

KANSAS' SELF-INFLICTED BUDGET WOUND CONTINUES TO BLEED OUT, PROVIDING A CAUTIONARY TALE FOR NEBRASKA



a report by BRIAN HANSON
and the CENTER *for* RURAL AFFAIRS

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FOR NEBRASKA

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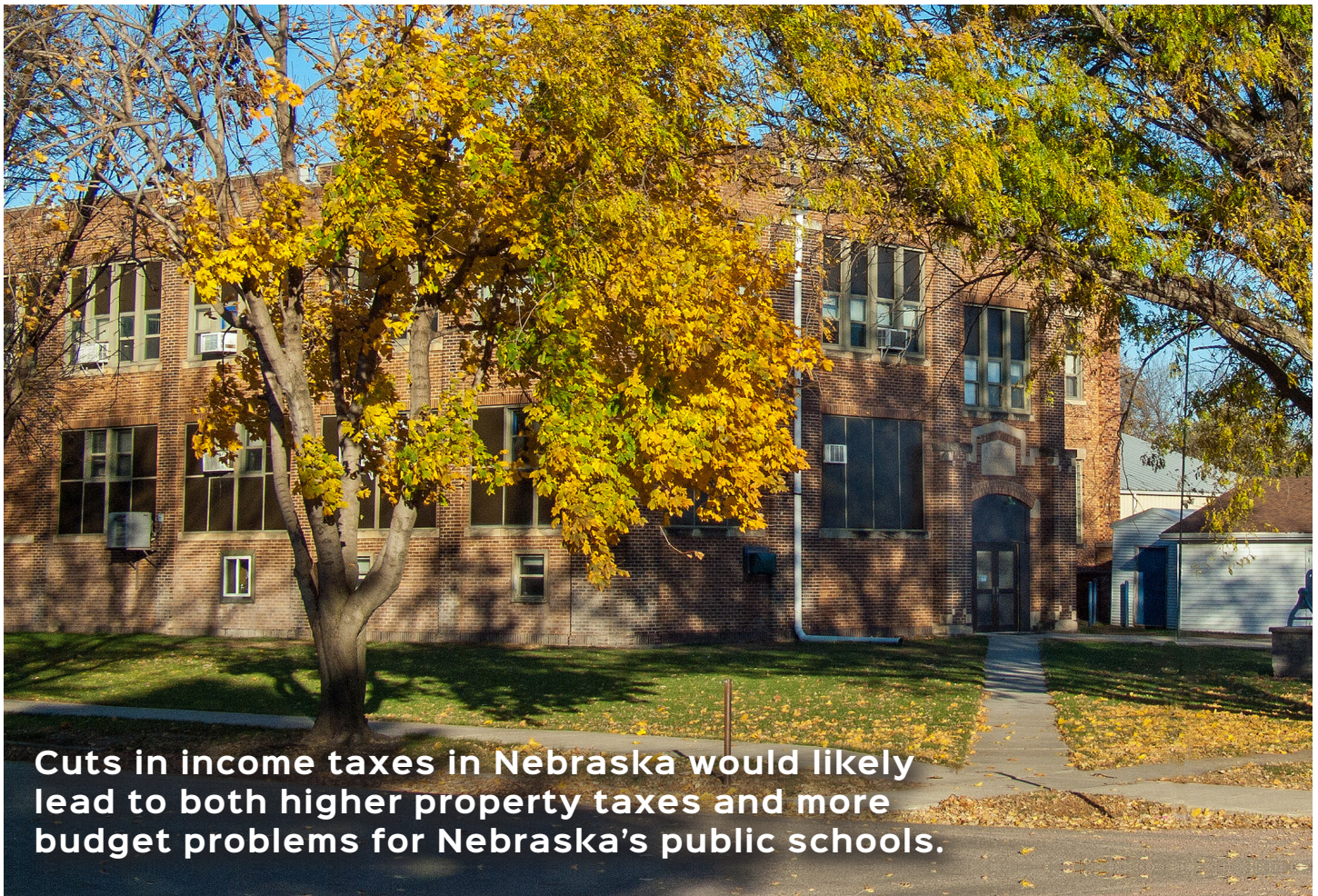
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Cuts in income taxes in Nebraska would likely lead to both higher property taxes and more budget problems for Nebraska's public schools.

KEY FINDINGS

- Kansas' income tax cuts did not bring the promised economic and job growth.
- These income tax cuts led to state budget shortfalls, depletion of state rainy day fund, school funding crises, and increases in both property and sales taxes in the Sunflower State.
- Nebraska already faces a budget shortfall of over \$350 million through the next budget cycle that ends in 2019, due to declining tax revenues resulting from income tax cuts of years past.
- Kansas lags behind neighboring states, and the country, in job growth. It has negative growth over the past year (-0.35 from May 2015 to May 2016).
- Cuts in state aid to Kansas' schools, as well as local and county governments, have made those entities more reliant on property taxes and other fees. A majority of Kansas counties have seen property tax increases since the 2012 income tax cuts. 17 of the 20 highest property tax increases have occurred in rural counties.
- The income cuts are not enjoyed by all Kansans. Due to subsequent increases in property taxes, sales taxes and other usage fees, such as motor vehicle licensing, Kansas households making less than \$42,000 per year have seen a net tax increase. Households making \$500,000 received tax cuts of about \$25,000.
- Cuts in income taxes in Nebraska would likely lead to both higher property taxes and more budget problems for Nebraska's public schools.
- Nebraska should avoid the budget troubles of Kansas, and instead focus on creating a balanced tax system that is not overly reliant on property taxes, and fully fund essential state services and schools.

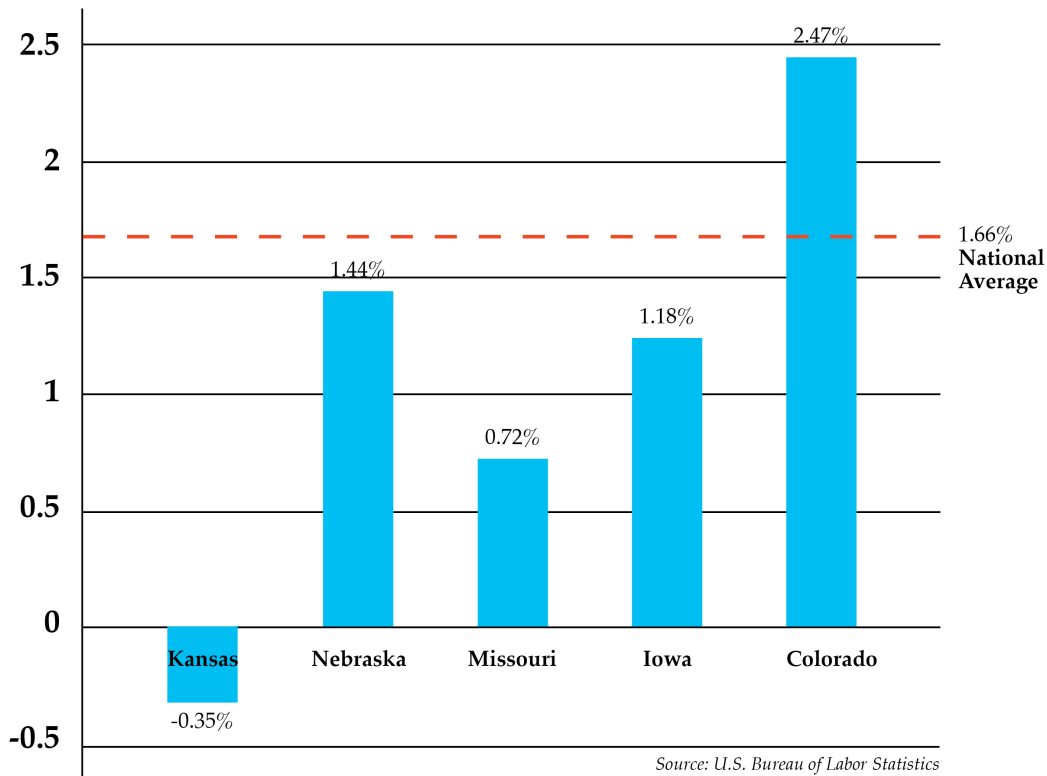
INTRODUCTION

Recently, some Nebraska legislators have been discussing plans to pair property and income tax cuts during the upcoming 2017 legislative session. Nebraska already faces a budget shortfall of over \$350 million through the next budget cycle that ends in 2019, due to declining tax revenues resulting from income tax cuts of years past.¹ Cutting both property and income taxes simultaneously would cripple the budgets of Nebraska's schools, as well as those of its cities and counties, and the state itself. Nebraskans only have to look to their neighbors to the south to see the folly of such imbalanced tax plans.

During the 2012 legislative session, Kansas' governor and legislature led the state's budget and citizens into a "real live experiment" by eliminating the state's corporate income tax for over 300,000 businesses, partnerships and limited liability corporations. They also cut individual income taxes for wealthier Kansans (HB 2117).² This experiment veers off the path of established scientific method as those who are in charge of it fail to observe the phenomena that result from the treatment condition (tax cuts). Gov. Sam Brownback promised the experiment would kickstart the economy with increased business investment and job growth. While the income tax cuts give a break to wealthier

NET JOB GROWTH IN NONFARM EMPLOYMENT

MAY 2015 TO MAY 2016, NOT SEASONALLY ADJUSTED



1 Young, JoAnne. "No special budget session recommendation, but news not good." Lincoln Journal-Star. July 25, 2016. http://journalstar.com/legislature/no-special-budget-session-recommendation-but-news-not-good/article_8d65301c-29da-5298-aa58-91e3b2696768.html

2 Rothschild, Scott. "Brownback gets heat for 'real live experiment' comment on tax cuts." Lawrence Journal-World. June 19, 2012. <http://www2.ljworld.com/news/2012/jun/19/brownback-gets-heat-real-live-experiment-comment-t/>

Kansans, the resulting increases in property taxes, sales taxes and other fees have rased the burden on working families. The increases in taxes are an attempt to cover the budget shortfalls created by the income tax cuts.

Rather than making Kansas more attractive to investment, these tax cuts and the subsequent actions are creating the perception that the state is not a wise investment. The state's credit rating was downgraded by two international debt rating agencies, Moody's³ and Standard and Poor's in 2014, citing falling tax revenue, underfunded pension obligations and court-ordered spending on education.

But the downgrade did not stop there. In May 2016, Moody's dropped the credit outlook from "stable" to "negative,"⁴ an indication that an additional downgrade may soon be on the horizon, as the state continues to struggle to manage its finances. Then, in late July, S&P Global Ratings (formerly Standard and Poor's) downgraded Kansas credit for a second time, citing "structural budget pressures," depletion of the state's cash reserve, ongoing diversion of highway funds to cover shortages in the state's general fund, uncertainty regarding future school funding and underfunding of pensions.⁵

Only three states now have lower credit ratings than Kansas - Illinois, New Jersey and Kentucky. These credit downgrades will cause Kansas to pay higher interest rates on the state's debt.

In the years since the tax cuts took effect, the promised job growth has failed to materialize. Kansas lags behind the nation and its neighboring states. According to the U.S. Bureau of Labor Statistics, Kansas had negative net job growth over the past year - change in nonfarm employment May 2015 to May 2016, not seasonally adjusted: -0.35 percent.⁶ The national rate is 1.66 percent job growth over that same time period. This

3 Lefler, Dion. "Moody's drops Kansas credit outlook from 'stable' to 'negative.'" Wichita Eagle. May 3, 2016. <http://www.kansas.com/news/politics-government/article75347912.html>

4 Id.

5 Hanna, John. "S&P drops Kansas credit rating, citing lack of cash reserves." Wichita Eagle. July 26, 2016. <http://www.kansas.com/news/politics-government/article91961917.html>

6 U.S. Department of Labor. Bureau of Labor Statistics. June 17, 2016. Regional and State Employment and Unemployment (Monthly) News Release. http://www.bls.gov/news.release/archives/laus_06172016.htm

ranks Kansas 46 in job growth over the last year. Meanwhile, Nebraska, Missouri, Iowa and Colorado have experienced job growth of 1.44, 0.72, 1.18, and 2.47 percent respectively (see graph on page 2). In fact, Kansas is one of only seven states in the U.S. that has not gained jobs over the past year. Gov. Brownback promised to bring 100,000 new jobs over his second term, which began January 2015. As of June 2016, it is estimated Kansas has gained only 1,700 jobs, more than 33,000 behind the promised pace of growth.⁷ To look at it another way, in 17 months since making that promise, the governor has failed to produce one month's worth of promised jobs, or 2,100 jobs.

Legislators in surrounding states have begun to discuss plans for drastically cutting or eliminating income taxes next legislative session. This includes Nebraska.⁸ Nebraskans only have to look to our neighbors to the south to see the folly of such imbalanced plans. The experience of Kansas should provide Nebraska's leaders and its citizens plenty of reasons to avoid such a hazardous path, and to pursue a more balanced approach to tax reform.

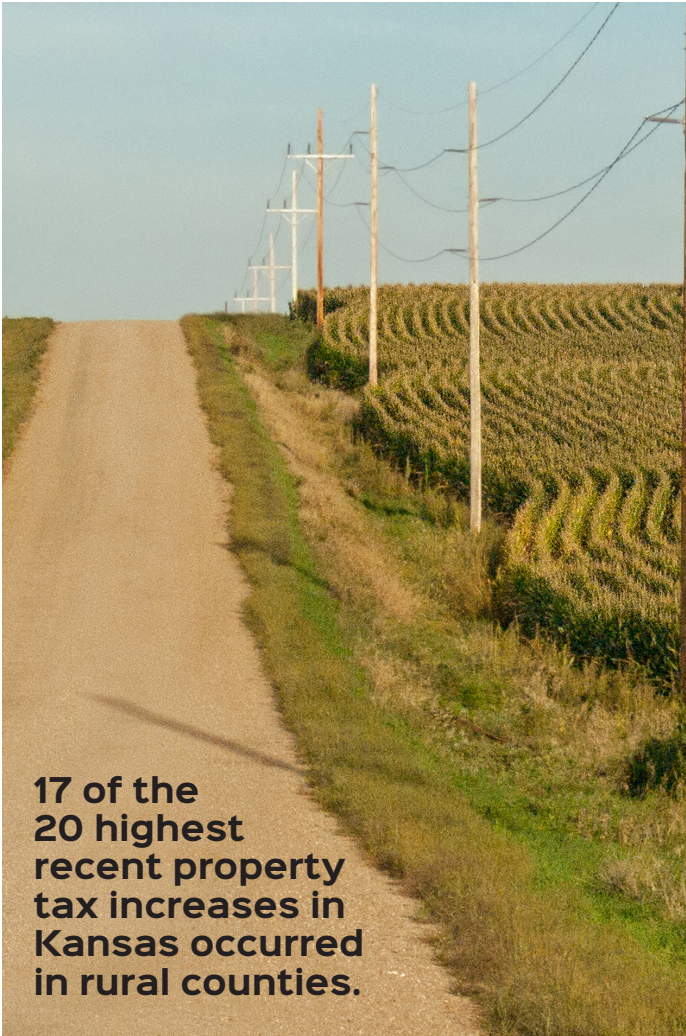
BUDGET SHORTFALLS AND SHIFTING THE TAX BURDEN TO WORKING KANSANS

Since the tax cuts were fully implemented in 2013, Kansas has experienced budget shortfalls on a regular basis, as state revenues continually miss their forecasted levels. These deficits were no unforeseen accident, but rather the result of the structural imbalance created by the legislature when the planned expenditures totaled greater sums than the incoming tax revenue.

Over the past few years, Kansas state leaders have had to scramble to make cuts, borrow from future budgets, and raise other taxes and fees in order to

7 Abouhalkah, Yael. "Boo: Kansas now 33,000 jobs behind Sam Brownback's 2014 campaign pledge." Kansas City Star. June 17, 2016. <http://www.kansascity.com/opinion/opn-columns-blogs/yael-t-abouhalkah/article84358317.html>

8 Walton, Don. "Sen. Jim Smith eyes comprehensive tax cuts." Lincoln Journal-Star. June 6, 2016. http://journalstar.com/legislature/sen-jim-smith-eyes-comprehensive-tax-cuts/article_88229dae-c2f9-5157-aeb7-f2d0c3e93663.html



17 of the 20 highest recent property tax increases in Kansas occurred in rural counties.

offset the loss of income tax revenue. In fact, Kansas has missed revenue estimates 11 out of the last 12 months.⁹

These cuts have resulted in a tax system in which the income tax brackets are still progressive, but the combined net result of income, property and sales taxes create a regressive tax system, in which lower- and middle-income residents pay a greater share of their income in taxes than high-income Kansans.¹⁰ In fact, it is estimated that those who make less than \$42,000 annually have seen an overall tax

9 Greenblatt, Alan. "Why States' Tax-Cut Fever Has Subsidied." *Governing*. June 2016. <http://www.governing.com/topics/finance/gov-tax-cut-states-republicans.html>

10 Dickinson, Martin B., Stephen W. Mazza, and Michael R. Keenan. 2012. "The Revolutionary 2012 Kansas Tax Act." *Kansas Law Review*. vol. 61(2). https://kuscholarworks.ku.edu/bitstream/handle/1808/20248/01-Dickinson_Final.pdf?sequence=1&isAllowed=y

increase since 2012, due to increases in property, taxes, sales taxes and other fees (such as vehicle registration).¹¹

Kansas' leaders have decided to pay for their income tax cut plan by increasing sales taxes and eliminating common tax deductions used by Kansas families, such as the child and dependent care income tax credit,¹² deductions of medical expenses,¹³ and the homestead property tax refund for renters.¹⁴ Lawmakers have also reduced the deduction homeowners and landowners can take for mortgage interest, as well as real estate and personal property taxes, by 50 percent.¹⁵

Kansas has become more dependent on sales taxes to fill state coffers. Sales taxes are considered to be regressive taxes because lower-income families pay a greater share of their income when buying the goods they need than do high-income families.

The largest tax increase in state history was needed to balance the state's budget in 2015, as the Legislature raised the state sales tax to 6.5 percent.¹⁶ This gives the Sunflower State the eighth highest average sales tax rate in the U.S., when

11 Goossen, Duane. "Goossen: The Big Shift." *Kansas Center for Economic Growth*. June 15, 2016. <http://www.realprosperityks.com/goossen-big-shift/>

12 *The Childcare and Dependent Tax Credit was eliminated in the 2012 bill (HB2117) that ended the state corporate income tax*. Kansas Department of Revenue Division of Taxation. "Notice 12-05: Elimination of Certain Income Tax Credits for Individuals, Partnerships, S Corporations, and Limited Liability Companies." July 9, 2012. <http://rvpolicy.kdor.ks.gov/Pilots/Ntrntpil/IPILv1x0.NSF/586e37c0870a730f86256524007f4833/da8cdf6f2a6d175a86257a360048bd73?OpenDocument>

13 Eveld, Edward M. "Kansas income tax changes could sting." *Kansas City Star*. October 19, 2015. <http://www.kansascity.com/news/politics-government/article/40424943.html>

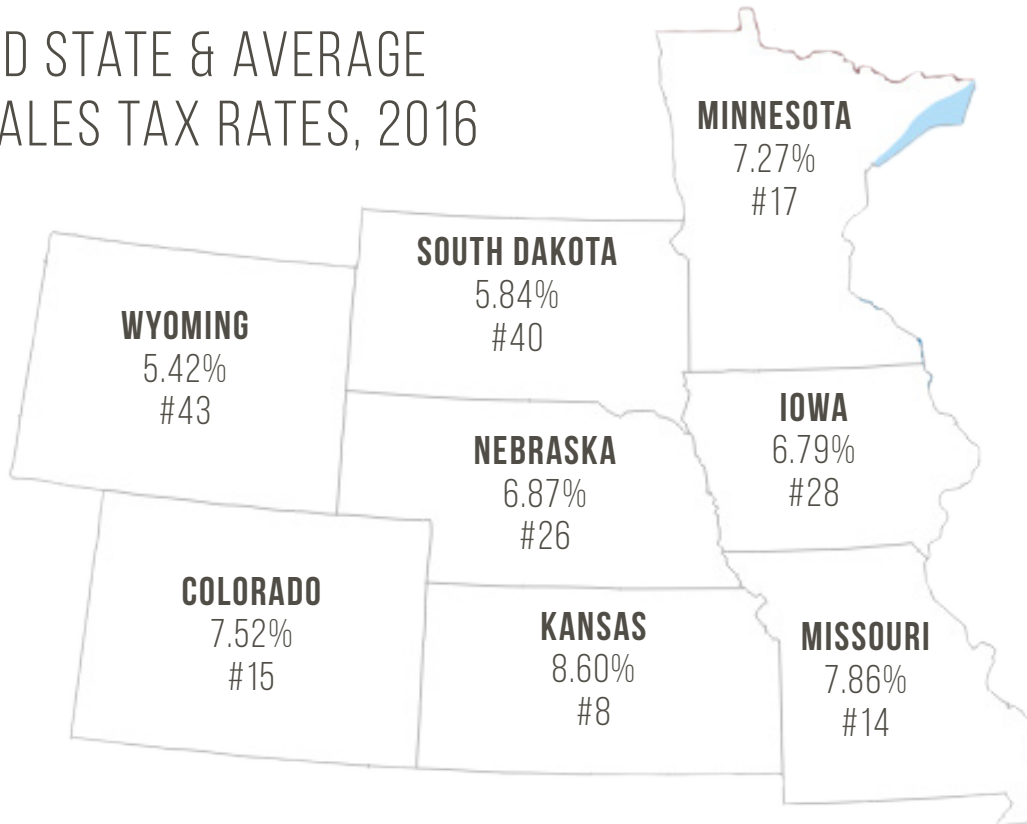
14 Goossen, Duane. "Goossen: The Big Shift." *Kansas Center for Economic Growth*. June 15, 2016. <http://www.realprosperityks.com/goossen-big-shift/>

15 Eveld, Edward M. "Kansas income tax changes could sting." *Kansas City Star*. October 19, 2015. <http://www.kansascity.com/news/politics-government/article/40424943.html>

16 Lowry, Bryan. "As Gov. Sam Brownback signs Kansas budget plan, he denies that it counts as a tax increase." *Kansas City Star*. June 16, 2015. <http://www.kansascity.com/news/politics-government/article24643096.html>

SALES TAX RATES

COMBINED STATE & AVERAGE LOCAL SALES TAX RATES, 2016



Note: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in South Dakota have broad bases that include many business-to-business services. *Source: Tax Foundation, Sales Tax Clearinghouse.*

coupled with local sales taxes.¹⁷ In comparison, Nebraska ranks 26 in the U.S. on the same measure. Kansas also has the distinction of having the highest sales tax on food in the country.

Since 2012, cuts in state aid to local governments have forced increases in property taxes of at least 10 percent in a majority of Kansas counties.¹⁸

17 Henchman, Joseph. "Kansas Approves Tax Increase Package, Likely Will Be Back for More." June 12, 2015. <http://taxfoundation.org/blog/kansas-approves-tax-increase-package-likely-will-be-back-more>

18 Kansas Center for Economic Growth. "Tax Cuts Taking Toll on Kansas Communities." April 2015. http://realprosperityks.com/wp-content/uploads/2013/02/tax_cuts3.pdf

LOWER INCOME TAX CUTS FOR SOME, PAID FOR BY HIGHER PROPERTY AND OTHER TAXES FOR MOST

Cuts in state aid force local governments to seek increased revenue to fill the gaps; this has occurred in Kansas through property tax increases. Since the income tax cuts went into effect in 2013, 67 Kansas counties have raised property taxes.¹⁹ Statewide, property taxes increased by nearly 8 percent from

19 Id.



2008 to 2014,²⁰ and 3.3 percent in just the first year after the income tax cuts went in effect.²¹ Of Kansas' 105 counties, 71 had property tax rate increases of at least 10 percent between 2010 and 2014.

17 of the 20 highest recent property tax increases in Kansas occurred in rural counties.²² These state aid cuts hit Kansas' rural counties even harder. With a smaller population and tax base, rural counties are more reliant on help from the state to provide residents with schools, health care and public safety services.

20 Associated Press. "Kansas to consider tightening limits on local property taxes." Lawrence Journal-World. January 11, 2016. <http://www2.ljworld.com/news/2016/jan/11/kansas-consider-tightening-limits-local-property-t/>

21 Kansas Center for Economic Growth. "Tax Cuts Taking Toll on Kansas Communities." April 2015. http://realprosperityks.com/wp-content/uploads/2013/02/tax_cuts3.pdf

22 Id.

The income tax cuts that have largely benefited wealthier Kansans have resulted in increased property taxes for residents in most counties (due to reduced state aid to schools and local governments), especially those living in rural areas. The same would probably happen in Nebraska if state aid to local schools and governments were cut due to reduced state income tax revenue. Local schools and governments in rural areas would become even more dependent on property taxes. Their smaller populations contribute revenue through avenues other than property taxes.

Former long-time Kansas Budget Director and State Legislator Duane Goossen estimates the income tax cuts of 2012 and the following property tax, sales tax and fee increases did not yield a reduction in taxes for many Kansans. He estimates the Legislature's actions raised taxes for the bottom 40 percent of Kansans, or roughly those making less

than \$42,000 per year.²³ Taxpayers in the middle and upper-middle segments of the income scale, or those with incomes between \$42,000 and \$107,000, have seen a small tax cut of between \$29 and \$319.

Meanwhile, Goossen finds the greatest beneficiaries of the 2012 tax cuts were those with the highest incomes. Those making greater than \$107,000 but less than \$200,000 enjoyed a tax cut of about \$1,000 per year, and Kansans making between \$200,000 and \$500,000 received on average a \$3,500 tax cut. However, the top 1 percent of taxpayers come out best - individuals making more than \$500,000 annually see an average tax cut of nearly \$25,000.

KANSAS TAX CUTS CREATE UNNECESSARY AND RECURRING SCHOOL FUNDING CRISES

The Kansas tax cut experiment created budget shortfalls, lowered the state's credit rating, and did not create promised jobs. It also increased the burden for local governments and schools that provide services to the state's residents.

State education aid, the largest source of funding for local school districts in Kansas, has not recovered from the revenue declines of 2008 recession levels, due to the 2012 tax cuts. The state government provides around 53 percent of funding for K-12 public education in Kansas.²⁴ Between the 2008 to 2009 and 2014 to 2015 school years, base state aid per pupil in Kansas declined by 12.5 percent or \$548 per student.²⁵ Base state aid per pupil is the basic level of support provided to school districts by

23 Goossen, Duane. "Goossen: The Big Shift." Kansas Center for Economic Growth. June 15, 2016. <http://www.realprosperityks.com/goossen-big-shift/>

24 Kansas Center for Economic Growth. "Quality at Risk: Impact of Education Cuts." 2014. <http://realprosperityks.com/wp-content/uploads/2014/09/KCEG-school-funding-report3.pdf>

25 Kansas Legislative Research Department. "School Finance History." July 15, 2015. http://www.kslegresearch.org/KLRD-web/Publications/Education/2015_school_finance_history.pdf

the state and was set by the Legislature based on enrollment. These cuts forced Kansas schools to lay off teachers, nurses and counselors; increase class sizes; and reduce the hours schools are open. Some school districts had to shorten their calendar and let children out for summer early because they could not afford to stay open for the full school year.²⁶

The mess for schools made by the tax cuts does not end there. In 2015, the Kansas Legislature threw out its school finance formula (base state per pupil) during the legislative session in response to a 2014 court ruling that declared the Legislature was unconstitutionally underfunding schools.²⁷ In its place, they created a block grant system which was also declared unconstitutional by the Kansas Supreme Court in 2016.

CONSTITUTIONAL CRISIS OVER SCHOOL FUNDING THREATENS STATEWIDE SCHOOL CLOSURE

In late May 2016, the Kansas Supreme Court ruled that the state's new block grant school funding formula was inequitable to poorer school districts, and therefore in violation of the state constitution.

In its ruling, the high court gave the Legislature a little over 30 days to revise the school finance formula to bring it in line with the guidelines of the state constitutional mandate. Failure to do so would mean money for education could not "lawfully be raised, distributed or spent" starting July 1, 2016.²⁸

26 Llopis-Jepsen, Celia. "Shawnee Heights USD 450, five other school districts say they will close early: Superintendents cite cuts to current-year budgets" Topeka Capital-Journal. April 20, 2015. <http://cjonline.com/news/2015-04-20/shawnee-heights-usd-450-five-other-school-districts-say-they-will-close-early>

27 Lefler, Dion and Bryan Lowry. "District Court Panel: School Funding Inadequate Under Kansas Constitution." Wichita Eagle. December 30, 2014. <http://www.kansas.com/news/local/education/article5169564.html>

28 Robertson, Joe, Mará Rose Williams and Laura Bauer. "Gov. Brownback calls Kansas lawmakers into special session on schools." Kansas City Star. June 7, 2016. <http://www.kansascity.com/news/politics-government/article82238222.html>



Without a plan to make state funding for Kansas public schools equitable across districts, it was possible that schools would not open in the fall. Lawmakers were forced to scramble to find a way to reinstate school funding before the deadline. The resulting deal patched the problem until the 2017 session when some in the Legislature have vowed to again seek to rewrite Kansas' school funding formula.²⁹

LEADERS ARE SHORTING SERVICES AND BORROWING TO PLUG HOLES

POLICE AND CORRECTIONS

In addition to schools, other state and local agencies are experiencing cuts in state aid. Kansas' budget woes are making it difficult for law enforcement

29 Lowry, Bryan and Dion Lefler. "Approved school funding plan may be 'equitable,' but what about 'adequate'?" Wichita Eagle. June 25, 2016. <http://www.kansas.com/news/politics-government/article85984012.html>

and corrections agencies. State aid cuts to local community corrections programs have been deep, and include state and local partnerships to provide supervision of felony offenders. The secretary of the Kansas Department of Corrections said the cuts would undermine state laws designed to diminish recidivism, and community corrections programs would have saved millions by reducing the need to construct additional prison space.³⁰

The state struggles to fill vacancies in its highway patrol and corrections staff in its prisons due to budget deficits. As of November 2015, about one-third of Kansas counties do not have a highway patrol officer due to understaffing.³¹

30 Carpenter, Tim. "Kansas prison secretary urges budget cut reversals. Roberts: Lack of state aid to community programs threatens recidivism reform." Topeka Capital-Journal. November 7, 2013. <http://cjonline.com/news/state/2013-11-07/kansas-prison-secretary-urges-budget-cut-reversals>

31 Carpenter, Tim. "KHP, KBI searching for answers to personnel shortages. Budget shortfalls make it difficult for state law enforcement agencies." Topeka Capital-Journal. January 11, 2016. <http://cjonline.com/news/state/2016-01-11/khp-kbi-searching-answers-personnel-shortages>

The Legislature recently approved an increase in vehicle registration fees to hire new troopers because it did not have the money to do so.³²

Kansas faces a 16 percent vacancy rate in corrections officer staff at a time when its prisons are overcrowded.³³ Nebraska has similar problems of prison overcrowding and staff shortages in its corrections system that recent crises have brought to attention. Further cuts would only exacerbate these problems.

HEALTH

State support for local health services has been cut by 12 percent since the end of the recession, contributing to Kansas' ranking near the bottom (46) in state support for public health.³⁴ Local health departments play a vital role in improving and protecting public health by an array of providing services, such as childhood and adult immunizations, physicals, home visitation to the elderly and disabled, and responding to outbreaks of communicable diseases.

Local health departments have a limited capacity to address health crises and preventable death within their communities. The Kansas Health Institute estimates that the cuts could lead to about 65 preventable deaths annually in Sedgwick County (Wichita) alone.³⁵

HIGHER EDUCATION

The budget shortfalls have led to cuts in state support for its institutions of higher education that

32 Lowry, Bryan. "Kansas House, Senate OK bill increasing car registration fees." *Wichita Eagle*. May 1, 2016. <http://www.kansas.com/news/politics-government/article75013877.html>

33 Eveld, Edward M. "Kansas is short on prison guards, Highway Patrol troopers amid budget woes." *Kansas City Star*. January 3, 2016. <http://www.kansascity.com/news/politics-government/article52857080.html>

34 Kansas Association of Local Health Departments. "2016 Policy Statement." <http://www.kalhd.org/wp-content/uploads/2012/10/2016-KALHD-Legislative-Policy-Statement.pdf>

35 Kansas Health Institute. "Decreases in public health spending associated with more deaths from preventable causes. Analysis of how proposed public health funding reductions in Sedgwick County could lead to more preventable deaths over time." 2015. http://www.khi.org/assets/uploads/news/13807/khi_sgcofact_sheet_08-2015_final.pdf

undermine Kansas' ability to produce highly-trained and qualified workers for new jobs. The cuts lead to tuition increases that place a greater burden on Kansas students and parents, to pursue their educational goals. Tuition is set to increase between 4.9 and 6 percent for the 2016 to 2017 school year at state colleges and universities.³⁶

INFRASTRUCTURE

Lately, Kansas' leaders have made a habit of borrowing from roads funding and retirees' pensions to patch holes in the budget. From 2011 to 2017, Kansas has transferred \$2.1 billion from the highway fund to the state's general fund.³⁷ As the state transfers the revenue it raises for the upkeep of highways, it is taking on debt, in the form of bonds, to try to keep up with road maintenance.

STATE PENSIONS

Sunflower State's leaders have been borrowing from retirees by delaying the state's contribution to retiree's pension fund for the fiscal year. State legislators shortsightedly create future budget problems in order to hastily create patches for the continuing self-inflicted budget crises.

KANSAS' QUESTIONABLE GAMBLING STRATEGY: IF YOU KEEP LOSING, DOUBLE-DOWN

*"They lowered the bar, but continue to trip over it" - Anthony Hensley, Kansas Senate Minority Leader on Kansas' actual revenue receipts continuing to miss the continually-lowered revenue estimates.*³⁸

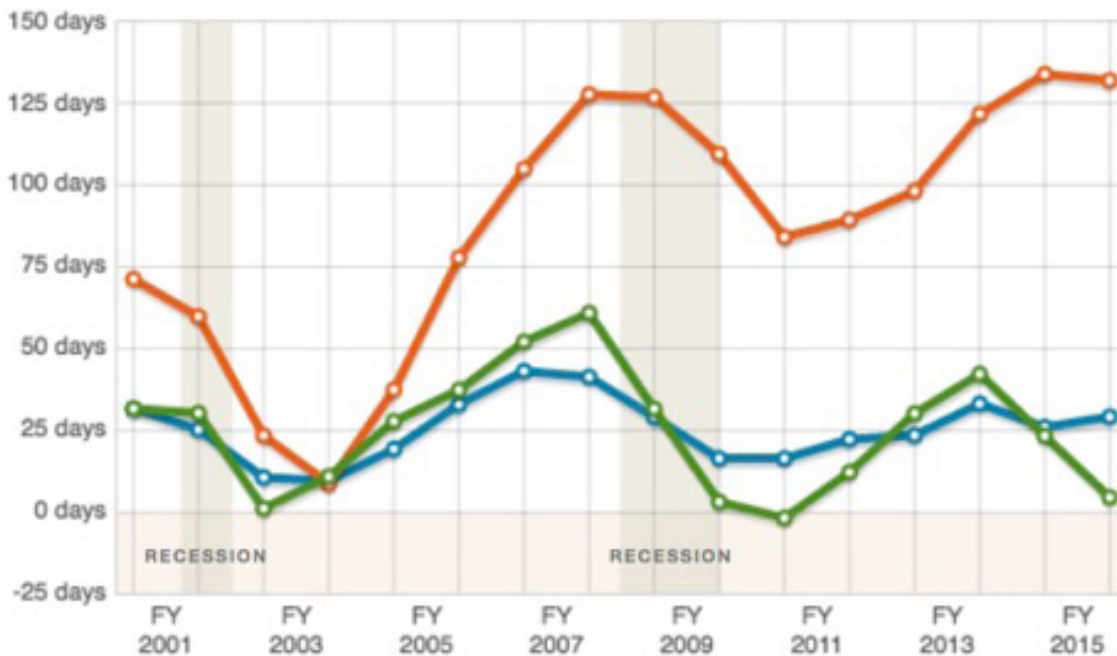
36 Shepherd, Sara. "Kansas Regents OK university tuition proposals, including 5 percent increase at KU." *Lawrence Journal-World*. June 15, 2016. <http://www2.ljworld.com/news/2016/jun/15/kansas-regents-ok-university-tuition-increases/>

37 Eveld, Edward M. "Kansas will pay the price for diverting from roads fund, some lawmakers say." *Kansas City Star*. December 28, 2015. <http://www.kansascity.com/news/politics-government/article51972555.html>

38 Lowry, Bryan. "Kansas back in budget hole after missing May revenue estimates by \$74.5 million." *Wichita Eagle*. June 1, 2016. <http://www.kansas.com/news/politics-government/article81189047.html>

Days Each State Could Run on Reserve Funds, FY 2000-15

■ 50-state median ■ Nebraska ■ Kansas



Source: The Pew Charitable Trusts. 2016. Fiscal 50: State Trends and Analysis. <http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/fiscal-50/ind5>

Even after extensive spending cuts and new tax increases were enacted to balance the budget at the end of the 2015 legislative session, Kansas still falls short of its revenue projections.³⁹

The Nebraska Legislature is required to balance the state's budget each year according to the state constitution. However, simply having a balanced budget does not mean that a state's budget is healthy. Kansas leaders are also required to balance the state's budget, but have recently relied on accounting tricks to accomplish the task, delaying payments for current fiscal year obligations until the new fiscal year.⁴⁰

39 Greenblatt, Alan. "Why States' Tax-Cut Fever Has Subsidized." *Governing*. June 2016. <http://www.governing.com/topics/finance/gov-tax-cut-states-republicans.html>

40 *Kansas' governor recently used his executive power to withhold a \$260 million payment to Kansas' schools, due in June, in order to delay spending that money until after the new fiscal year (July 1), allowing the money to appear on the state's end of the year balance sheet.* Carpenter, Tim. "Gov. Brownback orders new round of cuts to rebalance state budget. Revenue shortfall of \$33.5 million in June compels swift executive action." *Topeka Capital-Journal*. July 1, 2016. <http://www.cjonline.com/>

Kansas lawmakers have created a structural deficit that leaves the state without enough revenue to pay its bills.⁴¹ The deep tax cuts continue to reduce the state's future revenues. Meanwhile, costs grow due to inflation, leading the Kansas Legislature to repeatedly engage in a combination of raising taxes and cutting services.

Costs of providing services to residents, such as education, health care and roads maintenance get more expensive each year due to costs of goods, utilities and labor. Meanwhile, the value of some tax sources decline over time due to inflation and other changes in the economy. For example, as cars become more fuel efficient, gas tax revenues fall even if drivers are still traveling the same number of miles. In a state

[news/state/2016-07-01/gov-brownback-orders-new-round-cuts-rebalance-state-budget](http://www.kansascity.com/news/state/2016-07-01/gov-brownback-orders-new-round-cuts-rebalance-state-budget)

41 *For a more detailed explanation of the structural imbalance in the Kansas' budget created by the tax cuts of 2012, and how the state will continue to experience budget shortfalls in the future, see former Kansas Budget Director Duane Goossen's breakdown at the following:* Kansas Center for Economic Growth. "Goossen: Set Up for More Financial Trouble." May 18, 2016. <http://realprosperityks.com/goossen-set-financial-trouble/>

without a structural deficit, the tax system will balance and collect sufficient revenue to cover increased costs without raising tax rates.

The Kansas Legislature had to make severe cuts in state aid make up, and had to borrow from other funding sources and raise sales taxes to try to cover the budget gaps it created with the income tax cuts.

KANSAS BURNED THROUGH ITS BUDGET RESERVE AND CONTINUES TO BORROW TO COVER TAX EXPENDITURES

Kansas leaders took out a record \$900 million debt certificate for the upcoming fiscal year to cover shortages in cash needed to cover the state's day-to-day operations.⁴² The debt certificate is an IOU that the state writes to itself that would need to be paid by the end of the fiscal year. This amount beat the previous year's record of \$840 million. Such borrowing is necessary as tax revenues continue to come in under the state government's estimates, creating budget shortfalls.

Kansas has very little of a budget reserve that could otherwise cover such shortfalls. Missing revenue estimates can occur from time to time as events, such as recession or other changes in the markets, fewer people working or how much consumers are spending. Therefore, it is wise to put some money away for rainy days. Kansas has brought the rainy days upon itself; the state spent its budget reserve to cover repeated budget shortfalls that were created by the loss of revenue following the 2012 tax cuts.

The figure above illustrates the number of days that Kansas and Nebraska could run on reserve. The Sunflower State would be unable to make it through an entire work week. They only have enough funds to get through an estimated 4.4 days after depleting the

42 Carpenter, Tim. "Kansas finance council approves record \$900 million debt certificate. Temporary borrowing by IOU allows state government to work around deep cash shortages." Topeka Capital-Journal. June 22, 2016. <http://cjonline.com/news/2016-06-22/kansas-finance-council-approves-record-900-million-debt-certificate>

budget reserve.⁴³ Meanwhile, Nebraska has enough in its budget reserve to operate for an estimated 132 days, well above the national median.

NEBRASKA'S SCHOOLS CANNOT BEAR FURTHER CUTS IN STATE AID

Nebraska's school funding differs from Kansas, in that the Nebraska state government provides a significantly smaller portion of funding for K-12 public schools, making schools more reliant on local property taxes.

According to data from the U.S. Census Bureau, Nebraska ranks 49 in percentage of K-12 education funding that comes from state government.⁴⁴ The latest data shows that 59 percent of K-12 funding in Nebraska comes from property taxes and other local sources (U.S. average: 45 percent), with less than 33 percent coming from state sources. This makes Nebraska's schools the third most reliant on local property taxes in the country.⁴⁵ Nebraska communities face greater pressure than those in almost every other state to increase property tax levels in order to adequately fund their schools.

Further cuts in state aid in Nebraska (largely generated by state income taxes) would put local officials in a tight spot. Nebraska's local school districts have large restraints from the state on how they can manage their budget.

43 The Pew Charitable Trusts. "Fiscal 50: State Trends and Analysis." 2016. <http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/fiscal-50#ind5>

44 United States Census Bureau. "Annual Survey of School System Finances: Percentage Distribution of Public Elementary-Secondary School System Revenue by Source and State: Fiscal Year 2014." 2016. http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prodType=table

45 United States Department of Education, National Center for Education Statistics, Digest of Education Statistics. "Table 235.20: Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction: 2012-13." 2015. http://nces.ed.gov/programs/digest/d15/tables/dt15_235.20.asp

There are limits on how much property tax levies can be raised to cover costs and how much their budget can grow from year-to-year.⁴⁶

Local school districts are the only political subdivision in Nebraska to have both state-imposed spending limits and property tax levy limits. The limit on property tax levies for school districts is \$1.05 for each \$100 of a property's taxable value, set by the Legislature in 1996. Limits on school district spending growth are also set by the Legislature and change each year. That growth rate is set to 2.5 percent for the 2016 to 2017 school year.⁴⁷ Recently, it has been as low as 0.5 percent for 2012 to 2013.⁴⁸

Cuts in income taxes in Nebraska would likely lead to both higher property taxes and more budget problems for Nebraska's public schools, depending on how close they already are to those state-set limits.

CONCLUSION

The problems experienced by Kansas can be avoided in Nebraska by seeking a balanced tax system that relies on income, property and sales taxes to adequately support the schools and services of the state. Nebraska began the legislative session facing budget shortfalls seven of the past eight years. Risking our state's schools and essential services to follow Kansas' lead to eliminate the state income tax would be foolish.

46 Bergquist, Kay Stilwell, Renee Fry, Kevin O'Hanlon, and Dylan Grundman. "Investing in Our Future: An Overview of Nebraska's Educational Funding System." OpenSky Policy Institute. 2014. http://www.openskypolicy.org/wp-content/uploads/2014/08/Education-Primer_Final.pdf

47 Nebraska Department of Education School Finance and Organization Services. "2016/17 Budget Text for Nebraska Public School Districts." June 14, 2016. <https://www.education.ne.gov/fos/Schoolfinance/Budget/Downloads/1617/BudgetText.pdf>

48 Bergquist, Kay Stilwell, Renee Fry, Kevin O'Hanlon, and Dylan Grundman. "Investing in Our Future: An Overview of Nebraska's Educational Funding System." OpenSky Policy Institute. 2014. http://www.openskypolicy.org/wp-content/uploads/2014/08/Education-Primer_Final.pdf

Nebraska's leaders would better spend their time focusing efforts on adequately funding public schools in a balanced way that does not rely so heavily on property taxes. Nebraska ranks next to last in the percentage of K-12 public school funding that comes from state government,⁴⁹ is the third most reliant on property taxes to fund schools,⁵⁰ and is ranked 47 in the country in support for local governments.⁵¹ With this greater reliance on local property taxes to fund schools and local public services, Nebraska cannot afford to further cut state aid because its elected leaders feel they can score political points by following Kansas' lead in slashing income taxes. The Sunflower State has demonstrated that simply cutting income taxes does not create economic and job growth; it only creates and worsens a wide range of issues.

When talking about tax cuts in Nebraska, we should look to our neighbors to the south to see a demonstration of what that fully entails. The large shortages in state revenues that have resulted from Kansas' severe cuts to corporate income taxes and personal income tax rates of its wealthiest residents have resulted in cuts to programs and services that all state residents benefit from, such as K-12 public schools, higher education, public health services, corrections, public safety and roads.

Kansas and Nebraska have many similarities: median household incomes;⁵² number of acres

49 United States Census Bureau. "Annual Survey of School System Finances: Percentage Distribution of Public Elementary-Secondary School System Revenue by Source and State: Fiscal Year 2014." 2016. http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prodType=table

50 United States Department of Education, National Center for Education Statistics, Digest of Education Statistics. "Table 235.20: Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction: 2012-13." 2015. http://nces.ed.gov/programs/digest/d15/tables/dt15_235.20.asp

51 National Conference of State Legislatures. "State Aid to Local Governments." <http://www.ncsl.org/research/fiscal-policy/state-aid-to-local-government-update.aspx#Table%201>

52 *Kansas \$53,444; Nebraska \$56,870.* The Henry J. Kaiser Family Foundation. "Median Annual Household Income: 2014." <http://kff.org/other/state-indicator/median-annual-income/>

under agricultural cultivation;⁵³ proportion of the population living in rural areas;⁵⁴ and Republican governors and Republican-dominated delegations to Congress. Nebraska has an advantage in its nonpartisan Legislature, which gives some freedom from Legislators' respective political parties' platforms, enabling them to work together more often than has been the case in Kansas.

By choosing to stay the course on the tax cut experiment, Kansas created a structural deficit in its budget that leads to ongoing budget shortfalls. This is what happens when the state's revenues do not grow at the same rate as the cost of providing services and other spending obligations. With this real live experiment, Kansas' state leaders chose to make a large cut in the revenue stream by eliminating corporate and business income taxes. They hope (without prior evidence) that it would lead to job creation, followed by growth in personal income tax revenues to replace the lost revenue. However, the results show that this has not happened. The shortages in state revenue, in turn, led to cuts in state spending that have created the perception that Kansas is a poor investment. Nebraska must take a more balanced approach to taxes.

ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

53 *Kansas 23.1 million acres; Nebraska 19.3 million acres.* United States Dept. of Agriculture. "Acreage." June 30, 2015. <http://www.usda.gov/nass/PUBS/TODAYRPT/acrg0615.pdf>

54 *Kansas 25.8 percent; Nebraska 26.87 percent.* U.S. Census Bureau. "2010 Census Urban and Rural Classification and Urban Area Criteria: Lists of Population, Land Area, and Percent Urban and Rural in 2010 and Changes from 2000 to 2010." 2010. <http://www.census.gov/geo/reference/ua/urban-rural-2010.html>