.9)
Reinstate LAVTR	\$	-
Keeping Educ. Promises Trust Fund	\$	-
ELARF Revenues	\$	50.0
Statewide Maint. & Disaster Relief	\$	-
Biosciences Initiative	\$	(35.0)
Business Incentives	\$	(3.9)
Property Tax Slider--2006 HB 2583	\$	-
Highway Patrol	\$	36.1
All other Transfers	\$	20.0
Total Available	\$	5,699.1
Expenditures**		
General Government	\$	197.0
Human Services	\$	1,165.2
Education	\$	3,526.7
Public Safety	\$	379.7
Agriculture and Natural Resources	\$	26.0
Transportation	\$	8.9
Undermarket Adjustment	\$	8.5
Emergency Funding in Reserve	\$	50.0
Total Expenditures	\$	5,362.0
AFP Economic Stimulus Plan		
Continue Franchise Tax Phase Out	\$	37.0
Continue Estate Tax Phase Out	\$	47.0
Remove ELARF Funds for AFP Stimulus	\$	50.0
Biennial Budget Agency Fee Reduction	\$	5.8
Corporation Commission Fee Reduction	\$	5.0
KPERS Moratorium---State Agency Share	\$	10.7
Elimination of Commerce/KTEC/Kansas Inc. Tax Credits	\$	36.4
Suspension of 1/3 of KDOT Capital projects	\$	250.0
Total Stimulus	\$	441.9
Adjustment for Non-SGF Stimulus Funding Sources		
Biennial Budget Agency Fee Reduction	\$	(5.8)
Corporation Commission Fee Reduction	\$	(5.0)
Elimination of Commerce/KTEC/Kansas Inc. Tax Credits	\$	(36.4)
Suspension of 1/3 of KDOT Capital projects	\$	(250.0)
Total Adjustments to Expenditures	\$	(297.2)
Total Expenditures	\$	5,506.7
Ending Balance	\$	187.2



General Government

General Government

State General Funds

	Approved Budget FY-2010	AFP Budget FY-2011
Attorney General	\$ 4,736,805	\$ 5,146,179
Board of Indigents Defense Services	\$ 22,643,002	\$ 20,378,702
Court of Tax Appeals	\$ 1,440,511	\$ 1,224,434
Department of Administration	\$ 49,066,411	\$ 41,706,449
Department of Commerce	\$ -	\$ -
Department of Revenue	\$ 18,472,347	\$ 15,701,495
Governmental Ethics Commission	\$ 429,599	\$ 365,159
Judiciary	\$ 97,202,045	\$ 82,621,738
Judicial Council	\$ -	\$ -
Kansas Human Rights Commission*	\$ 1,493,193	\$ -
Kansas Racing and Gaming Commission	\$ -	\$ -
Kansas Technology Enterprise Corp.	\$ -	\$ -
Kansas, Inc.	\$ -	\$ -
Kansas Public Employees Retirement System	\$ 639,134	\$ 543,264
Legislative Coordinating Council	\$ 748,714	\$ 636,407
Legislative Division of Post Audit	\$ 2,651,952	\$ 2,254,159
Legislative Research Department	\$ 3,539,688	\$ 3,008,735
Legislature	\$ 16,562,940	\$ 14,078,499
Office of the Governor	\$ 7,455,035	\$ 6,336,780
Office of the Lieutenant Governor	\$ 207,375	\$ 176,269
Revisor of Statutes	\$ 3,340,063	\$ 2,839,054
Secretary of State	\$ -	\$ -
State Treasurer	\$ -	\$ -
General Government Total	\$ 230,628,814	\$ 197,017,323
Kansas Insurance Dept Partial Transfer of Fund Balances		\$ (8,497,000)
Biennial Budget Agency Fee Reduction		\$ (5,793,588)
Expanded Lottery Act Revenues Fund		\$ (56,700,000)
Corporation Commission Fee Reduction		\$ (5,000,000)
KPERS Moratorium---State Agency Share		\$ (10,724,668)
Elimination of tax credit and directed incentive programs		\$ (36,400,000)
Economic Stimulus Plan		\$ (123,115,256)

*duties transferred with funding to Attorney General

This category of government agencies contains a diverse group of functions. Many of these agencies are headed by elected officials or provide support for those elected officials; however, the vast majority of the paid Full Time Equivalents or FTEs (one FTE=one full time employee) in these agencies are government bureaucrats.

Government bureaucracies tend to divide and multiply over the course of years, segregating each different “job” performed into their own agency. Typically each must have a director (the equivalent of the business world’s chief executive) and staff for each particular function of government. Each entity will even have its own accounting, support and/or data processing personnel and the accompanying overhead costs such as office space and computer hardware.

Each of these agencies becomes another competitor for the taxpayer’s dollar at budget negotiation time. They also provide a way to “play down” the true amount of spending by any function of government. A good example of this is that several agencies provide support for the Legislature. The Legislative Coordinating Council, Legislative Post Audit, Legislative Research Department and the Revisor of Statutes all have functions pertinent to the Legislature. If the increase in spending by all these functions were viewed as one agency the amount is clearly more substantial, but distributed across several agencies the overall impact is minimized to the taxpayer.

The Commonsense Budget suggests several steps legislators can apply to solving not only the current budget crisis, but also helping address the long-term issue of making government more efficient with taxpayer dollars. These principles should be applied to every state agency and legislators should lead the way with their own function of government. An immediate hiring freeze coupled with the consolidation of redundant or underutilized positions and a reallocation of job locations would provide savings on several fronts without impacting government services.

AFP supported the franchise tax phase-out and includes funding for the elimination of this tax. The net effect of suspension would be an increase in taxes to businesses at a time when many are struggling to meet payrolls or simply survive. Businesses must pass the cost of these taxes on to their consumers so in the end the price of products and services include the tax. Ultimately the price increase causes a reduction in sales and revenues to the state coffers decline. It also adds paperwork requirements that add filing costs to businesses in Kansas on top of the tax itself.

Similarly, AFP supported the estate tax phase-out on the basis the “death tax” is a form of double taxation on asset accumulation that has already been taxed at the income tax level. The impact on states with estate taxes is to ensure wealthy citizens move their assets, if not their residency, to states without this onerous tax.

A number of different federal funds have flowed to agencies within this cabinet from the American Recovery and Reinvestment Act (ARRA) and they will be in general discussed in the individual department write-ups.

LEGISLATURE:

This AFP budget recommends the Legislature’s budget lead the way in reducing funding by 15 percent of appropriations. Where can legislators look to find these monies? Nearly a half million dollars can be saved by foregoing out-of-state and international travel for the year.¹ Millions of dollars has been expended on information systems consulting fees in the last few years. These are expenditures that should have reached a point of being finished or near completion. The private business world expects savings or increased services to

come from such huge investments in software consultants, and taxpayers and elected officials should expect no less. If neither can be delivered by these expenditures legislators may be able to find the monies needed to balance their 15 percent reduction by simply suspending payments and working on these systems until better revenue times.

Things like a budget crisis might make you wish you had watched your money better?

“The original cost of the statehouse renovation was estimated to cost between \$90 million and \$120 million. Now, it’s up to \$172.5 million, with plenty more to come. The newest figure doesn’t include a fourth and final phase of renovation, which includes work on the north wing and construction of a visitors’ center.”
http://cjonline.com/stories/091907/opi_200826375.shtml

The Statehouse renovation continues to be a prime example of how poorly government entities handle cost containment. In FY 2010 another \$38 million in bonding authorization was added to finish the project with the debt service on these bonds beginning in FY 2011.² While this is now water under the bridge, it is instructive for lawmakers when considering the cost projections of any capital outlay project by agencies. As legislators defending taxpayer dollars it is important that projects be properly bid and contracts be written to protect the taxpayer from cost overruns.

LEGISLATIVE COORDINATING COUNCIL:

The AFP budget recommends the Legislative Coordinating Council receive the 15 percent reduction in appropriations for FY 2011.

LEGISLATIVE POST AUDIT:

The AFP budget recommends the Legislative Post Audit Division receive a 15 percent reduction in budget for FY 2011.

LEGISLATIVE RESEARCH DEPARTMENT:

The AFP budget recommends the Legislative Research Department receive a 15 percent reduction in budget for FY 2011.

REVISOR OF STATUTES:

This department received an increase of over 23 percent for FY 2008 which only partially reflects the cost of two FTEs for committee staffing. With the updated computer systems and additional staffing the Revisor’s office should be able to suffice with the reduction of 15 percent of appropriations funding.

OFFICE OF THE GOVERNOR:

During the period FY 2006 through FY 2008 this office’s budget grew by nearly 20 percent, largely driven by an increase from the SGF of \$1 million for child advocacy center grants. The funding is intended to provide services for areas of the state not currently served by child advocacy center. The placement of these funds in a political office is not only inappropriate, but inefficient. The AFP budget transfers these funds to the Department of Health and Environment and removes an FTE from the Governor’s budget.

This budget also encourages the Governor to remove the other grant programs he supervises to areas of the government where they can be more effectively managed and removed from the political process. S.T.O.P.

Violence against Women Act, Victims of Crime Act, Family Violence Prevention and Services Act, State Access and Visitation Program, Sexual Violence Prevention and Education, the Governor's portion of Safe and Drug Free Schools and Communities Act, Byrne Memorial Justice Assistance Grant, Residential Substance Abuse Treatment, National Forensic Sciences Improvement Act, and Bullet Proof Vest Program are all candidates for transfer to the offices of the Attorney General, Department of Education, Department of Public Safety or Social and Rehabilitative Services.

The Governor certainly has led by example!		
Percentage Increase in Salary per FTE from FY-2008 to FY-2009		
Office of the Governor		23.90%
Revisor of Statutes		16.10%
Legislative Research Department		12.80%
Legislative Division of Post Audit		12.00%
Legislature		8.30%
Legislative Coordinating Council		5.80%

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Overall, AFP reduces the Governor's office budget by 15 percent and encourages the Governor to lead by example in looking for greater cuts while maintaining services.

OFFICE OF THE LIEUTENANT GOVERNOR:

The large increase in this office's budget from FY 2006 to FY 2007 reflects the fact that the current Lieutenant Governor has elected to serve only in that position and to receive the full salary for the position. Previous Lieutenant Governors had elected to serve in other capacities, including cabinet secretaries, and to receive the salaries for those positions instead of the Lieutenant Governor's salary. Since this office is completely funded by taxpayer resources it is appropriate for the current occupant to look for the most efficient way for Kansas taxpayers to fund his office. AFP reduces this office's budget by 15 percent.

SECRETARY OF STATE:

AFP notes that many fees in the state on business and individuals are too high and in fact represent backdoor taxes. As part of the AFP Economic Stimulus Plan, we recommend an across the board reduction in fees charged to businesses by 15 percent.

ATTORNEY GENERAL:

AFP recommends the Attorney General receive a 15 percent reduction in budget for FY 2011 after the consolidation of the Human Rights Commission functions into its operations.

STATE TREASURER:

AFP notes the Governor's recommendation to transfer \$105,419 to the SGF and suggests this is further proof legislators need to consider the revenues of the state in their totality when judging agency efficiency. It should also be noted the Legislative Division of Post Audit found some issues with the internal controls relating to inventory and abandoned property³ that, if resolved, could result in more monies being made available to the SGF.

KANSAS INSURANCE DEPARTMENT:

AFP recommends the Kansas Insurance Department receive a 15 percent reduction in budget for FY 2011.

HEALTH CARE STABILIZATION FUND BOARD OF GOVERNORS:

AFP recommends the Health Care Stabilization Fund Board of Governors receive a 15 percent reduction in budget for FY 2011.

JUDICIAL BRANCH:

AFP recommends the Judicial Branch receive the 15 percent reduction in appropriations and notes there has been an increase in fees well in excess of population and inflation growth over the last several years. The fee increases will help maintain full services for this essential function of government.

JUDICIAL COUNCIL:

The Judicial Council began the implementation of the Judicial Performance Commission in FY 2007 as a result of Senate Bill 337 in 2006, which established the Judicial Performance Commission in the Judicial Council, adding 3.0 FTE positions. At that time the budget was increased by 136.2 percent. This was followed in FY 2008 by another increase that brings the amount of increase to 252 percent in just three years. The latest data on the KanView Web site shows another 18 percent increase in 2009. These sorts of increases require review before any further expansion of this agency's budget. With this amount of budget growth even this essential function of government should be able to operate with a 15 percent reduction in appropriations.

BOARD OF INDIGENTS' DEFENSE SERVICES:

Increases amounting to nearly 30 percent have been implemented in the prior two fiscal years to cover costs associated with Jessica's Law. At this point those costs should be known and accounted for; however, this budget anticipates additional prosecutions from increased expenditures in law enforcement. This budget recommends that the Board of Indigents' Defense Services receive a 10 percent reduction in budget for FY 2011.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (KPERS):

State retirement systems are seldom addressed when budget issues are being discussed. However, every adjustment in employer or employee contributions impacts taxpayers. These increases in contributions increase costs to every agency and end up being funded by SGF despite the fact that normally very little in SGF flows directly to KPERS.

The type of retirement plan that KPERS uses is a defined-benefit plan. Defined-benefit plans such as KPERS have inherent flaws that are almost unavoidable. In a defined-benefit plan the employer guarantees a certain benefit payment to an employee for his or her lifetime, regardless of the availability of funds in their retirement accounts. The collapse of Bethlehem Steel, the crisis at General Motors and dozens of other examples have spotlighted the inherent problems with defined-benefit plans and KPERS is no exception. Currently KPERS has an unfunded actuarial liability (UAL) of over \$5.55 billion according to the latest actuarial report. What this essentially means is that KPERS is \$5.55 billion short of being able to pay the retirement benefits that have been promised by the system. And by KPERS' own account, "even with a strong, sustained market recovery, the UAL will significantly increase going forward."⁴

Here's how teachers can raise their salaries

They need to go to work for their retirement system where the average salary per FTE at KPERS is an astounding \$64,194 per year. This salary average includes every employee of KPERS.

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KPERS has admitted: “By the early 2000s, it became apparent that the planned rate increases were insufficient to fund those benefits, creating a long-term funding problem. Over the last five years, the Retirement System’s Board of Trustees, staff and actuary has worked closely with the Legislature’s Joint Committee on Pensions, Investments and Benefits and the Governor’s office to implement a comprehensive funding plan. Key steps taken to implement the plan include:

- A series of scheduled employer contribution rate increases.
- Issuing pension obligation bonds.
- Making actuarial changes.
- Reviewing possible plan design changes for future employees.”

The “possible plan design changes” proposal is the only solution that will not cost Kansas taxpayers more money to maintain an archaic system. Most private businesses use some version of a defined contribution plan in which the employer guarantees the level of contribution to the plan. The employee is usually empowered to make investment choices but is not guaranteed any more than the amount in the plan at retirement. The very nature of the plan guarantees fiscal solvency. Common sense would argue all new employees to state and local government entities who are currently KPERS-eligible should be enrolled in a defined contribution plan.

FY 2010’s projected budget called for an infusion of \$43.6 million⁵ to KPERS. Savings incurred through the enrollment of all new employees to a defined contribution plans will allow KPERS to spend down assets if necessary and a short term cessation of funding should not impair KPERS’ long-term viability. This budget advocates redirecting these funds in FY 2011 to more essential functions.

KANSAS HUMAN RIGHTS COMMISSION:

This budget proposes the merger of the Human Rights Commission (HRC) functions into the office of the Attorney General. Not only will this merger provide a savings in support staff with the elimination of redundant positions, but it will also heighten the ability of HRC staffers to perform their tasks. The Attorney General is far better staffed to investigate and prosecute discrimination cases than HRC. The AFP budget proposes the HRC’s budget, after its combination with the Attorney General, be reduced by 25 percent to reflect administrative savings from the merger and the current economic climate.

KANSAS CORPORATION COMMISSION:

The Kansas Corporation Commission is funded by fees and does not directly receive any SGF monies. However, this budget encourages a rollback of fee schedules designed to reduce overall fees to those businesses and individuals affected of 25 percent. This budget includes \$5 million in fee reductions as part of the AFP Economic Stimulus Plan.

CITIZEN UTILITY RATEPAYER BOARD:

The Citizen Utility Ratepayer Board is funded by fees and does not directly receive any SGF monies. However, this budget encourages a rollback of fee schedules designed to reduce overall fees by 25 percent.

DEPARTMENT OF ADMINISTRATION:

There are a number of areas within the department that need critical review. The funding from the SGF for public broadcasting should be reviewed for the necessity of the services provided by public television. AFP concurred with the Legislature’s decision to refuse to provide outright funding of enhancements for public broadcasting, and instead approved a loan to the various entities running the public stations last fiscal budget cycle. The advent of satellite television and the rapid expansion of other audio visual applications on the Internet

bring into question the efficiency of continuing to use public funds even in its education application. At a time of budget crisis these sort of projects need to be considered for either funding cuts or elimination.

It is telling that the Administration Department met most of the FY 2009 reduction by “holding vacant positions open”⁶ and intended to do the same for FY 2010. If the department can function without these positions, the necessity of these FTEs is questionable and they should be eliminated.

The department invested \$40 million in a computer software project to implement a new Statewide Financial Management System. One of the benefits of this expenditure was the establishment of the Kansas Taxpayer Transparency Web site, or KanView, the preeminent tool for an informed citizenry. However, there are some current issues with agencies reporting their expenditures properly on the site which have limited its usefulness. Some agencies are not reporting expenditures and there are issues with being able to search for specific expenditure details. For example, the University of Kansas and Emporia State University are not reporting any travel expenses. Without a doubt they have travel expenditures but have chosen to report the expenses in another category. Additionally it appears some of the features have been made either inoperative or less user-friendly. Vendors now can only be searched through using the exact name, allowing agencies to hide the total spent with vendors by issuing payments to names that vary by as little as one letter. The Legislature’s own expenditures are no longer available at the object level after one attempts to move from the general categories, preventing one from viewing things such as travel expenditures. The Legislature should set coding standards and reporting requirements for the KanView Web site so that it can continue to be a ready resource.

The Legislature should follow up on this Statewide Financial Management System project closely and examine the efficiency of the application but also look for savings that technological advances should bring to each agency. Typically the private business world experiences either an upgrade in services offered, reduction in personnel required and/or a reduction in costs with a technological upgrade. The department should be held to the same standards with this taxpayer investment. AFP’s belief is there should be savings in the area of accountants and technology positions that could be eliminated permanently.

It is interesting to note the department – in the middle of the worst recession in our lifetime – increased wages approximately \$2.5 million and contractual services \$9.5 million. In these tight budget times each expenditure, regardless of revenue source, must be examined for potential opportunities for savings and cost controls but it appears these concepts are not totally understood by this agency. The only way to force control on the department is to reduce the overall appropriations by 15 percent and ask the department to cut its overall budget by the same amount.

STATE BOARD OF TAX APPEALS:

The AFP budget recommends the Board of Tax Appeals receive a 15 percent reduction in budget.

DEPARTMENT OF REVENUE, THE DEPARTMENT OF COMMERCE, KANSAS INC, KANSAS TECHNOLOGY ENTERPRISE CORPORATION:

AFP encourages the Legislature to review the efficiency of the many tax credit and incentive programs these agencies oversee. The concept of supporting industries at the exclusion of others is a flawed concept. The free market provides “seed” or venture capital to firms all the time. Is there any reason to believe that government bureaucrats are better at identifying profitable investments for seed capital than the market? Venture capitalists are experts in identifying potentially profitable investments; the people who are most successful at it are the ones with the most venture capital to risk. These people also have a great incentive to be right. If they are, they make lots of money; if they are not, they lose money. These people have the knowledge and the incentive to fund all

profitable opportunities. The government bureaucrat is selected for different reasons, without a natural-selection mechanism for weeding out those who make bad investment decisions. The argument can be made that projects which are only viable with the state's incentives or tax credits programs are bad investments that should not be funded. It can also be argued the market would have supported such projects without these tax credits if they were truly good investments.



The AFP budget proposes all these programs be considered for closure and the funding currently flowing to the tax credits and initiatives to the tune of \$34.6 million be used as part of an economic stimulus plan through direct refunds to Kansas taxpayers. This would reflect the removal of all Economic Development Initiative Funds (EDIF) from Commerce (K-Tech \$7 million, Commerce \$16.7 million, Board of Regents \$2.7 million, KSU-ESARP \$.3 million and WSU-Aviation Research \$7.4 million⁷). Many of these initiatives are replaced in this budget with long-term stimulus ideas, such as moving state jobs to rural areas in lieu of \$1.8 million in EDIF funding to fund studies and grants for the Rural Opportunity Program.

A prime example of a program with a questionable investment is the Wind Energy Manufacturing Incentive. The Legislature expended \$2.05 million to provide “economic benefits to a wind energy manufacturer. Kansas has been identified as one of the leading states in the U.S for wind energy production and it is projected that Kansas will have significant growth in the number of Kansas wind farms, as well as their energy output levels over the next ten years. The Department of Commerce estimated that the manufacturing facility will employ 400 employees in the state and will lead to additional investments and growth opportunities in wind energy manufacturing in Kansas.”⁸

Kansas is a top destination for wind farms, not because of this questionable expenditure, but because of the high average wind speeds and advantages of being largely rural with lower costs. Reduce corporate and individual income taxes and manufacturers will look at Kansas as a preferable destination. If in fact Kansas is a top candidate for these manufacturers the reduction in shipping costs of the large components of these units should more than offset the cost of relocation of facilities.

The Department of Commerce Trade Development Program is another example of the sort of programs that should be targeted for termination. These are functions best performed by the various private sector entities with products to sell. Government can provide the most help to business by reducing the corporate tax rate and businesses will have more capital to address marketing and other needs.

Some of then-Governor Kathleen Sebelius' good ideas supported by AFP were not enacted in FY 2010. These proposals would have reduced FTEs. For example, the Legislature's decision to retain Kansas, Inc. and KTEC as separate state agencies added 21.50 positions to the state workforce in FY 2010. The former Governor had recommended abolishing these agencies and referring their functions to the Department of Commerce, with no additional FTEs.

Why is this no surprise?

Legislative Post Audit examined staffing levels at the Department of Commerce and found they had more staff in management positions than any of the comparison agencies. On average, the department had fewer people reporting to each of its managers, and many of these managers were located at fairly low reporting levels in the department. The heaviest concentration of management staff--one management position for every 1.2 non-management positions--was in the Employment Services Section of the Department's Workforce Development Division. In addition, the department had organized its five workforce development regions with a double layer of management. They found that discrepancies between authorized and filled positions, as well as limited access to complete organization charts, hampered analyses.

AFP proposes the operating budgets of the departments of Revenue and Commerce be reduced by 15 percent. This would be made possible by the savings from consolidations, the hiring freeze and the elimination of the personnel supporting the tax incentive programs. Operations of Kansas, Inc. and Kansas Technology Enterprise Corporation should be reduced only to those programs that can be funded through grants or donations and all necessary staff work assignments be absorbed by the Commerce Department within its existing FTEs.

These agencies are receiving \$67 million in American Reinvestment and Recovery Act (ARRA) funds designated as stimulus funds and these agencies provide a microcosm for looking at how loose our government considers the definition of stimulus. First it should be understood that any agency receiving funds is by and large not going to pass through all of those funds. A certain percentage will be absorbed in administrative expenses to handle those funds. This budget encourages legislators to query agency directors about these handling expenses as they relate to FTEs. There are two important questions that need to be asked: 1) if there are chargeable expenses to the federal program, does that not indicate an area where state budgets can be reduced, and 2) if no additional FTEs or contract labor were needed to handle these funds, does this not point to underutilized staff and a budget that has been overfunded?

KANSAS LOTTERY AND THE KANSAS RACING AND GAMING COMMISSION:

This budget encourages our legislators to monitor the promotion of these endeavors for any change in the cost/benefit to Kansas. Although this budget supports the concept of making this revenue available to the taxpayers, it disagrees with the approach of placing the funds in the SGF for appropriations.

The Commonsense Budget sends revenues targeted for the SGF from the Expanded Lottery Act Revenues Fund, estimated to be approximately \$50 million in total for FY 2011, back to taxpayers in the form of the AFP Economic Stimulus program.

BIENNIAL BUDGET AGENCIES:

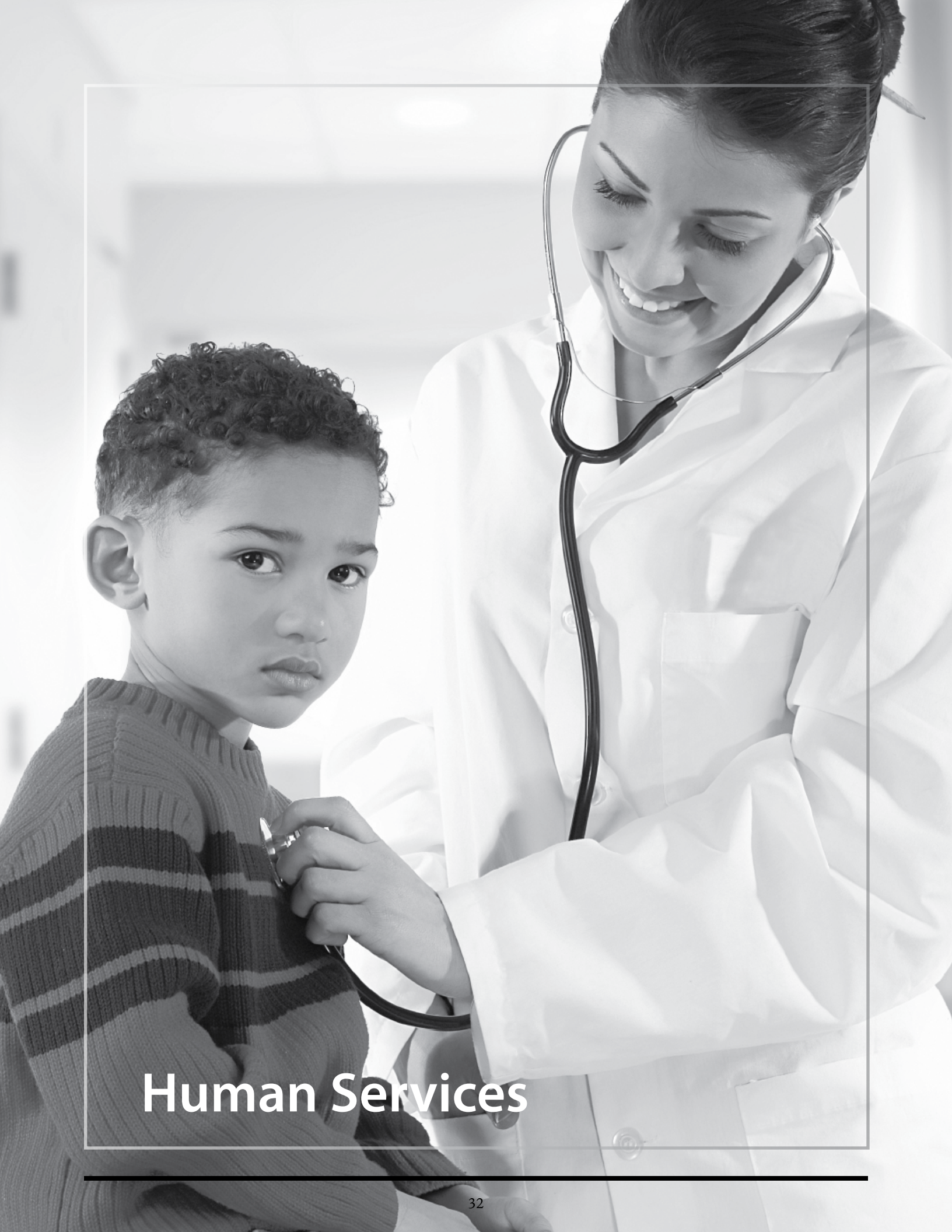
The AFP budget proposes all fee-driven agencies reduce their fees by 25 percent, providing \$6.5 million in funds for AFP's Economic Stimulus Plan. Fee-driven state agencies have lacked the accountability in many cases of legislative oversight. They represent overhead costs to businesses passed on to the individuals that use their services. Many of these agencies will have carryover funds and the capacity to absorb most of the loss of revenue. Legislators should note that in a period of economic recession many of these agencies experienced surprising revenue growth. For example, the Dental Board increased revenues by 102 percent from 2008 to 2009.

The Legislative Division of Post Audit looked at the financial regulatory agencies for efficiency gains from consolidations and found: “Kansas is one of only five states with three or more separate agencies that oversee financial entities and institutions. By consolidating Kansas’ Department of Credit Unions, Office of the Bank Commissioner, and Office of the Securities Commissioner, at least \$260,000 could be saved annually, mostly from staff reductions or restructurings. An additional estimated \$295,000 in annual savings could be achieved even if the agencies aren’t consolidated. Total estimated cost savings of \$2.8 million over five years are conservative. Savings could be significantly higher after a detailed review and restructuring of examination schedules.”⁹

AFP concurs with that statement and suggests legislators act immediately to consolidate those functions and reduce fees charged to the regulated businesses accordingly.

	KanView Web site	AFP's FY-2011	AFP Economic Stimulus Plan
Abstracters Board	\$ 20,887.00	\$15,665.25	\$ 5,221.75
Board of Accountancy	\$ 399,522.00	\$299,641.50	\$ 99,880.50
State Bank Commissioner	\$ 7,911,103.00	\$5,933,327.25	\$ 1,977,775.75
Board of Barbering	\$ 180,164.00	\$135,123.00	\$ 45,041.00
Behavioral Sciences Board	\$ 581,336.00	\$436,002.00	\$ 145,334.00
Board of Cosmetology Kansas	\$ 1,020,851.00	\$765,638.25	\$ 255,212.75
Department of Credit Unions	\$ 1,107,739.00	\$830,804.25	\$ 276,934.75
Kansas Dental Board	\$ 607,801.00	\$455,850.75	\$ 151,950.25
Governmental Ethics	\$ 171,020.00	\$128,265.00	\$ -
Board of Healing Arts	\$ 4,076,080.00	\$3,057,060.00	\$ 1,019,020.00
Hearing Instruments Board	\$ 45,818.00	\$34,363.50	\$ 11,454.50
Board of Mortuary Arts	\$ 280,558.00	\$210,418.50	\$ 70,139.50
Board of Nursing	\$ 2,025,994.00	\$1,519,495.50	\$ 506,498.50
Board of Optometry	\$ 9,183.00	\$6,887.25	\$ 2,295.75
Board of Pharmacy	\$ 1,562,986.00	\$1,172,239.50	\$ 390,746.50
Real Estate Appraisal Board	\$ 347,764.00	\$260,823.00	\$ 86,941.00
Real Estate Commission	\$ 912,506.00	\$684,379.50	\$ 228,126.50
Securities Commissioner	\$ 4,178,987.00	\$3,134,240.25	\$ 1,044,746.75
Technical Professions	\$ 867,289.00	\$650,466.75	\$ 216,822.25
Veterinary Examiners	\$ 231,807.00	\$173,855.25	\$ 57,951.75
Total	\$ 26,539,395.00	\$ 19,904,546.25	\$ 6,592,093.75

1. <https://www.accesskansas.org/app/kanview/index.php?page=agency&action=ob&obaction=vn&id=2791&obj1=2000&obj2=2701&an=428>
2. FY-2010 Comparison Report, page 47
3. <http://www.accesskansas.org/srv-postaudit/results.do>
4. <http://www.kpers.org/annualreport2008.pdf>, page 7
5. http://budget.ks.gov/publications/FY2010/FY2010_Comparison_Report.pdf, page 48
6. http://budget.ks.gov/publications/FY2010/FY2010_GBR_Volume1--Update_1-13-2009.pdf, page 60
7. FY-2010 Comparison Report, page 33
8. http://budget.ks.gov/publications/FY2010/FY2010_GBR_Volume1--Update_1-13-2009.pdf, page 37
9. <http://www.accesskansas.org/srv-postaudit/results.do>



Human Services

Human Services

State General Funds

	Approved Budget FY-2010		AFP Budget FY-2011	
Social & Rehabilitation Services	\$	567,223,103	\$	538,861,948
Kansas Neurological Institute	\$	11,159,914	\$	10,601,918
Larned State Hospital	\$	41,004,838	\$	38,954,596
Osawatomie State Hospital	\$	16,691,703	\$	15,857,118
Parsons State Hospital & Training Center	\$	10,302,372	\$	9,787,253
Rainbow Mental Health Facility	\$	5,426,717	\$	5,155,381
Kansas Health Policy Authority	\$	392,901,203	\$	373,256,143
Department on Aging	\$	149,880,721	\$	142,386,685
Health & Environment--Health	\$	23,601,972	\$	20,061,676
Department of Labor	\$	475,776	\$	404,410
Commission on Veterans Affairs	\$	8,749,796	\$	8,749,796
Kansas Guardianship Program	\$	1,154,401	\$	1,154,401
Human Services Total	\$	1,228,572,516	\$	1,165,231,325

Historically in a time of economic distress, social and health services are accessed by a greater percentage of the population. However, in recessions state revenues to fund these programs are in a freefall. This causes enormous budget problems for programs such as Medicaid. What is always forgotten in these tight budget times is these programs typically expand during economic booms. Kansas was no exception and extended its Medicaid coverage with several initiatives, including increasing the income level for qualifying for the program during the last economic upturn. These program expansions in good economic times ultimately create a crisis during the inevitable downturns.

AFP believes there are ways to provide the care the truly needy deserve without raising taxes and/or massive program reductions. First, the definition of who qualifies as truly needy should be examined. It makes little sense to expand programs, as has been the history of the Kansas Health Policy Authority's Board of Directors,¹ when the available funding for existing programs are going to be limited. Some of the lack of urgency by the Board is no doubt driven by the American Recovery and Reinvestment Act (ARRA) funds that will pay for a greater percentage of Medicaid costs. AFP cautions legislators this funding is only available for 11 quarters and the notion of creating dependency that cannot be sustained is a flawed concept.

Now is the time to review existing programs and examine who each program serves and if those services actually provide a benefit to those served. Which serve the truly needy? Which provide results for these needy? Does the expenditure justify the results?

One must start first by asking these questions and consolidating resources. However, that will most likely not be enough given the current budget shortfalls. Decisions need to be made about the essential functions of government and funding should be allocated based on priority rather than by cabinet. That may mean stopping the funding for some programs/agencies temporarily or permanently. For example, do we need a Kansas Arts Commission as badly as we need to maintain services for the needy?

The need for stringent performance measures may be more important in the area of Human Resources than any other. The amount of money available for any single function of government is a finite resource and it is essential – particularly in this area – that limited resources not only be focused on the truly needy in our society, but also that the taxpayer's investment actually produces positive results for those served.

Many advocates of social programs will attempt to defend their pet project by suggesting the program is not truly measurable because its results are impossible to quantify. If a program's results are "immeasurable" by any relevant performance measure, legislators should consider that program a candidate for elimination as a non-essential service and reallocating its funding to a program that can show its results. Health and social programs that do not make the recipients' lives better are a disservice to the recipients and are not a proper allocation of the taxpayer's dollar.

Social and health programs need to be examined to determine whether all the individuals being served are truly needy. Too many government programs have moved from being safety nets for the needy to welfare for the greedy. Kansans expect their state government to provide essential supports services for those in need but they also expect it to spend their tax dollars wisely. Programs within social and health services should be means-tested whenever possible and fees set relative to income and/or asset ownership of the non-impooverished recipient for those services. This means-testing approach may actually make some existing programs eligible for federal government fund matches and increase resources available to the needy.

Increasingly, responsibility for taking care of others is placed at the foot of government. In a culture that

speaks about desires in terms of needs, needs in terms of rights and rights in terms of entitlements, government is considered obligated by many to become the extended family for all citizens. This approach actually serves to break down the historical institutions that have provided many of the current government services to its members.

Public officials can help to promote a healthier society and find partners in assisting to social and health needs by acknowledging the responsibility that families, neighborhoods, churches and similar institutions have for their members. Policy should serve to encourage and protect such institutions. Promoting policies that remove barriers and disincentives for the members of local associations to personally act to solve problems would eliminate many problems before the state becomes involved.

Kansas spreads Medicaid services amongst several agencies with the bulk of expenditures in the Kansas Health Policy Authority (KHPA), Department on Aging and the Department of Social and Rehabilitation Services. AFP proposes a consolidation of these Medicaid services into the KHPA. This makes sense from several perspectives. The truly needy do not always have Internet access or transportation available and common sense would indicate their receiving services should be a priority over the budgetary turf wars and bureaucratic redundancies of multiple agencies. AFP proposes all savings from consolidation be used to maintain essential services that will make a difference in the impoverished segment of Kansas society.

Finally, the state must view funding sources in their totality and redirect funds to more efficient areas when appropriate. The Commonsense Budget proposes using some of the KEY funds currently being used for programs with questionable benefits to provide funds for Medicaid funding for underprivileged children. Most notably, the \$12.5 million being provided to the Department of Education for parent education and a Pre-K pilot program should be matched with federal Medicaid money creating approximately \$31 million in funding for medical care for children living in poverty.

DEPARTMENT OF LABOR:

The Kansas Department of Labor (KDOL) was created by Executive Order # 31 in 2004. Prior to that time, the department was named the Kansas Department of Human Resources. KDOL is administered under the direction and supervision of the Secretary of Labor who is appointed by the Governor, subject to confirmation by the Senate.²

The agency administers the unemployment insurance program and processes claims for unemployment benefits. KDOL operates the Kansas workers' compensation system and enforces Kansas employment standards including wage and hour laws and child labor laws. The agency also houses a research unit that compiles data on employment in Kansas.

The value of networking is well understood by many on an individual basis but functionally ignored by most state agencies when it comes to serving their clients. Although the KDOL maintains a very nice Web site for both employers and employees, there is a section of the economy that is missed with too much reliance on the Internet. Many of the very small businesses and those seeking employment at the lower end of the pay scale in the job market do not use the Internet. This budget encourages KDOL to contact local chambers of commerce, non-profits and churches, who are often more in tune with these small businesses and individuals, and set up information exchanges to provide job assistance.

What's in a name change and what did the taxpayer get for it?

Apparently some pretty steep cost increases came with the change from the Department of Human Resources to the Department of Labor. The new Department of Labor has no less than 12 Director or Chief Executive positions. This may be a partial explanation for the nearly 24 percent increase in the department's budget from 2006 to 2008.

What is even more difficult to understand with all this management is the Legislative Division of Post Audit found in a review that:

1. KDOL had a high rate of overpayment of unemployment benefits.
2. KDOL responded to this issue with a bureaucratic move that in Post Audit's opinion would result in KDOL being "much less helpful to the large numbers of other unemployed workers who need to find new jobs."
3. Post Audit summarized: "we think the Department of Labor's solution to the high benefit overpayment error rate has gone in the wrong direction."

So they saved a little money on overpayments but created more payments to job seekers by making it more difficult to find a job?

AFP recommends the Legislature review the performance of the KDOL versus the increase in cost incurred by Kansas taxpayers and industry on a program-by-program basis. Modernization and/or consolidation of support functions such as accounting and data processing should be mandated. Savings in reduced software, hardware and management salaries of these functions would provide a significant increase in funding without raising appropriations to the agency. AFP recommends a 15 percent reduction in appropriations with expected savings of consolidation of support functions to be available by the fourth quarter of the fiscal year to help offset the reduction. Kansas was one of the states agreeing to make changes to its unemployment laws. Our state received \$4.9 million in funds for the administrative costs to carry out the changes, to improve outreach of unemployment claims eligible individuals, to improve unemployment benefit or unemployment tax operations and for staff assisted reemployment services for claimants.

DEPARTMENT OF VETERAN'S AFFAIRS:

This important agency to our citizen soldiers has received some of the smallest budget increases of any agency over the last two years. With the return of Big Red One to Fort Riley and the troop draw down in Iraq there will be more demand for services for our nation's finest. AFP recommends that Department of Veteran's Affairs receive a standstill appropriation.

DEPARTMENT OF HEALTH AND ENVIRONMENT:

The Kansas Department of Health and Environment (KDHE) was created in 1974 to replace the Kansas State Board of Health, established in 1885. KDHE consists of the Office of the Secretary with all supporting services, a Division of Health with seven bureaus and a Division of Environment with five bureaus. There are two support divisions – Center for Health and Environmental Statistics and the Kansas Health and Environmental Laboratory – which provide information resource management and laboratory assistance to the other two divisions and the general public. The Office of Vital Statistics, within the Center for Health and Environmental Statistics is responsible for registering births, deaths, marriages and divorces, and issuing appropriate certificates.³ This budget encourages reductions of fees associated with these state services to provide relief to taxpayers and businesses.

The size and complexity of this many programs and employees makes evaluating the KDHE's expenditures of taxpayer dollars very difficult. In any department this large, outcome-based performance

measures are the only truly effective way for taxpayers or legislators to monitor the effectiveness of programs..

The funding for any of the health programs without a measurable positive impact on recipients needs to be halted and the funding reallocated to programs able to show bona fide results. Legislators will find this will create some competition between programs that will improve the efficiencies of every program. Just as private business must compete and evolve to survive in the market, this pressure to meet relevant outcome-based performance measures will drive programs to maximize their impact.

AFP proposes the county health programs in counties with lower populations and/or low department utilization rates be administered through the local hospitals. This should include programs like the Women, Infants, and Children (WIC) program. A prime example of the efficiency gain of such an operation is just to the south of Kansas in Cordell, Okla., where the local hospital handles WIC and takes advantage of its additional contact with mothers and children to help maintain the hospital and improve outcomes for the mothers and children in WIC. County health departments should be required to first seek partnership with local hospitals, including contracting services, before any expansion of facilities or FTEs is allowed. At a time when many rural hospitals are struggling financially it makes good sense to examine this approach from both an economic and a health-outcome perspective.

AFP also strongly encourages review of a program in Florida that generated volunteerism efforts by medical professionals. The program grew from \$91,000 to \$66 million in services in just seven years, using sovereign immunity from liability suits within strict guidelines to encourage medical professionals to provide services for the uninsured. This program was particularly effective for retired professionals who have let their malpractice insurance lapse on retirement due to the high cost. Florida has reported that not one successful suit had been brought against a participating health professional since the inception of the program. At a time when so many have needs, allowing medical professionals to donate time and services towards meeting those needs without subjecting them to risk of suits would seem to be common sense.

A review of all KDHE programs should be undertaken to determine whether more of the programs it provides should incorporate means-testing. The use of means-testing would not only eliminate people who can afford services from using up resources, but in many cases may open up the availability of additional federal funding for the programs by meeting Medicaid or other federal funding guidelines. County health departments would benefit from this change in operations as many of their functions may overlap with these programs.

KDHE programs need to be examined for the effectiveness of their programs and also for the appropriateness of the fees and costs to industry. A clean environment benefits all citizens, but within these type of programs taxpayers must be alert for unnecessary bureaucracy and ineffective programs. Fees to perform permitting and services to industry should reflect the cost of those services in the private market if available. Any fee that exceeds the cost of providing the service to industry becomes a backdoor tax that is passed on directly to consumers. This budget urges legislators to roll back fees by 25 percent to provide a stimulus for business during these difficult times.

Vigilance is required for any agency that monitors private business activities where that agency has the ability to limit and/or prevent the operation of a legal business through bureaucratic decisions. With the increasing activism of some state's environmental monitoring agencies, Kansas legislators must carefully examine the appropriateness of KDHE's executive decisions regarding industrial activities.

This budget provides a 15 percent decrease to KDHE's appropriations but expects some savings through

consolidations will help offset those losses. During the transition American Recovery and Reinvestment Act (ARRA) funds will help smooth the transition.

DEPARTMENT ON AGING:

The Department on Aging is a study in how a government agency's goals can be so open and vague that a dichotomy of operational philosophy can exist within two programs of the same agency. For example the department has a sterling example of a public-private partnership concept in Long-Term Care Partnership Program, which offers a way for Kansans to protect their assets if they ever need to apply for Medicaid services by creating an incentive to purchase private long-term care policies.

Often the public-private partnership concept is misunderstood by citizens. This public-private trade-off provides dollar for dollar asset protection. Each dollar one's private policy pays out in benefits entitles one to keep a dollar of one's own assets if one ever needs to apply for Medicaid services. This policy helps remove the perverse incentive to not buy long-term care insurance and instead hide assets in trusts to qualify for Medicaid paid nursing home care. Unlike most government incentive programs this program should actually save taxpayer dollars by making the first dollars spent on nursing home care private insurance and not Medicaid.

Conversely, the department fails to understand the power of the free market to react to consumer's needs for different types of services. The department's Nursing Home Cultural Change program sounds enticing but on examination is an attempt by the department to play both "seer" and "decider" for future nursing home occupants. The stated goal from the department's Web site for the program is; "Transformation of nursing facilities from traditional medical models to homes that support residents making more choices about their living arrangements is what seniors deserve. To meet their needs and expectations, innovations in the long-term care delivery system, employing new models of care, are critical to advancing senior housing accommodations that will transition to the future." This program goal is sufficiently vague as to cloud the ability to ever judge whether it actually accomplished anything. This is exactly the type of programs legislators should target for elimination or funding reduction, especially in times of economic distress.

The department has a number of programs including senior nutrition programs that need to be evaluated for the appropriateness of means-testing for eligibility. Those that can afford such services should not be using resources more appropriately allocated to the truly impoverished. By applying means-testing that follows the state Medicaid guidelines some of these programs may become eligible for federal matching funds and reduce the need for state spending.

AFP encourages the pursuit of greater private participation in the department's programs. We should encourage finding those institutions, such as churches, that are already in contact with many of our elderly citizens to collaborate to provide services for those citizens. Additionally, a review for reduction in scope or possible elimination of non-essential services and non means-tested programs should be immediately instituted and the resources of those programs reallocated to the remaining essential services.

AFP recommends a 5 percent decrease in appropriations for the Department on Aging and believes reallocating funding for non-essential programs will actually help ease the cut in funding and allow for the truly needy to still be served.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES:

In a recession the services of the Department of Social and Rehabilitation Services (SRS) will be accessed more than ever. More people accessing services do not translate into a reduction in costs. There are

savings to be found in SRS but they are in redesigning the system, making sure we are serving the truly needy and increasing cooperation with existing social organizations such as churches and other non-profits.

The Commonsense Budget believes that legislators need to view Kansas' government revenues in their totality instead of looking only at appropriations. AFP recommends removing funding from agencies such as the Office of the State Bank Commissioner, to which the Governor's budget allocates \$208,000 for credit counseling, or the Attorney General's child visitation center funding of \$330,000, and transfer the funding to SRS and KHPA for their Medicaid matching fund programs. If legislators will review these line-item expenditures, this approach will maximize the funding available to the truly needy in this recession.

Agencies that are actually doing worthwhile activities, such as the Department of Revenue's collection of child support payments, need to examine their operation method. The United States Department of the Treasury will cooperate with states in withholding tax refunds to parents who don't pay child support, which increases the amount of collections markedly. AFP questions the necessity of having two FTEs dedicated to this tax intercept program. Simply having SRS's Child Support Enforcement division provide the list of Kansans with support arrearages, and instructing the Department of Revenue to hold those with funds for transfer to SRS for redistribution to families does not sound like a two-person job.

Many SRS programs are much-needed support for impoverished adults and children, but legislators need to be alert for those with the means to cover their own expenses. An example lies within Child Support Enforcement (CSE), where according to its Web site; "there are no eligibility requirements (i.e. income limitations, residence) to make application for CSE Services, however the extent of services provided may be limited by legal factors and the relationship to the child for whom services are requested."⁴ This approach spends tax dollars on those who can afford legal counsel and diverts resources from the truly needy.

AFP supports pursuing absent fathers for costs incurred for the birth of their child by the Medicaid system when those fathers fail to participate in means-testing for eligibility. See the Kansas Health Policy Authority section for more details.

The first priority for the savings from means-testing for assistance should go to maintaining services to the impoverished. Any funds not needed to cover the budget deficit should then be redirected to other worthy programs within SRS. A good example of such a program would be the Adoption Resource Recruitment Contract which provides recruitment, training and support for adults interested in adopting children in foster care. This is a terrific example of a public-private partnership to improve children's lives and should have been a priority but in the FY 2009 budget SRS recommended a \$1 million reduction.⁵ Management should be asked to explain the philosophy of cutting expenditures in this area when so many programs with questionable results exist within this budget. AFP encourages SRS to review whether by partnering with social organizations such as Rotary, Lions Clubs or churches that these programs can be maintained in difficult times for some families.

Legislators should always be on the lookout for attempts to hide funding sources for other government agencies, and social support agencies are no exception. Within the SRS budget lurk expenditures for public education and law enforcement.

The expansion of the Pre-Kindergarten program is funded by \$3 million from the SRS budget. Not only is this a hidden subsidy for public education, but it is for a program with questionable results. A recent study looking at Pre-K students found that children who attend daycare or preschool the year prior to kindergarten do not gain greater social or cognitive skills and in some measures end up lagging behind their peers who enjoy the

attention of their parents exclusively.⁶ By making it a Medicaid match legislators can turn the \$3 million into approximately \$8 million in funds for health coverage for impoverished children.

SRS also received \$400,000 in general funds to support a program to prevent tobacco sales to minors. This may be a good program, but it should be operated by an agency with actual enforcement powers. AFP recommends removing this funding.

We also encourage SRS and legislators to examine whether recipients of services and providers of those services would be better served by having offices consolidated with county health departments. In rural counties partnering these agencies with local hospitals would provide one-stop shopping for recipients and potential savings in the removal of redundant support positions while helping hospitals with vacant space find productive uses.

This budget reduces SRS' appropriations by 10 percent but believes much of the funding for programs that serve the truly needy can be found by eliminating unnecessary programs and using the funds to obtain Medicaid matches. AFP also urges SRS to assess programs and personnel assignments to focus the remaining resources on programs that actually make a difference for the truly needy.

KANSAS HEALTH POLICY AUTHORITY:

The Kansas Health Policy Authority (KHPA) provided this frank assessment to the Governor and Legislature in its 2007 report: "The current health system in Kansas and the nation face many challenges. Health care costs continue to rise at an unsustainable rate, the health system is inefficient and fragmented, and the health status of many Kansans is at risk."⁷ This statement was made when budget revenues were in reasonably good shape and is now compounded by the nearly \$1 billion dollar deficit that Kansas faces in FY 2011.

Unsurprisingly, the KHPA suggests the solution is more government intervention in the private insurance market and more money spent on the coordination of health care.⁸ The Legislature responded by passing the Premium Assistance Program with the intent of expanding access to private health insurance to very low income parents who had children in the Medicaid program. This budget encourages the Legislature to perform its due diligence on this program that passed unanimously by: 1) monitoring the costs per recipient versus other private insurance groups, and 2) requiring the KHPA to provide data on the effect of the program on the recipient's health. Simply providing coverage is not a valid expenditure of taxpayers' dollars if it doesn't provide improved health outcomes. This is an example of a program that should be examined for elimination to focus the limited revenues on those groups that Medicaid was originally targeted to serve.

This program is a sterling example of an unnecessary program expansion made in good times that now competes with other programs for limited funds. Legislators approved this expansion even though when it was originally proposed there appeared to be little need.

Approximately 11 percent of the population, or fewer than 300,000 people, were uninsured in Kansas at the time of program inception.⁹ National census data notes 20 percent of the uninsured make more than \$50,000 annually. In fact, 8.2 percent of the uninsured have incomes that exceed \$75,000 annually.¹⁰ Not surprisingly, 29.6 percent of individuals in the 18-to-24 age bracket are without health insurance coverage, and 24.9 percent in the 25-to-34 age bracket do not carry coverage.¹¹ These are by far the highest percentages of uninsured for any age group. These age categories tend to be healthy in general and hence see the least value in the purchase of health insurance. The most vulnerable citizens tend to be covered by health insurance at the highest rates. In the over-65 age bracket only 0.8 percent of individuals were without health insurance.¹²

What's wrong with this statement?

"An additional \$502,073 was appropriated in FY 2008 to help the state deal with a backlog in processing applications for its health insurance program for working-class families. The backlog was caused by a federal requirement that no benefits go to illegal immigrants because some individuals have trouble supplying the proper documentation."

The KHPA reported illegal immigrants cost the agency \$4.4 million in Kansas taxpayer funds in FY 2008 according to Legislative Division of Post Audit. Seems like the KHPA netted nearly \$4 million so why would they need additional money?

<http://skyways.lib.ks.us/ksleg/KLRD/Publications/2007AppropriationsRpt.pdf> pg. 2-60

Additionally amongst these uninsured there are some Medicaid-eligible individuals who simply refuse to accept welfare. Despite all the fashionable bureaucratic slogans promoting Medicaid as "health care not welfare," the hard truth is that Medicaid is welfare. Some hardworking Kansans will insist on doing things the way their forefathers did: paying their own way even in hard economic times. By partnering with the various private entities that provide assistance, such as churches and local hospitals, Kansas can find ways to assist these individuals. It is telling that these individuals often pay the highest fees for services as hospitals and doctors are bound by federal rules on Medicaid and Medicare that result in these cash payment recipients being charged the higher fees. Legislators should pressure our Congressional delegation to change regulations within the Medicaid and Medicare programs that force those without insurance to pay the highest rate for services.

The management at the KHPA suggests in their KHPA Health Reform Recommendations they can affect better outcomes for all Kansans. This claim is made despite the KHPA's own admission that genetic predispositions are 30 percent and behavioral patterns are 40 percent of the cause of health outcomes. KHPA states the list of "impact factors – known collectively as the social determinants of health – are such things as income, education, personal behaviors and the family and neighborhood environments in which we live." When one considers these elements the KHPA's argument it can effectively cure Kansas' health issues seems far-fetched at best. It would seem to make more sense to attack the underlying economic causes inherent in many of the KHPA's impact factors by creating a low tax, pro-business environment to help increase per capita incomes in Kansas than by spending hundreds of millions of taxpayer dollars on the symptoms.

KHPA is the primary manager of state Medicaid program. One must remember that Medicaid is a federal-state health program intended to provide health care insurance for the children and pregnant women living in poverty, the elderly and those who are disabled.

However, the problem is the expansions of the program during good economic times have created a program now used extensively by the middle class. Medicaid is now almost literally a cradle-to-grave program; it funds well over one-third of all births in the country, and nearly half of all nursing home stays. Nationally, Medicaid spending has more than tripled since 1994.

KHPA provided assistance for nearly 300,000 individuals per month with an astounding average cost that only halfway through the year was at \$736 per person per month for FY 2009.¹³ The federal and state governments share Medicaid expenditures based on a state's "poverty meter" index. In Kansas this translates into roughly a 60/40 mix of federal to state dollars. Medicaid's effect on medical, pharmaceutical, and nursing home (this function is within the Department on Aging) goods and services is substantial. When one entity controls the purse strings of what will be approximately \$2.4 billion in FY 2009, there is a powerful impact on

Now They Know What the Average Citizen Already Knew About Government Rules

A recent Health and Human Services audit examined 300 reimbursement claims from three school districts and found that 217, or approximately two-thirds, shouldn't have been paid. Then-Governor Sebelius put the blame on the Medicaid rules saying they "seem to change regularly, even after states have been assured they're in compliance."

However, House Appropriations Committee Chairman Melvin Neufeld questioned Sebelius' explanation. "The rules really don't change that much," said Neufeld, R-Ingalls. "They've put more auditors in place, and they've been catching more things."

In other words the Authority just got caught cheating. Too bad that instead of punishing the cheaters they'll just let Kansas taxpayers bail them out.

http://cjonline.com/stories/070106/leg_medicaid.shtm

the market for health care.¹⁴ The general trend in Medicaid is to foster the approach of expanding services and eligibility while at the same time squeezing reimbursement rates to providers. Initially, these may appear to be sound practices. However, some suppliers of health care, such as hospitals, cannot deny care to patients – even though reimbursement rates may only cover part of the hospital's cost of the service. These costs either must be absorbed by other users of services, or communities are forced to create support for the hospital with dedicated revenues (such as sales and/or ad valorem taxes) to avoid losing their hospital. Many rural hospitals only survive through these additional revenue sources. AFP advocates stopping this cycle and using these local revenues sources as Medicaid matching funds to be spent within the community providing the funds via local health care authorities.

Under Medicaid's rules married women must include the husband's income in testing for eligibility, while an unmarried woman with a cohabitating mate need not include the father's income. The financial incentive of being unmarried is at the root of qualifying for the program, and it is not unreasonable to suspect recipients will modify their behavior, i.e. stay unmarried, to receive benefits especially in a time of economic distress. Legislators need to mandate absentee fathers who have not been included in means-testing for eligibility be pursued to reimburse taxpayers for birthing costs of their child. This budget does not include the revenue from this proposal but would expect some collections. More importantly we would expect an impact of reduced Medicaid births as men start understanding that having children has financial ramifications.

One of the great failings of Medicaid is there has been no substantive attempt to measure whether the current system is actually making the Kansas Medicaid populations healthier. There are benchmarks that would provide a way to judge the efficiency of appropriations to the KHPA, which should be considered. The Kaiser Institute has pointed out that the number one factor impacting health outcomes is the availability of quality healthcare. If the Medicaid program is working and providing the equivalent quality and availability of healthcare that the general population of Kansas enjoys shouldn't the health of the Medicaid population approach that of the non-Medicaid population in Kansas?

However, if the health of the Medicaid population is incomparable to the general population due to the fact that "behavioral patterns are 40 percent of the cause of health outcomes" as the KHPA claims, then an

overhaul of how the program is administered is in order. Can behavioral issues such as smoking tobacco or being obese be addressed within the limitations of Medicaid guidelines? There are waivers which are available from the federal government to allow innovations in the program if the waiver application can provide a roadmap to savings through improved health of the Medicaid population.

Fixing Medicaid's problems requires a sophisticated, multi-level solution. The goal should be to improve both the efficiency of the use of tax dollars and health outcomes. Much of the delivery system for Medicaid suffers from the same maladies as many other government programs. Solving those inefficiencies can be a game of inches, but there are changes in delivery system design that can leapfrog the government bureaucracy.

Private businesses that survive and prosper adjust depending on their customer's needs. Yet Medicaid attempts to use a one-size-fits-all approach to serve every Kansas county, despite their diverse ethnic and economic bases. This delivery system is inefficient in how it addresses local health concerns and in not providing the financier – the Kansas taxpayer – his money's worth.

One possible solution to this inefficient delivery system is simple in concept; it involves borrowing the Wal-Mart model. Wal-Mart understands the concept of tailoring to its local customer base and its store offerings will differ slightly by store to reflect that. The idea is to allow Local Health Care Authorities (LHCAs) on a county, city, or contiguous geographical basis to encompass common needs and beliefs about health care. Just as Wal-Mart has realized that local managers can identify and target local needs, Medicaid would now have local community involvement fine tuning its delivery system.

The LHCA would be responsible for creating a revenue stream with which to obtain the federal match for Medicaid services, eligibility expansions, and/or reimbursement rate increases. For every \$1 the LHCA creates, another approximately \$1.50 would flow to Medicaid providers in the LHCA community. There is ample evidence that citizens understand the importance of a solvent health care system, as many Kansas counties and/or cities have sales or ad valorem taxes in place to support their local hospitals. These revenue sources meet the criteria to qualify for the federal match under the LHCA concept.

The LHCAs could use the combined federal/local dollars then to target specific local health care needs such as critical care access in rural areas. LHCAs could seek to address those health care issues that may be related to their particular local demographics. For example, in a county with large African-American populations, diabetes prevention programs could be implemented. Large numbers of impoverished elderly in a community would suggest the need for additional geriatric services.

The local funding will provide an incentive to provide only those programs that actually impact health outcomes. One of the problems with Medicaid is the disassociation between the payer (the taxpayer) and the user of the services. There have been a myriad of solutions trying to reconnect the users of Medicaid to the costs of their services. Co-pays failed badly because recipients soon learned that they could refuse to pay them and the amount of the co-pay was so small that they would not be pursued for collection. Health Savings Accounts via debit cards seemed to offer some hope but recipients who have spent their debit card amount could still go to the local emergency room for services and could not legally be turned away. However, local funding for local programs will put the community in touch with not only the cost of the service but also allow taxpayers to see how effectively their funds are being spent.

Another major improvement in the local health care community could be the impact on reimbursement rates for Medicaid recipients. The lower reimbursement rates of Medicaid compared to private insurance has

WELL I GUESS YOU HAVE TO AGREE WITH THEM

At the Kansas Health Policy Authority (KHPA) Board Meeting of August 19, 2008 they proposed for FY 2010 that “To ensure the reliability of expenditures and the financial integrity of the programs, regular financial audits should be performed.”

The Board noted that “KHPA is responsible for the financial integrity of the Medicaid program as the single state agency reporting on federal expenditures and the State Employees Health Benefits Plan.” They went on to say that “There is insufficient capacity within the Finance and Operations Division to conduct in depth audits of the financial status of KHPA programs.” In a budget year with a \$1 billion deficit KHPA requests another \$200,000 just to monitor transactions.

They were right about the “insufficient capacity” to “conduct in depth audits” but maybe its insufficient competency that is the real problem. An audit of the state’s Medicaid program found \$13 million in suspicious claims including one that claimed a Caesarean section was performed on an 8-year-old boy, more than \$10 million in claims for more than 10,000 clients whose income appeared to exceed program limits; almost \$700,000 in claims for clients who didn’t provide a valid Social Security number, almost \$600,000 in potential “upcoding” by doctors for office and emergency room visits, and almost \$500,000 in other suspicious claims such as claims filed for deceased individuals and charges for non-hospital services when a client was hospitalized.

resulted in many health care providers limiting their exposure to, or completely eliminating Medicaid services and/or clients. A LHCA could target essential health services for reimbursement increases, thereby improving access for vulnerable community members. Reimbursement rates that allow health care providers a reasonable profit would stimulate capital investment in the local health care delivery systems. Nowhere is this more crucial than in the rural communities where LHCA’s could provide payments that bring Medicaid services into the area of supporting, instead of damaging, local health care infrastructure. It should be remembered this is not merely re-circulating local money but infusing \$1.50 into the local economy for every \$1 spent by the LHCA.

AFP encourages legislators to stop the expansion of the Medicaid program beyond the original impoverished target group and press the KHPA for measurable health improvements within that group. We also encourage the Legislature to examine the alarming growth in FTEs from 137.1 to 235.8 in just two years. It is readily apparent that a portion of the increase in costs for the KHPA was spent on bureaucracy, not healthcare for the impoverished.

AFP proposes the KHPA’s budget be reduced by 5 percent. However, with the consolidation of Medicaid programs into one agency, pay and hiring freezes at all levels, the reallocation of funding from programs such as the KEY and or CIF, and the elimination of program expansions beyond the original intent the impact on the truly need can be mitigated.

MENTAL HEALTH HOSPITALS:

Larned State Hospital, Osawatomie State Hospital and the Rainbow Mental Health Facility provide important functions for the residents of Kansas and this budget recognizes their contribution by only reducing their budget by 5 percent for the coming fiscal year’s budget.

1. <http://www.khpa.ks.gov/AuthorityBoard/PreviousMeetingInformation/11182002/HealthReformRecommendationsDraft112608.pdf>
2. http://www.dol.ks.gov/Home/html/about_ALL.html
3. <http://www.healthfinder.gov/orgs/HR2213.htm>
4. http://www.srskansas.org/cse/kcsem/ISection1.htm#1350_1
5. http://www.srskansas.org/Sec_stakeholds/Oct2007/Reduced_Resources_SRS.pdf
6. Lisa N. Hickman, "Who Should Care for Our Children? The Effects of Home Versus Center Care on Child Cognition and Social Adjustment," *Journal of Family Issues* 27 (May 2006): 652-684.]
7. <http://www.khpa.ks.gov/HealthReform/HealthReformDocs/KHPAReport103007FINAL.pdf>
8. <http://www.khpa.ks.gov/HealthReform/HealthReformDocs/KHPAReport103007FINAL.pdf>
9. Ibid
10. <http://www.census.gov/hhes/hlthins/hlthin02/hi02t1.pdf>
11. <http://www.census.gov/hhes/hlthins/hlthin02/hi02t1.pdf>
12. Ibid
13. http://www.khpa.ks.gov/medicaid_reports/download/MARFY09.pdf, page 3
14. Ibid



Education

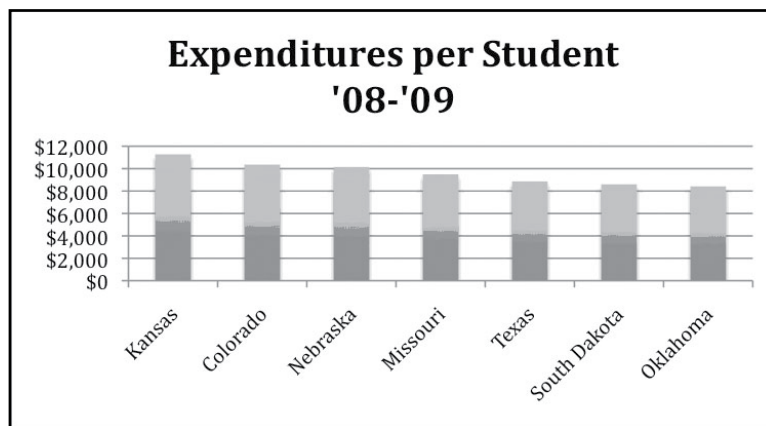
Education

State General Funds

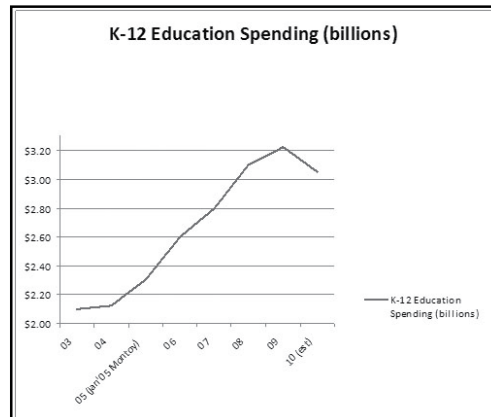
	Approved Budget FY-2010		AFP Budget FY-2011	
Department of Education	\$	2,941,773,283	\$	2,794,684,619
School for the Blind	\$	5,719,327	\$	5,719,327
School for the Deaf	\$	9,185,995	\$	9,185,995
Board of Regents	\$	179,165,697	\$	152,290,842
Emporia State University	\$	31,914,854	\$	30,319,111
Fort Hays State University	\$	33,686,775	\$	32,002,436
Kansas State University	\$	106,126,849	\$	100,820,507
Kansas State University--ESARP	\$	49,666,216	\$	47,182,905
KSU--Veterinary Medical Center	\$	10,515,797	\$	9,990,007
Pittsburg State University	\$	34,855,769	\$	33,112,981
University of Kansas	\$	139,634,802	\$	132,653,062
University of Kansas Medical Center	\$	112,165,809	\$	106,557,519
Wichita State University	\$	67,018,674	\$	63,667,740
Kansas Arts Commission	\$	1,310,980	\$	-
Historical Society	\$	5,630,248	\$	4,222,686
State Library	\$	4,770,903	\$	4,293,813
Education Total	\$	3,733,141,978	\$	3,526,703,550

The “elephant in the room” when one addresses State General Fund (SGF) monies allocated to education is the K-12 funding situation. The public elementary and secondary school funding situation in Kansas mirrors the rest of the United States with one very notable exception. Much of the control of funding for Kansas public education has been removed from the Legislature and placed in the hands of the Kansas Supreme Court. The Kansas Supreme Court ruled the Legislature had failed to meet its burden to “make suitable provision for finance of public schools.”¹

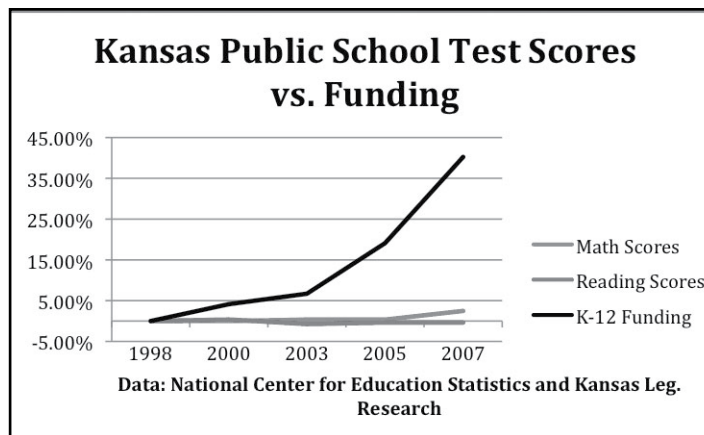
To say K-12 spending dominates the state budget is truly an understatement. Currently, K-12 education makes up about 51 percent of the entire SGF. If one were to add higher education, that number jumps to 64 percent. The result of the *Montoy v. State of Kansas* case on K-12 spending has been clear; education has seen massive spending increases that are unprecedented. Since 2003, education spending has increased over \$1 billion; a jump of 50 percent while student enrollment has been stagnant. For example, in the state’s largest school district, Wichita USD #259, student enrollment has decreased by 201 students since 2003.²



Each year the National Education Association (NEA) releases its rankings for K-12 expenditures. The most recent rankings for 2009 show Kansas leading the region in K-12 spending. As the above chart shows, Kansas’ expenditures per pupil lead the region with \$11,289 per student. This puts Kansas’ spending compared to its neighbors 34 percent above Oklahoma (\$8,420), 19 percent above Missouri (\$9,492), 11 percent above Nebraska (\$10,151) and 9 percent above Colorado (\$10,360).



While spending on education has increased at an astounding rate – as the chart shows – what have Kansas taxpayers and parents received for their increased investment in K-12 public education? In the end, if it is the educational outcomes that are the ultimate proof of providing a quality education, then Kansas has not fared well with the huge spending increases. In fact, test scores have been stagnant and reading scores have actually decreased despite pouring taxpayer funds in large quantities into K-12 public education system.



However, it is clear the education lobby just doesn't get it. Despite the current budget crisis, the State Board of Education actually recommended a \$282 million increase for public schools to make up for budget cuts.³ Even more ludicrous was the statement by Kathy Cook, executive director of Kansas Families for Education, who blamed the Legislature for passing tax cuts when – in her opinion – it should have been investing more in education. “Eating your seed corn fills your belly today but guarantees you will starve tomorrow,” she said.⁴ Apparently Ms. Cook doesn't understand that what drives the economy is private business, not government expenditures on education. If high taxes drive business out of state, we have “eaten our seed corn” and shrunk the tax base that feeds education.

It is time for Kansas taxpayers to have a chance to ask some tough questions of the K-12 public education system. Demanding results equivalent to the expenditure of tax dollars is a major step and one heretofore ignored by the education lobby. However, there are some steps that should be taken in the meantime to address this important area of government expenditures. First we must discuss how much taxpayers are actually spending on K-12 public education.

The Legislative Post Audit (LPA) state agency was commissioned to conduct cost studies in an attempt to ascertain the correct level of funding. LPA's data left out many costs actually spent on K-12 education arguing they weren't “operating” expenses. Sadly, these are the sort of exclusions which have been part of same the pattern of misstatements used by the extreme element of the education lobby that opened the doors for the Court's *Montoy v. State of Kansas* ruling against the Legislature's funding.

Oklahoma recently faced the same contentious suit brought by several school districts using the same data source (Augenblick and Myers study⁵) as the successful suit in Kansas. However, a study using Governmental Accounting Board Standards generated by a free market think-tank showed that expenditures hidden in other agencies or wrongfully excluded brought the actual per pupil expenditures to nearly double the amount claimed by the proponents of the suit.⁶ The Oklahoma state chapter of the National Education Association was asked to provide an answer to the study's results on the funding differences but refused to offer any explanation. This damage to the credibility of the plaintiffs' argument helped Oklahoma taxpayers remain in control of education funding when the suit was thrown out. Kansas legislators need to revisit the basis for the suit, as it is apparent that many of the substantial exclusions from Kansas per pupil calculations are very clearly per pupil operating costs.

LPA not only excluded building costs; they also left out of their per-pupil funding calculations the approximately \$2.75 billion of unfunded liabilities in retirement benefits accruing to school administrators, teachers and support personnel in KPERS⁷ for which Kansas taxpayers are ultimately responsible. Any publicly

funded company (i.e. one that issues stock) that attempted to ignore this benefit cost of employees would be prosecuted by the Security and Exchange Commission for misstatement of their financial position. There are also dollars being spent in Kansas' public school classrooms not included in the per pupil calculation hidden within other agencies such as the Kansas Arts Council and the Kansas Health Policy Authority (see agency-by-agency recommendations on each for details) that also were ignored by LPA.

Correction of these oversights would go a long way toward providing complete transparency to citizens and offset much of the pressure brought by special interest groups. However, in the long run, if the Kansas Supreme Court retains control over public education funding it may have put Kansas legislators between the proverbial rock and a hard place, calling for more drastic action. That drastic action may in fact be school choice, which might have a double-barreled effect on public education.

A properly structured school choice option would actually increase per pupil funding in public schools while potentially decreasing the total cost to Kansas taxpayers. The costs of U.S. private schools are, on average, 60 percent of public school costs.⁸ That means Kansas can provide a voucher which parents can use to switch their children to private schools and pay less than what the state spends to educate them in the local public school. The state and the locality would continue collecting the same tax revenues for schools that they currently do but with fewer students. Even after the removal of the voucher amount from the funding stream there will be a significant increase in available funding for public schools on a per pupil basis. This is crucial to meeting the Court's funding goals. For example, a school choice voucher for private schools of \$5,000 per year would be a savings of over \$6,000 per pupil over the current amount of \$11,289 per pupil spent by K-12 public education. Leaving this excess in the revenues for the public school system would increase funding as each student leaves public school by transferring to one of Kansas' many fine private schools. If enough students eventually accept the vouchers legislators could cut total expenditures to K-12 education while still meeting the requirements of *Montoy v. State of Kansas*.

And the welcome byproduct is education scores may actually go up. A recent study of school choice published by Harvard economist Caroline Hoxby⁹ asked the question "Do public schools respond constructively to competition induced by school choice, by raising their own productivity?" Contrary to the claim that private schools would cherry-pick students, leaving public schools with only the lower performing students, the study found the benefits were actually greatest where large numbers of students were eligible for choice.

This study was particularly interesting in that it looked at those school choice programs which have existed for some time and which were large enough to have produced real competition. In Milwaukee, where children received vouchers worth up to \$5,783, the improvement in the public schools was substantial. Students in public schools where at least two-thirds of students were eligible for vouchers scored 8.1, 13.8, and 8.0 national percentile rank points higher in math, science and language, respectively. Michigan and Arizona had similar results with public schools raising achievement in response to competition. Hoxby found the largest achievement gains were in public schools that faced the most competition.

Consumers have long seen the benefit the competition our economic system generates among businesses has had on the technology, quality and prices of products. It should be no surprise that when public schools improve due to competition, school choice benefits reach beyond those students who take advantage of the opportunity to attend a private school with a voucher or tax credit scholarship. The fact that competition has the same potential benefits for public schools – not just students who switch to private schools – makes school choice a win-win for parents.

An education voucher program for all children for private school tuition and an education tax credit for donations to scholarship funds for low-income children to attend private schools would ensure every child who wished to attend a private school could do so. For every dollar of education voucher or education tax credit allowed, one dollar would be removed from education's SGF appropriations, making it a revenue neutral program.

Interestingly a properly structured education tax credit scholarship program creates a unique opportunity to stimulate economic growth in Kansas. Built in within the scholarship program is a federal tax deduction for charitable contributions that makes the program a win-win for individuals and corporations. Not only would they receive the Education Tax Credit to use against their state tax liability, but they would receive a charitable deduction on their federal tax return to maximize the incentive to give to these scholarship programs. If the program were structured to mirror an incredibly successful Pennsylvania program, corporations or individuals in Kansas could give 50 percent of their state tax liability to a scholarship program, receive the federal deduction for the gift and have a net reduction in their total tax bill that actually approaches their contribution. This powerful financial incentive is coupled with the positive public relations providing scholarships for private school for underprivileged gives a company. This combination will actually encourage companies to locate or do business in Kansas and reduce the disincentive of a high marginal tax rate which encourages companies to minimize their state tax liability in Kansas by transferring it to lower tax states.

KANSAS STATE LIBRARY:

The Kansas State Library provides information services for state and local governments, for local libraries and their users, and for people who communicate with the library in the Capitol Building or at its other service locations.¹⁰ The Library is the only archive for state government financial records that is accessible by the general public and AFP recommends these records be moved online to allow Kansans to better monitor their tax dollars at work. AFP proposes the State Library receive a 10 percent reduction in appropriations.

DEPARTMENT OF EDUCATION:

AFP believes the approach of throwing money at the public education system is a flawed concept. Although ordinarily the creation of an additional function of government is not something AFP could endorse, if it brings greater accountability to the expenditures of tax dollars there may be a basis for endorsing it. Such a concept has been in existence since 1990 in Texas called the Texas School Performance Review (TSPR) whose mission is to review district management and fiscal performance in order to ensure "every possible tax dollar is spent in the classroom, educating children."¹¹

The program is, however, more than just a financial audit. The program identifies a district's administrative, organizational and financial problems, and it produces reviews that recommend ways to cut costs, increase revenues and reduce overhead. From the highest level of district operations down to the operations of food services and transportation at each school, the TSPR addresses all levels of the educational bureaucracy in order to increase efficiency and ensure the increasingly scarce dollars spent on education actually make it to the classroom.

The results have been impressive. In the Houston district, which serves over 22,000 children, TSPR's review led the district to: "eliminate 160 administrative positions, including 10 area superintendents; to adopt more efficient personnel and payroll automation projects; create strategic planning for annual school budgets; revamp teacher and administrator evaluations; pursue delinquent tax obligations more fervently; and, finally, to contract out food services."¹²

The effects are spread through school systems as best practices are implemented throughout the district. Other schools can find savings by simply emulating the programs. The direct savings to Texas school districts in the first decade of operation of TSPR totaled in the hundreds of millions of dollars.¹³

It should be noted as Kansas citizens struggle with the effects of the recession teachers have continued to get pay raises. The Kansas Association of School Board data for this school year shows “the median base salary and fringe benefits package for teachers is \$36,810 in districts -- a 1.2 percent increase from 2008-2009. The past two years, the median percentage increase was 4 percent each year.” Incredibly, Wade Anderson, director of research and negotiations for the Kansas National Education Association said “the settlements have been pretty disappointing, to say the least.”¹⁴

As the following chart shows the State Department of Education received a nearly 16 percent increase in funding in the middle of the worst recession in recent history.

EDUCATION: AGENCY FUNDS	2009	2008
CERTIFICATE FEE FUND	\$1,051,301.49	\$878,570.50
EDUCATION RESEARCH GRANTS & PROJECTS FUND - FED	\$8,402,656.00	\$6,520,616.56
ELEMENTARY & SECONDARY SCHOOL AID - FED	\$9,315,094.09	\$5,494,153.71
FOOD ASSISTANCE-NATIONAL SCHOOL LUNCH PROGRAM -FED	\$89,438,954.58	\$81,726,631.00
SERVICE CLEARING FUND	\$754,635.48	\$376,911.34
VOCATIONAL EDUCATION AMENDMENTS OF 1998 - FED	\$984,048.00	\$127,069.21
TOTAL REVENUE	\$109,946,689.64	\$95,123,952.32
PERCENTAGE INCREASE 2008 TO 2009	15.6%	
<small>Source KanView Website</small>		

When one reviews where schools spent the increases, it is clear not only were there pay raises on the local level, but the Department of Education also increased their salaries.

	DEPARTMENT OF EDUCATION	
	2009	2008
CAPITAL OUTLAY	\$63,993,782.94	\$46,131,657.08
COMMODITIES	\$23,379,480.66	\$24,320,288.51
CONTRACTUAL SERVICES	\$93,230,811.71	\$88,693,866.60
DEBT SERVICE	\$17,726,217.26	\$16,437,609.39
GRANTS, CLAIMS & SHARED REVENUE	\$61,763,333.98	\$58,964,483.85
NONEXPENSE ITEMS	\$129,509,774.60	\$117,365,360.19
SALARIES & WAGES	\$390,530,844.13	\$382,577,812.73
<small>Source KanView</small>		

It is apparent that the education system believes it should be immune to the hard decisions that ordinary, hard-working Kansans are making every day in this current recession. AFP reduces the education appropriation by 5 percent and encourages legislators to revisit their authority to control the education budget.

KANSAS ARTS COMMISSION:

The consumption of tax dollars by the Arts Commission is not large but the \$1.31 million expended is a classic example of how government spending became such an alligator of tax dollars. Art is in the eye of the beholder and working single mothers shouldn't have their tax bills increased to fund the tastes of the Commission or the local groups it helps fund. There are already private funds and foundations filling that niche in the economy. The AFP budget proposes the elimination of the Kansas Arts Commission as an agency without a justifiable purpose.

The Real Art is Getting a Job Here

With only eight FTEs the Arts Commission manages to have an Executive Director, four Art Program Consultants, one Public Service Executive, and one Publications Writer. All that manpower produces an impressive list of salary and wages of \$442,386 or an average of \$55,298 per person.

Governor's Budget Report #2 FY-2010 and KanView website

SCHOOLS FOR THE BLIND AND DEAF:

This budget proposes the schools' revenues be held harmless and their appropriations left the same as the prior fiscal year.

KANSAS STATE HISTORICAL SOCIETY:

The Historical Society maintains 16 sites across the state, provides guided tours of the State Capitol, operates the Kansas Museum of History, maintains the state archive and operates traveling exhibits. A small fee is currently charged to attend the Society's museums of \$2-\$3 per adult and \$1 per child. This budget recommends the fee structure be increased to minimize the tax dollars going to these sites, and the admission fees received by each individual museum be set by each museum. This will let attendance decide which museums are actually historical places of interest and which are unnecessary and simply divert funds from higher-priority areas of government. Additionally, the incentive to improve these attractions will now fall on each site's manager. The ability to retain the revenue generated from these improvements should lead to better management and better museums for Kansans and visitors.

AFP reduces the Historical Society's appropriations by 25 percent and advocates replacing the revenue with user fees from museum attendees.

HIGHER EDUCATION INSTITUTIONS:

Kansas has a large number of institutions of higher learning and not all of them are financed by tax dollars. However, even the private colleges of Kansas are impacted by the funding allocated to the public colleges and universities. Tuition and fees charged at the public institutions cover only approximately 50 percent of operating costs, leaving the remaining operating costs and all major maintenance and capital projects to be financed by taxpayers or alternative revenue sources. This heavy subsidy of public education puts private colleges in the state at a tremendous disadvantage in providing competitive tuition rates.

The proper level of tuition relative to the amount of each student's education financed by the taxpayers has begun to get more attention as those states with heavily taxpayer subsidized public higher education see the number of private colleges dwindle. Additionally, as the demand for tax dollars increase within social programs for the poor, such as Medicaid, there is growing debate about the appropriateness of subsidizing the education for the children of middle and upper income wage earners.

The benefits of a college education are greatest on the earning power of the students who receive it. According to the Census Bureau, over an adult's working life high school graduates earn an average of \$1.2 million; associate's degree holders earn about \$1.6 million; and bachelor's degree holders earn about \$2.1 million.¹⁵ There is no reason to tax the majority of taxpayers in the state who do not have children attending a state institution in order to subsidize those who do, especially when there is evidence it is the more affluent citizens who are more likely to have children enrolled in higher education.¹⁶

Indeed, the Kansas Board of Regents indicated its level of comfort with taxing the poor for its needs when it issued a press statement in support of receiving gambling revenues.¹⁷ A study found one effect of gambling was “the poorest households, those in the bottom third of income, reduce consumption spending the most, nearly 3 percent” and redirect it to gambling instead of food and household expenses.¹⁸

The increasing amount of subsidy paid by Kansas taxpayers was validated by a recent study conducted by the Kansas Board of Regents indicating tuition rates in Kansas are considerably lower than the national and regional averages. “Tuition remains a bargain in Kansas,” said Reginald L. Robinson, President and CEO of the Kansas Board of Regents. “Tuition rates are escalating rapidly across the nation but tuition rates at Kansas universities continue to provide Kansans with an exceptional educational value, particularly when compared to the national average.”¹⁹

Advocates of heavily taxpayer subsidized tuition contend the economic and social benefits of extending higher educations to the largest number of students are worth the cost to all taxpayers. The Kansas Board of Regents makes just such a claim in saying that “the Docking Institute’s recent economic impact study confirmed, an investment in our state university campuses will result in an immediate and significant boost for the Kansas economy.”²⁰ Legislators should view this report with more than a little skepticism. Consider the Institute is actually part of one of the public schools (Fort Hays State University) that stands to benefit directly from the funding. In reaching its one-sided conclusion the study neglected to measure the economic benefits of just returning the \$727 million to taxpayers which would have generated its own significant economic impact.

A more comprehensive study of the claim, “Does Spending on Higher Education Drive Economic Growth? 20 Years of Evidence Reviewed,”²¹ refutes the Docking study. Using data from all 50 states spanning more than two decades, and incorporating lags up to five years, the study found weak and inconsistent correlations between state funding of higher education and economic growth. Comparing states’ higher-education appropriations with gross state product reveals that two of the 10 fastest-growing states from 1981 to 2000, New York and Rhode Island, experienced a real decrease in per capita higher education appropriations, while three of the 10 slowest-growing states, Mississippi, New Mexico and North Dakota, were among the top 10 in growth of real higher education appropriations. From 1991 to 2000, none of the top 10 states in greatest higher education appropriations were among the top 10 in economic growth.

There is some evidence there is also an additional downside to the low tuition approach. According to a report from the Federal Reserve Bank of New York, high-subsidy, low tuition policies can actually have negative effects. “Although subsidizing tuition increases enrollment rates, it reduces student effort,” the study found. “This follows from the fact that a high-subsidy, low tuition policy causes an increase in the percentage of less able and less highly motivated college graduates. Additionally and potentially more important, all students, even the more highly motivated ones, respond to lower tuition levels by decreasing their effort levels.”²²

Looking at this question from the standpoint of efficiency, there is much to be said in favor of the policy of reducing the taxpayer subsidy for higher education. Richard Vedder, a professor of economics at Ohio University points out in his recent book “Going Broke by Degree” that American higher education suffers from very low productivity. In contrast to almost every other industry, per-unit (pupil) costs in education continue rising. Kansas is no exception to that rule and by the Board of Regents’ own account taxpayers are paying for those cost increases instead of passing it on to the beneficiaries.

Public colleges and universities don’t have to pass the test of the market. Students and institutions are

subsidized by working Kansans' taxes, so the schools can spend without regard to the outcomes associated with those costs and offer sometimes frivolous courses that provide questionable benefits to the students. A college education should be accessible for everyone, but those who can afford to pay should shoulder more of their education costs rather than ask Kansas taxpayers to foot the bill.

Rather than subsidizing tuition, policymakers should consider charging higher tuition and then discount it for students who cannot otherwise afford to attend.

Kansas should announce it will gradually raise tuition, but that it will do so in steps so families can anticipate the costs and plan accordingly. In order to minimize the increase in tuition, higher education's budget, like the budgets of all state agencies, needs to be reviewed from top to bottom for unnecessary expenditures.

WHAT EFFECT WOULD RAISING TUITION HAVE ON KANSAS' PUBLIC HIGHER EDUCATION INSTITUTIONS?

Quite possibly not what the Board of Regents would think. A study by Arwynn Mattix of the Goldwater Institute pointed out "the University of Michigan provides an example of how public universities can thrive with less state funding. Under the 'Vision 2017' plan, U-M sought to become a 'privately financed public university.' In 1965, state appropriations accounted for 70 percent of U-M's general revenue. But, by 2003, state appropriations accounted for less than 10 percent. Meanwhile, U-M has remained one of the nation's top ranked universities. U-M reduced dependence on taxpayer funds by aggressively pursuing private fundraising campaigns, aligning tuition more closely with costs, and identifying core academic programs and eliminating others."²³

It is interesting to note that after last year's AFP budget exposed the extreme travel expenditures of several of the institutions, the KanView Web site no longer shows those expenditures for some institutions. It is hard to believe these institutions no longer have any travel costs. AFP encourages legislators to ask the University of Kansas and Emporia State University to explain the absence of travel reporting and require those higher education institutions to adhere to the laws requiring transparency. Similarly, the budget makers should note international travel for several institutions was excessive with Kansas State University spending over \$1.5 million. While there appears to be a decrease from 2008 to 2009 in total travel expenditures, the absence of some schools reporting makes that number very suspect (see enclosed box).

TRAVEL TOTALS		
	2008	2009
BOARD OF REGENTS	\$241,514.65	\$242,865.75
EMPORIA STATE UNIVERSITY	????	????
FORT HAYS STATE UNIVERSITY	\$1,441,935.54	\$1,241,976.35
KANSAS STATE UNIVERSITY	\$9,505,150.44	\$9,026,527.39
PITTSBURG STATE UNIVERSITY	\$1,105,194.50	\$919,682.27
UNIVERSITY OF KANSAS	????	????
WICHITA STATE UNIVERSITY	\$2,376,633.67	\$2,285,978.82
TOTALS	\$14,670,428.80	\$13,717,030.58

Although AFP only provides for a 5 percent decrease for Kansas higher education institutions, it encourages legislators and school administrators to look at the University of Michigan business model to find further savings and establish a more robust education system.

1. http://skyways.lib.ks.us/ksleg/KLRD/Publications/Education_Cost_Study/Cost_Study_Summary.pdf
2. Education Spending Policy Primer, October 2009 Americans for Prosperity Kansas
3. http://www2.ljworld.com/news/2009/jul/15/state-board-education-proposes-282-million-increas/?more_like_this
4. http://www2.ljworld.com/news/2009/jul/02/gov-parkinson-announce-budget-balancing-plan-today/?more_like_this
5. *ibid*
6. <http://www.ocpathink.org/ViewPolicyStory.asp?ID=546>
7. <http://www.kpers.org/valuationreport123107.pdf> based on calculated ratio of school members to total membership
8. http://www.ocpathink.org/PolicyAnalysis/FY-07_OCPA_Budget.pdf, page 33
9. Caroline M. Hoxby, "School Choice and School Productivity (or Could School Choice Be a Tide That Lifts all Boats?)," National Bureau of Economic Research, Working Paper no. 8873, April 2002.
10. <http://skyways.lib.ks.us/KSL/mission.html>
11. <http://www.innovations.harvard.edu/awards.html?id=3828>
12. *Ibid*
13. <http://www.nasbo.org/Publications/Publications/PDFs/School%20Efficiency%20Studies.pdf>
14. http://www2.ljworld.com/news/2009/oct/05/state-budget-crisis-makes-it-harder-kansas-school-/?kansas_legislature
15. <http://www.census.gov/prod/2002pubs/p23-210.pdf>
16. 2004 Consumer Expenditure Survey, published by the Bureau of Labor Statistics, shows that expenditure on education increases as income increases. See <http://www.bls.gov/cex/2004/stderror/higherincome.pdf>.
17. <http://www.kansasregents.org/download/news/032907%20-%20Statement%20-%20Gaming.pdf>
18. <http://www.tcf.org/Publications/EconomicsInequality/lotterybrief.pdf>
19. <http://www.kansasregents.org/download/news/062005%20-%20Press%20Release%20-%20Best%20Buys.pdf>
20. <http://www.kansasregents.org/download/news/032907%20-%20Statement%20-%20Gaming.pdf>
21. <http://www.goldwaterinstitute.org/AboutUs/ArticleView.aspx?id=288>
22. Aysegul Sahin, "The Incentive Effects of Higher Education Subsidies on Student Effort," Federal Reserve Bank of New York Staff Report no. 192, August 2004. Available at: http://www.ny.frb.org/research/staff_reports/sr192.pdf
23. <http://goldwaterinstitute.org/AboutUs/ArticleView.aspx?id=1502>



Public Safety

Public Safety

State General Funds

	Approved Budget FY-2010		AFP Budget FY-2011	
Department of Corrections	\$	109,667,055	\$	98,700,350
El Dorado Correctional Facility	\$	23,534,570	\$	22,357,842
Ellsworth Correctional Facility	\$	12,336,798	\$	11,719,958
Hutchinson Correctional Facility	\$	28,241,967	\$	26,829,869
Lansing Correctional Facility	\$	36,700,008	\$	34,865,008
Larned Correctional Mental Health Facility	\$	9,672,390	\$	9,188,771
Norton Correctional Facility	\$	12,703,749	\$	12,068,562
Topeka Correctional Facility	\$	12,346,083	\$	11,728,779
Winfield Correctional Facility	\$	12,190,150	\$	11,580,643
Juvenile Justice Authority	\$	40,174,319	\$	38,165,603
Atchison Juvenile Correctional Facility	\$	379,770	\$	360,782
Beloit Juvenile Correctional Facility	\$	3,847,762	\$	3,655,374
Kansas Juvenile Correctional Complex	\$	15,721,236	\$	14,935,174
Larned Juvenile Correctional Facility	\$	8,727,511	\$	8,291,135
Adjutant General	\$	15,136,285	\$	15,136,285
Highway Patrol	\$	35,106,115	\$	35,106,115
Kansas Bureau of Investigation	\$	15,567,663	\$	15,567,663
Kansas Parole Board	\$	488,386	\$	488,386
Sentencing Commission	\$	8,955,513	\$	8,955,513
Public Safety Total	\$	401,497,330	\$	379,701,809

Last year the AFP Commonsense Budget pointed out that relative to other functions of Kansas government, the public safety function has received one of the smallest increases in funding over the years. AFP advocated increasing spending by \$20 million in this area to combat violent crime and other safety issues. AFP believes this important part of the budget has continued to be underfunded and supports a standstill budget supplemented by some of the American Recovery and Reinvestment Act (ARRA) funds.

Although there was a slight decrease in violent crime nationally from 2006 to 2007, Kansas had a 7 percent increase which was one of the highest increases in the nation.¹ In the most recent numbers available in 2007, there were also 1,175 assaults on law enforcement officers, a 6.3 percent increase from 2006. Most of these assaults occurred between the hours of 8 p.m. and 4 a.m.² No neighborhood should be held hostage by violent criminals and this budget targets areas with high crime rates through \$9 million in grants to local police forces to be administered by the Kansas Bureau of Investigation.

Research shows crime rates are determined by numerous factors, including, but not limited to, demographics, socioeconomic factors and the effectiveness of the criminal justice system. In terms of public policy, a major factor contributing to falling crime rates in recent years has been the increased use of incarceration. After controlling for socioeconomic factors that may influence crime rates, research based on trends in multiple jurisdictions over several years indicates incarceration reduces crime significantly. Kansas' incarceration rate has been consistently below the national average since 1989. The prison population has decreased each year since FY 2004, but projections show an increase of at least 71 inmates each year due to Jessica's Law, which requires those convicted of certain child sex offenses to serve a minimum of 25 years imprisonment.³ This budget provides funding to keep programs such as Jessica's Law fully funded, and additional funding for incarcerating violent criminals using the ARRA targeted grants to local law enforcement.

There is an understanding among those who run correctional institutions there are basically two types of criminals: ones at whom society is mad and the ones of whom we are afraid. There is a cost to Kansas taxpayers in apprehending, convicting and confining those who violate the law. This budget supports an emphasis on budgeting funds to protect citizens from the criminals of whom society is most afraid. Criminals such as petty thieves, drug users and bad check writers are criminals at whom society has plenty of reason to be mad. They should be punished for their crimes, but imprisonment for non-violent offenses does little to improve public safety or change behavior. It costs approximately \$24,000 a year to house an inmate in a state facility and that doesn't include other costs, such as supporting children while their parents are incarcerated. These low-level criminals should be paying their own way by continuing to work, live at home, support their families, pay taxes and provide restitution to victims.

This budget supports community-based programs that include behavior modification, restitution and supervision. Community-based programs must be cost effective and prove to be successful in preventing recidivism. In FY 2008, the Legislature appropriated \$11.03 million for basic community corrections grants. The Department of Corrections is responsible for administering the grants to local programs to be used for intensive supervision programs as well as substance abuse and mental health treatment. These programs have reduced the number of offenders returning to prison for violating the conditions of their release by 49 percent between FY 2003 and FY 2007.⁴ The number of new crimes committed by offenders under parole supervision has declined by 41 percent since FY 2000.⁵ AFP salutes the measures to prevent the misuse of this program funding where service provider invoices are first approved by a local community corrections officer with direct knowledge of the successes and/or failures, then sent to the Kansas Sentencing Commission, which functions as a centralized payment center.

The Legislature also appropriated \$4.5 million in FY 2008 to fund the Senate Bill 14 Risk Reduction Initiative (RRI). The goal of SB 14 RRI was to reduce revocation rates by at least 20 percent, by targeting services to medium- and high-risk probationers who might otherwise violate the conditions of their probation or be convicted of a new misdemeanor or felony. Grants were awarded to local community corrections agencies to enhance risk reduction efforts and reduce revocation rates. Community volunteers and faith-based organizations provide services such as housing, employment, substance abuse treatment and transportation. The initiative promotes interagency collaboration and neighborhood-based strategies, and holds state agencies accountable for the outcomes of the plan. These local RRI's should be closely monitored using relevant performance measures to ensure they are achieving the desired outcome and taxpayer dollars are being utilized appropriately.

AFP encourages lawmakers to consider private prisons instead of any state prison expansion or large scale renovations. This budget supports the suspension of bonding capacity for the Department of Corrections but goes further in calling for a complete freeze on public facilities.

Additionally, this budget suggests lawmakers apply relevant performance measures to all safety programs to maximize the safety of the general public. Programs that claim to prevent crime should be able to show that they do have an impact on the targeted crimes or the funds should be reallocated. Similarly, programs claiming to reduce the number of re-offenders need to be closely monitored. Clearly, prevention can be the most cost effective solution for society.

DEPARTMENT OF CORRECTIONS:

AFP recommends an additional \$10 million over the standstill budget to be used first for additional bed space for violent offenders, such as sex offenders who receive mandatory minimum sentences and then for increased supervision of those criminals who receive community-based sentences.

The Legislature should specify part of this funding must be used for the purpose of making sure bed space is available for violent offenders. Currently Kansas does not have a bed space issue but we anticipate with the increase in policing of centers of violent crime, incarceration of violent offenders will increase.

Until such time as the monies are needed for incarceration costs this \$10 million in funding should be used to provide increased monitoring of high-risk parolees with GPS ankle bracelets and expansion of the community sentencing programs. This approach should produce savings for the department that need to be re-invested in the program when this funding source is finally absorbed by violent offender incarceration costs. These funds should not be used for discretionary spending and should be funds that the Legislature enables the department to carry over if not fully expended in the current budget cycle.

AFP cautions legislators to view the estimates for FY 2010 total prison populations from the Sentencing Commission that show decreases as subject to abrupt change. Poor economic conditions increase crime and the \$9 million allocated to the Kansas Bureau of Investigation to reduce crime in targeted areas will also result in additional arrests and incarcerations.

AFP does not agree with the Governor's budget proposal of suspending operations at the minimum security correctional facilities in Toronto, Stockton, El Dorado and Osawatomie which will yield savings of \$5.4 million over two years from the SGF. Added bed capacity in the eight main correctional facilities will allow the inmates from these satellite facilities, which provide labor to local governments and state agencies, to rejoin the general inmate population.⁶ This is simply a transfer of expense to the local governmental units. AFP believes

work projects that benefit the general public are a proper way for those serving time to repay society while learning how to “put in a day’s work.” It is rather problematic the Governor maintains there will be that much in savings when the added inmates will drive up costs at the facilities to which they are transferred.

ARRA funding of \$82 million is being provided to help the department which will allow a budget reduction of 10 percent even after providing the majority of the monies to the individual institutions.

ADJUTANT GENERAL:

AFP recommends a standstill budget for the Adjutant General.

STATE FIRE MARSHAL:

AFP recommends the consolidation of this office into the Kansas Bureau of Investigation. This puts the investigative resources of the KBI at the disposal of the Fire Marshal and will allow redundant administrative positions and the attendant costs to be phased out. This budget provides the standstill budget less 10 percent in consolidation savings for the State Fire Marshal.

PAROLE BOARD:

AFP recommends the standstill budget for the Parole Board.

KANSAS HIGHWAY PATROL:

This budget provides the standstill budget for the Kansas Highway Patrol plus \$1 million in additional ARRA funding targeted at increasing patrolling of those sections of Kansas highways with safety issues, especially U.S. 50. Over the past five years, this highway has had the highest rate of head-on collisions among the state’s two-lane highways, and the heaviest volume of big trucks. Part of the problem with the highway is that a lot of trucks use it on their way to meatpacking plants in southwest Kansas, and many truckers use it to drive between Wichita and Kansas City to avoid tolls on the Kansas Turnpike.⁷ Current economic conditions will most likely preclude being able to address the safety situation with construction of more lanes for these problem highways. This budget’s additional funding is to be targeted only at providing increased patrol officer presence on these “unsafe” highways, especially in the area of monitoring overweight and unsafe trucks.

KANSAS BUREAU OF INVESTIGATION:

AFP recommends the standstill budget for the Kansas Bureau of Investigation (KBI) plus \$9 million in additional funding for targeted grants to local police forces. AFP encourages the Legislature to look at ARRA funds for this funding. AFP believes the KBI can determine those areas with a disproportionate amount of violent crime and provide grants to local police departments to hire additional officers or pay overtime to officers for increased patrols and police presence between the hours of 8 p.m. and 4 a.m. in these areas. The legislation should mandate that after removing the cost of KBI administration the funding is only for “boots on the ground” and not discretionary spending within the agency or the police forces receiving the grants. The KBI should be required to file an annual report to the Legislature on the use of the funds and the resulting effect on violent crime in those areas. One possible source for part of this funding is the Community Development Block Grant of \$4.6 million in the ARRA funding. To receive these funds, “a project must meet at least one of the following federally mandated criteria: The project benefits low and moderate income individuals, removes or prevents slum or blight conditions, or eliminates an urgent need created by a disaster when local funds are unavailable.” Inner-city high crime areas certainly would seem to meet these criteria. Is there any greater benefit to any community than to have a safe environment for residents and their families? Clearly, there is an irrefutable correlation between low income areas and crime. This budget believes that in the different ARRA

funds flowing to local police forces the KBI can designate at least \$9 million to this program without impacting its budget.

EMERGENCY MEDICAL SERVICES BOARD:

AFP recommends the standstill budget for the Emergency Medical Services Board.

SENTENCING COMMISSION:

The Kansas Sentencing Commission was established to develop a sentencing guideline (grid) based on fairness and equity and provide a mechanism for linking justice and corrections policies. Its goal in establishing the sentencing guidelines was to reserve incarceration for violent and/or repeat offenders, while promoting non-violent offender reformation through appropriate community sanctions. The commission consults and makes recommendations to the legislature regarding modification of the sentencing guidelines, and provides policy makers information that will enhance decisions regarding resource allocations. AFP recommends the standstill budget for the commission.

INDIVIDUAL CORRECTIONAL FACILITIES:

Each facility is to receive the FY 2010 appropriations, less 5 percent.

1. Federal Bureau of Investigation, Uniform Crime Reports, Crime in the United States 2007
2. Kansas Bureau of Investigation, 2007 Law Enforcement Officers Killed or Assaulted
3. Kansas Sentencing Commission, Fiscal Year 2009 Adult Inmate Prison Population Projections
4. 2008 Kansas Department of Corrections Annual Report
5. Ibid.
6. FY-2010 Comparison Report, page 70
7. FY-2010 Comparison Report, page 22

A black and white photograph showing a close-up of wheat stalks in the foreground, with a blurred background of industrial structures, possibly a bridge or a large building. The image is framed by a thin white border.

Agriculture & Natural Resources

Ag & Natural Resources

State General Funds

	Approved Budget FY-2010		AFP Budget FY-2011	
Department of Agriculture	\$	10,948,668	\$	10,041,214
Animal Health Department*	\$	864,525	\$	-
State Conservation Commission**	\$	832,406	\$	707,545
Health & Environment--Environment	\$	8,986,204	\$	7,638,273
Kansas State Fair	\$	341,861	\$	290,582
Kansas Water Office**	\$	2,025,746	\$	1,721,884
Department of Wildlife & Parks ***	\$	6,541,544	\$	5,560,312
Agriculture and Natural Resources Total	\$	30,540,954	\$	25,959,811

**duties and funding transferred to Department of Ag*

***funding for duties shown here but duties transferred to Health and Environment*

****water monitoring duties transferred to Health and Environment but funding showing here*

Often when budgeting issues are being addressed Agriculture and Natural Resources take a back seat to education and health care. Within the agencies of this cabinet reside some examples of how government grows itself through fees. Fees on businesses or individuals exceeding the cost of providing the service are simply backdoor taxes that are a cost of business which must be absorbed or passed on to the end user. This cabinet contains many examples of fee-based revenue sources that seem to have increased and may be how agencies are transferring costs as appropriated funds have fallen.

Often this type of growth in government is in the quasi-state agencies. These entities are created by statute whose boards usually have at least some political appointees. Some of these are regulatory, like the Accountancy Board, but others have purposes that might be more appropriate in the private marketplace.

An example of this is the Kansas Wheat Commission, which is, according to its Web site; “a grower-funded, grower-governed wheat products advocacy organization working to secure the future of Kansas wheat in the global market through international trade research, export system studies and continually improved varieties of wheat. Its mission is to increase wheat producer productivity and profitability through research, education and domestic and international market development.” It is grower-funded with a non-voluntary assessment of 1 cent (10 mills) per bushel at the first point of sale on all wheat sold in Kansas.¹ Quite simply this is a tax on wheat growers. The last published financials show the Commission taking in over \$2.5 million in FY 2007 with a carry-over from previous years of over \$3 million.² These numbers on funding are reported on neither KanView nor on the Commission’s Web site. Legislators should mandate these quasi-state agencies become more transparent.

The Kansas Wheat Commission’s assessment is a cost of doing business to Kansas farmers and looking at the mission statement, one has to ask whether the tens of millions of taxpayer dollars of agricultural research already funded at Kansas State University and other higher education institutions, at the United States Department of Agriculture, and the Kansas Department of Agriculture do not already cover most of the state’s research needs. The Department of Commerce also has a taxpayer-funded agricultural marketing division pursuing trade opportunities for Kansas wheat. Indeed one has to ask how necessary it is to the individual wheat farmer to have money taken from his or her pocket to finance things that are really more appropriately done by Cargill, Archers Daniels Midland or any of the other corporate entities who trade agricultural products on the global market.

AFP recommends the long-term dissolution of boards with hidden taxes such as the Kansas Wheat Commission. Their funding sources should be stopped and the carry-over returned to the original payer. In the meantime, this budget includes a minimum \$10 million tax break to businesses and individuals by requiring a one-time reduction in fees of 25 percent.

DEPARTMENT OF AGRICULTURE:

During a period where appropriations were reduced to the department there was a significant increase in the fee-based funding. The following table shows those fees. Legislators should ask for explanations of this 72 percent increase in fee revenues.

REVENUES: AGENCY SUMMARY		DEPARTMENT OF AGRICULTURE	
	2009	2008	
AGRICULTURAL LIMING MATERIALS FEE FUND	\$ 26,123.31	\$ 16,998.35	
AGRICULTURAL PREPAREDNESS FEDERAL FUND	\$ 73,595.29	\$ -	
COMPUTER SERVICES FUND	\$ 51,734.60	\$ 24,132.60	
DAIRY FEE FUND	\$ 518,139.22	\$ 507,883.49	
FEEDING STUFFS FEE FUND	\$ 831,051.47	\$ 717,795.93	
FOOD SAFETY FUND	\$ 1,802,071.64	\$ 806,997.61	
FOOD SERVICE INSPECTION REIMBURSEMENT FUND	\$ 957,924.00	\$ -	
GENERAL FEES FUND	\$ 16,835.00	\$ 13,050.00	
OTHER FEDERAL GRANTS	\$ 626,996.62	\$ 466,446.05	
PEST DETECTION & SURVEY - FEDERAL FUND	\$ 221,024.00	\$ 190,061.00	
PETROLEUM INSPECTION FEE FUND	\$ 862,049.93	\$ 703,227.98	
WATER STRUCTURES FUND	\$ 124,097.25	\$ 112,078.03	
Source :KanView Web site	\$ 6,111,642.33	\$ 3,558,671.04	

The AFP application of common sense to the budgeting process has as a central tenet the idea that government should not only be efficient in expenditures of its citizens' money, but also that services provided to the citizens be accessible and relevant. In an effort to streamline government, then-Governor Kathleen Sebelius issued Executive Reorganization Order (ERO) #32, which transferred several program responsibilities from the Kansas Department of Health and Environment to the Kansas Department of Agriculture. The Governor's press release stated, "This reorganization is part of my administration's continuing search for changes in government to better serve Kansans. The creation of single points of contact for Kansas businesses increases responsiveness on the part of state government, while continuing to strengthen the safety of food in Kansas."³ This strategic realignment of food safety duties between the two agencies responsible for consumer protection is exactly the sort of consolidation AFP supports.

This budget encourages Governor Mark Parkinson to continue to seek such opportunities, and one area that begs for "single points of contact for Kansas businesses" is in the area of water monitoring. The Agriculture, Conservation Commission, Wildlife and Parks, and Health and Environment departments all have jurisdiction in areas of water monitoring. Spreading the functions creates redundant support people and potentially underutilizes equipment, as well as creating confusion for individuals and businesses seeking information or permits.

The Agriculture Department is the central state authority for how food is produced, processed and transported to consumers, in addition to which it has a presence in grocery stores through its dairy, meat and egg compliance checks. Such responsibility, especially in a time where the food chain may be a terrorist target, is an important element of homeland security. However, because these costs are directly transferred to the consumer via the department's fees for these services, these costs must be constantly monitored because of the disproportionate share of their income that lower income families spend on their grocery bills.

Think they might be worried about their jobs instead of taxpayer dollars?

"The state's budget problems have revived a proposal to merge two small agencies into the Department of Agriculture, but the smaller ones are resisting the idea. Legislative auditors estimate that having the department absorb the functions of the now-independent State Conservation Commission and Animal Health Department will save about \$710,000 a year, or \$3.5 million over five years. But Livestock Commissioner George Teagarden, who leads the Animal Health Department, said auditors didn't demonstrate that the Department of Agriculture would be the best place for the jobs now done by his agency. Greg Foley, the Conservation commission's executive director, said the idea needs further study to determine whether 'cost efficiencies are truly gained.'"

AFP recommends the Department of Agriculture receive a 15 percent reduction in budget for FY 2011.

DEPARTMENT OF ANIMAL HEALTH:

The Kansas Animal Health Department was created in 1969 by consolidating all of the activities of the Livestock Sanitary Commission and the State Brand Commission. The department is divided into four divisions: administration, disease control, animal facilities inspection and brands. The department works with two boards: a nine-member Kansas Animal Health Board and a ten-member Pet Animal Advisory Board.⁴ When one considers the amount of bureaucracy just in the overview capacity this agency would seem to be a prime target for reorganization.

A quick review of the agency's primary functions points to its candidacy to be consolidated with the Agriculture Department:

- Eradicate infectious and contagious livestock diseases throughout the state
- Test programs, epidemiology of disease outbreaks and technical support
- Inspect feedlots, livestock markets and disposal plants, conduct disease tracebacks and assist in testing programs
- Gather and maintain records on calfhood vaccinations, herd records, test results, import and export requirements, and provide laboratory technical support for the state/federal testing laboratory
- Operate Kansas Homeland Defense (aka Emergency Management, which is the education of producers, emergency personnel and other interested parties on the state emergency animal disease plan)
- Conduct animal identification (which is voluntary but may eventually become mandatory)
- Operate the Animal Facilities Inspection Program (regulates companion animal facilities licensed under the provisions of the Kansas Pet Animal Act)
- Operate the brand division, which maintains an 18,000-brand registry and assists with the market brand inspection program

The threat of disease and/or terrorist attack can be minimized with a single chain of command following food items such as meat products from the farm to the consumer. AFP not only encourages the consolidation to prevent the funding of duplicate support personnel but to improve the safety of Kansas consumers. AFP recommends the savings from the removal of redundant support positions through consolidation be spent internally on maintaining the monitoring of the food chain from field to consumer and that the department receive a 15 percent reduction in funding.

KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT:

The Kansas Department of Health and Environment (KDHE) currently has water monitoring duties in addition to the water monitoring activities in the Conservation Commission, Kansas Water Office, Department of Agriculture, and Department of Wildlife and Parks. The potential for bureaucratic turf wars, redundancies in support personnel, and the inefficiency of having several agencies monitoring one of the state's most precious resources make this an area where the legislator should mandate consolidation into one agency. AFP suggests all water activities be moved to KDHE with a reduction of 10 percent in funding for each activity to reflect the savings from consolidation of support functions.

AFP also recommends legislators review the \$2 million in SGF allocations to the Community Based Primary Health Care Clinics for reallocation to the Kansas Health Policy Authority for a Critical Care-based initiative. By reallocating this money to a Medicaid waiver aimed at growing medical capacity and creating dental hubs for the Medicaid population, KHPA can receive the federal match for these funds leveraging the original amount to approximately \$5 million. This waiver should be aimed at increasing the reimbursement rate

for those service providers KHPA deems crucial to serving the Community Based initiative. Not only does this ensure that those being served by the taxpayers' dollars are truly needy, but it also provides an incentive to the private sector to offer those services via the increased reimbursement rate.

This is another agency in which AFP encourages the examination of the fee structure. An increase of 60 percent in one year should require an explanation to legislators.

HEALTH AND ENVIRONMENT - ENVIRONMENT		
	2009	2008
ABANDONED MINED-LAND FUND	\$3,284,282.00	\$2,090,683.55
LEAD BASED PAINT HAZARDOUS CONTROL GRT PGM FED FC	\$1,222,156.90	\$952,275.22
NATURAL RESOURCES DAMAGES TRUST FUNG	\$3,892,284.22	\$662,056.69
PUBLIC WATER SUPPLY LOAN FUND	\$4,939,711.06	\$3,458,136.32
PUBLIC WATER SUPPLY REVOLVING LOAN FUND	\$125,995,456.65	\$83,137,785.08
SPONSORED PROJECT OVERHEAD FUND - ENVIRONMENT	\$5,115,895.17	\$4,853,664.78
STATE WATER PLAN FUND	\$340,681.56	\$213,741.22
TITLE IV - E FEDERAL FUND	\$1,205,020.00	\$1,131,793.99
UNDERGROUND PETROL STORAGE TANK RELEASE TRUST FUNG	\$15,354,182.07	\$9,838,711.81
WATER POLLUTION CONTROL REVOLVING FUND	\$191,679,959.97	\$114,585,073.43
WATER SUPPLY FUND - FEDERAL	\$1,184,821.77	\$979,788.00
Source: KanView Website	\$354,214,451.37	\$221,903,710.09

AFP recommends a 15 percent decrease for KDHE in appropriations.

KANSAS STATE FAIR:

AFP encourages the continuation of the State Fair's solicitation of corporate sponsors, commercial exhibitors, and other private partners as funding sources. AFP decreases the State Fair's appropriation by 15 percent.

What Do They Do the Other 50 Weeks of the Year?

The Fair has 24 FTEs who draw salaries and wages of \$1.7 million which averages \$71,570 per person.

Governor's Budget Report FY-2010 page 440

STATE CONSERVATION COMMISSION:

AFP transfers the Commission's water duties to KDHE and provides a 15 percent decrease for the remaining duties.

KANSAS WATER OFFICE:

AFP closes this agency and transfers the budget with a 15 percent reduction in funding to reflect the savings from the removal of redundant support positions.

Why Not Just Do a Rain Dance?

The Kansas Water Office spent \$156,000 on weather modification contracts for pilots to release silver iodide into clouds to reduce crystal formation despite the fact that in 2003, scientists at the National Academy of Sciences concluded there is no scientific evidence that it works.

Governor's Budget Report FY-2010 page 328 and "Cloud-seeding gets a failing grade" San Antonio Express-News, October 20, 2003

KANSAS DEPARTMENT OF WILDLIFE AND PARKS:

This department has experienced an unprecedented growth in expenditures, while the price of vehicle

admission to the state parks for calendar year 2007 was reduced by half by the 2006 Legislature. The 2006 Legislature appropriated \$800,000 from the SGF for the last half of FY 2007 and \$800,000 for the first half of FY 2008 to offset the loss in revenue to the parks.

AFP encourages the Legislature and department to revisit its fee structure at the various parks. Those who can afford to pay for access should not be subsidized by the working families of Kansas. Discounted access fees could be offered to lower income groups, military and senior citizens. A greater portion of these fees should be left with the receiving park to incentivize the park managers to make their parks more attractive to the public and generate even greater incomes.

The department is to be commended for its public-private partnership known as Walk-in Hunting Access Tracts. Instead of retiring land from the public tax rolls by purchasing hunter access, the department leases land from landowners. This creates improved access for hunters, which encourages out-of-state hunters to hunt and spend their money at Kansas motels and other venues, and also puts additional revenue into the pockets of Kansas landowners.

The water monitoring function of this department is transferred to KDHE with a 15 percent reduction in funding to partially offset by the savings from consolidation.

1. <http://www.kswheat.com/general.asp?id=16>
2. <http://kansaswheat.org/upload/AR-Page5.jpg>
3. <http://www.governor.ks.gov/news/NewsRelease/2004/nr-04-0114b.htm>
4. <http://www.kansas.gov/kahtd/>

A black and white photograph of a dark-colored car, possibly a sedan, driving on a two-lane road that stretches into the distance. The car is positioned on the right side of the frame, with its rear and side visible. The road has a dashed white line down the center and solid white lines on the edges. The sky is filled with large, fluffy clouds, and the overall scene conveys a sense of motion and travel.

Transportation

Transportation

State General Funds

	Approved Budget FY-2010		AFP Budget FY-2011	
Department of Transportation	\$	8,900,000	\$	8,900,000
Transportation Total	\$	8,900,000	\$	8,900,000

A state with a large rural area, low population and a few large metropolitan areas will always wrestle with the allocation of road construction and maintenance funds. Centers of population growth will argue the increasing traffic burdens should give them priority while rural areas will counter they need improved roads since a significant part of the state's GDP flows from the natural resources they move to market. AFP has advocated using a more commonsense approach such as cost-benefit analysis that avoids some of the political infighting.

USING COST-BENEFIT ANALYSIS

Kansas has evolving transportation needs. The challenge is to better allocate funding for future projects. One method used by the Federal Highway Administration (FHA), is cost-benefit analysis. Cost-benefit analysis is a well-accepted analytical tool that will allow Kansas lawmakers to improve their decision-making related to the prioritization of road projects.

Given the large dollar amounts involved with transportation infrastructure each year, it makes sense for Kansas lawmakers to formalize and institutionalize a competent cost-benefit analytical capability. The success of the previous two transportation plans underscores the case for this perspective.

The Consensus Revenue Estimating Group offers a useful model for transportation cost-benefit analysis. The Consensus Revenue Estimating Group includes personnel from the Division of the Budget, Legislative Research and academic consultants from Kansas State University, University of Kansas and Wichita State University. Similarly, an apolitical body of experts could comprise the "Transportation Cost-Benefit Analysis Group."

The primary goal is to improve the amount of credible and consistent information available to lawmakers and taxpayers. The analysis of a cost-benefit group does not necessarily need to be binding on lawmakers' decisions, but the analysis should be made part of the public record. This provides the public with an explanation of the decision process for infrastructure expenditures and it helps build a track record which can be used to score future projects.

It is encouraging that AFP's FY 2009 Commonsense Budget recommendation to change the process for choosing projects is being considered by Kansas Department of Transportation (KDOT) in a pilot project. AFP suggested that "cost/benefit analysis should be applied to local and state partnerships on projects to determine the share of the burden that is appropriate for the state to bear. Projects with the least cost and greatest benefit to the state should be chosen first thereby encouraging local governments to commit greater resources."¹

KDOT's recently announced pilot process evaluates projects using three factors: engineering, local input and economic impact analysis. Project selection over the past two decades has been based primarily on engineering factors such as roadway condition and traffic data.² AFP believes this method of incentivizing local participation will help bridge the funding gap until a new transportation program is implemented and, perhaps more importantly, provide a model for moving forward with more efficient utilization of taxpayer funds for future projects.

PUBLIC-PRIVATE PARTNERSHIPS

FHA's Web site advocates the concept of bringing some private equity into the transportation process. Public-private partnerships are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery of transportation projects.

The FHA contends expanding the private sector role allows public agencies to tap private sector technical, management and financial resources in new ways to achieve public agency objectives such as greater cost and schedule certainty, supplementing in-house staff, utilizing innovative technology applications, specialized expertise and accessing private capital.

The private partner can expand its business opportunities in return for assuming the new or expanded responsibilities and risks. Some of the primary reasons for public agencies to enter into public-private partnerships according to FHA include:

- Accelerating the implementation of high priority projects by packaging and procuring services in new ways
- Turning to the private sector to provide specialized management capacity for large and complex programs
- Enabling the delivery of new technology developed by private entities
- Drawing on private sector expertise in accessing and organizing the widest range of private sector financial resources
- Encouraging private entrepreneurial development, ownership, and operation of highways and/or related assets
- Allowing for the reduction in the size of the public agency and the substitution of private sector resources and personnel

The FHA maintains that “Public-private partnerships (PPPs) provide benefits by allocating the responsibilities to the party – either public or private – that is best positioned to control the activity that will produce the desired result. With PPPs, this is accomplished by specifying the roles, risks and rewards contractually, so as to provide incentives for maximum performance and the flexibility necessary to achieve the desired results.” The primary benefits of using public-private partnerships to deliver transportation projects include:

- Expedited completion compared to conventional project delivery methods
- Project cost savings
- Improved quality and system performance from the use of innovative materials and management techniques
- Substitution of private resources and personnel for constrained public resources
- Access to new sources of private capital

In particular we encourage KDOT to consider using this concept for projects such as the Kansas City Intermodal Facility that will transfer highway semi-trailers and containers between trains and trucks. Clearly, many private entities share an interest in replacing the aging system currently in place and it is appropriate to ask those groups that will benefit to participate in funding this project. Currently, KDOT is applying for a \$50 million Transportation Investment Generating Economic Recovery Grant to finance this project.³ The use of federal tax money, while preferable to state tax funding, is still using taxpayer dollars to subsidize individual industries instead of bringing those who have a direct economic interest to the table.

Another area well suited to public-private partnerships is in the area of toll roads. Toll roads in the Kansas City area that would allow commuters to move from one part of town to another quickly make fiscal sense and, if built and maintained by public-private partnerships, would lower or completely reduce the need for

taxpayer dollars for initial construction and operation. Oklahoma City and the Dallas/Fort Worth Metroplex have put in toll roads that are both profitable and efficient time savers for those who choose to use those roads. Although alternatives exist for commuters, the relative lack of traffic and ease of movement around those metro areas have made these toll roads a win-win for taxpayers and commuters.

IMPROVING EXISTING INFRASTRUCTURE USAGE

Not all improvements in transportation access and safety require the expenditures of large amounts of taxpayer funds. AFP has examined some of the issues with existing infrastructure and has some simple suggestions to approaching them.

KDOT should also consider looking at some ways to make existing public toll roads more attractive to consumers. Incentives such as stair-stepped commercial rates for frequent users and high speed pass-holder lanes would increase traffic on the current Kansas Turnpikes and eliminate some of the disincentive to use them that has forced truck traffic on to non-toll roads. For example, on U.S. Highway 50 there were 17 traffic fatalities in 2008 according to KDOT records.⁴ These safety issues on Highway 50 are partly because many truckers use it to drive between Wichita and Kansas City to avoid the tolls on the Kansas Turnpike.⁵ However, applying some cost-benefit analysis to commercial traffic fees and structural elements could easily reduce this issue and increase revenues to the toll system.

Highways with high accident and fatality counts relative to the amount of traffic usage need to be areas of special interest for KDOT. However, not all of these issues need to be solved with repairs or the building of new roads. AFP encourages lawmakers to enact a requirement for the Kansas Highway Patrol to submit a plan to allocate existing troopers within current operational expenditures to those roads. If increased trooper presence does not reduce accident counts then KDOT should proceed with alternative proposals.

EFFECTIVE USE OF THE STIMULUS FUNDS

Kansas is receiving about \$380 million in stimulus funds with which Gov. Mark Parkinson and KDOT Secretary Deb Miller announced new transportation projects “designed to help create jobs, improve safety and encourage economic growth in Kansas.”⁶ AFP is not in total agreement with Gov. Parkinson’s statement: “These are important projects that will soon create thousands of jobs, enhance safety and sustain long-term economic growth.”⁷

Economic research studies in general have not found that more highways lead to a larger economy in states and regions. Over the last three decades, the presence of more highway capital in a state has not been found to attract more private capital to the economy. Most studies have not found that highways, and new investment in highways, increase the level of employment or labor earnings in the economy overall. Finally, most studies have found the presence of more highways in a state has done little over the last three decades to make state economies more productive.⁸

Even KDOT’s own Long Range Transportation Planning group concluded: “Transportation projects rarely create wealth. And while it may be appealing to invest in projects located in regions struggling economically to spur growth, the result may just be a transfer of economic benefits from one region to another.”⁹

Additionally there is reason to doubt the claim from the KDOT press release that “Based on estimates from the Federal Highway Administration, Kansas stands to gain more than 10,000 jobs from these projects.”¹⁰

One doesn't need to have much common sense to see the flaws in those numbers. If every penny of the \$380 million went to payroll it would create jobs that paid approximately \$32,000 per job after accounting for withholding taxes such as social security and Medicare. This estimate assumes every penny will be spent in a 12-month period when, in fact, estimates expect that only one-third of the amount allocated for highway construction would be completed by the end of fiscal 2010.¹¹ Spread those numbers over two years and we are looking at jobs that would only pay \$16,000 per year after withholding. And we have yet to deduct all the non-wage cost of these projects such as materials and equipment. The administration may say this will create a demand for new machinery and for cement which will create jobs as they produce those items. However, labor is only one component of these items and it is very questionable how much – if any – new equipment will be purchased based on the nature of these projects or how much of the existing materials are already sitting in inventory.

Given those commonsense realities AFP suggests a different course of action for this stimulus money. The Reason Foundation sponsored a study measuring the performance of state-owned roads and highways in twelve different categories. The state is ranked first among all states in a national study in the two categories of rural interstates and urban interstates with the fewest miles in poor condition. Not one mile of Kansas rural or urban interstate is rated poor.¹² It makes good sense to maintain what is already the best highway system in the country and this budget encourages KDOT to do exactly that first. If after providing for maintenance there is money left over then KDOT should look at the ideas already suggested for any new roads or major upgrades in infrastructure. But even in the case of maintenance and/or upgrades AFP encourages cost-benefit analysis and, when possible, public-private partnerships to reduce the commitment of taxpayer funds.

FUTURE TRANSPORTATION FUNDING OPTIONS

AFP has reviewed the Transportation Funding Options provided offer by Transportation Leveraging Investments in Kansas (T-Link). We encourage the Legislature to give great pause to raising taxes – which is what most of these proposals suggest – in the midst of a severe recession.

Even some of the ideas that are “user fees” make little sense. Raising the surcharge on Kansas Turnpike Authority tolls by 10 percent will simply tilt the economic tables more to moving truck traffic to Highway 50 and exacerbating the already poor safety conditions. Additionally, fees that will largely be borne by the commercial traffic on the toll roads will simply be passed on to consumers becoming, in effect, a backdoor tax.

AFP understands the argument these projects are many years in the future and planning is an important tool for an efficient transportation system. We would hope the plan would allow the flexibility to adjust to economic conditions and apply some basic business common sense to expenditures. These suggestions of “new revenue sources” are largely driven by the contraction of the existing revenue streams due to the overall economic climate. We would encourage the legislature to authorize a planning concept more oriented to a “pay as you go” approach to capital projects. As economic conditions improve revenues will rise allowing for expenditures beyond maintenance and having a set of prioritized projects in place will allow quick movement to address needs.

The Legislature should send KDOT back to the drawing board to review suggestions such as public-private partnerships or other innovative ideas instead of the standard mantra just raising revenues to meet our expenditure needs.

1. AFP's FY-2009 Commonsense Budget, Transportation Section
2. KDOT news release Oct. 5, 2009
3. KDOT press release Sept. 18, 2009
4. Associated Press wire Sept. 1, 2008
5. Ibid
6. KDOT press release Feb. 20, 2009
7. KDOT press release Feb. 20, 2009
8. "If They Build It, Will They Come", KU School of Business Center for Applied Economics, May 2005
9. <http://www.kansaslrtp.org/ListEconomicImpact.do>
10. KDOT press release Feb. 20, 2009
11. <http://www.washingtonpost.com/wp-dyn/content/graphic/2009/02/01/GR2009020100154.html>
12. http://www.ksdot.org/PDF_Files/Kansas%20ranks%20high%20in%20national%20transportation%20report.pdf



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