

Gov. Sam Brownback orders budget overhaul to match \$228 million revenue shortfall

GOP governor's fix hits pensions, university, highway programs

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By **Tim Carpenter**

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State of Kansas revenue projections over the next 15 months were cut Wednesday by a quarter of a billion dollars to broaden the cash shortfall facing lawmakers and apply greater political pressure on Gov. Sam Brownback to deliver a road map to close the gap.

The Brownback administration responded with three options for balancing the budget, but focused on a preferred plan that strikes at revenue dedicated to pensions, higher education, highways and children. He said no consideration should be given to repealing an income tax break given to owners — not employees — of 330,000 businesses in Kansas.

“I am prepared to take executive action to help reduce expenditures, however, the Legislature has a Constitutional obligation to balance the budget,” the governor said in a statement. “I do not believe it would be useful to have a debate about raising taxes on small businesses or anyone else.”

The decision by the Consensus Estimating Group to again roll back revenue expectations in the fiscal year ending in June and the subsequent 12-month period was anticipated long before legislators left Topeka in March for a five-week recess. House and Senate members were aware an income tax exemption given to business owners and income tax reductions adopted for individuals, fused with troubling trends in the oil, agriculture and manufacturing sectors, signaled a need to soften the forecast.

Shawn Sullivan, the governor's budget director, said Brownback would use his authority to delay scheduled highway expansion and modernization projects to move \$185 million more from the Kansas Department of Transportation to the state general fund. Officials at KDOT said 10 projects with a construction cost of \$273 million would be delayed in the fiscal year starting July 1, while 15 projects with a cost of \$279 million would be delayed the following year.

In addition, Sullivan said Brownback's preferred deficit remedy included a \$99 million delay in the state's payment into the Kansas Public Employees Retirement System and continuation for one more year of a \$17 million reduction imposed on universities in the Kansas Board of

Regents system.

Brownback intends to urge the Legislature — he can't do it on his own — to sell off a portion of future tobacco company payments to Kansas. He would continue to earmark \$42 million annually for early-childhood education programs, but surrender about \$15 million annually in perpetuity in exchange for infusion of \$158 million to the treasury.

“That is one-time money, which is the downside of it,” Sullivan said. “It does not structurally fix the budget in the long term but does provide a bridge to future fiscal years.”

Sullivan outlined two other budget correction scenarios considered by Brownback that would also be shared with state legislators. Each included the raid on KDOT, but none proposed alteration of the income tax exemption for business owners. His least favored option would broaden and deepen the cut to Kansas higher education, reduce funding by 3 percent to K-12 education and trim appropriations for Medicaid.

Reaction to Brownback's tax and budget priorities indicated the harshest criticism centered on the strategy of selling the tobacco revenue stream to generate enough cash to avoid modification of the business income tax exemption.

“We should rename our state the State of Denial,” said Senate Minority Leader Anthony Hensley, D-Topeka. “Everything else is being sacrificed, basically, to give wealthy people a tax break. I think the people of Kansas get that it's an unfair tax system.”

House Minority Leader Tom Burroughs, D-Kansas City, said the deteriorated revenue outlook was the result of misguided leadership by Brownback and conservative legislators in the Republican Party.

“Democrats stand ready to chart a new path forward,” he said. “We support responsible tax policies that will create a sustainable source of revenue for the state. Doing so would allow us to prudently invest in programs and services like education and infrastructure, which help to create a better Kansas for all our citizens.”

House Speaker Ray Merrick, R-Stilwell, said the good news was that the state of Kansas collected more taxes this fiscal year than in the previous year despite lower prices for oil and farm commodities, and a national economy under Democratic President Barack Obama that “continues to stagnate.”

He also said the House would identify budget solutions “with a broad, clear-headed view of the actual situation.”

Brownback administration officials, staff serving the Legislature and three university economists who are collectively responsible for formulating revenue estimates decided in a closed-door meeting the state would receive \$228.6 million less in the remainder of the current fiscal year and the upcoming fiscal year than was thought just six months ago.

In November, while viewing a similar landscape, the estimating group dropped the projection a combined \$350 million. That action occurred despite a July escalation of the statewide sales tax to 6.5 percent and a higher cigarette tax, as well as raids on the Kansas Department of Transportation and the Kansas Public Employees Retirement System.

A reduction in state collection of income tax revenue accounts for the majority of the downward revision.

To get the current 2016 fiscal year's budget out of deficit territory, the state needs to approve a swift \$140 million decrease in spending or find cash to fill that crater. The budget deficit in the 2017 fiscal year is thought to be about \$150 million.

In the past year alone, state government revenue collections failed to meet projections in 11 of 12 months. In March, Brownback answered the monthly miscue by ordering a \$17 million cut in spending in the Kansas Board of Regents system of public universities. He excluded from that cut the network of community and technical colleges.

In 2012, Brownback and Republican allies promised Kansans aggressive income tax cuts would spawn meaningful job growth by inspiring business expansion. Brownback's strategy for delivering a “shot of adrenaline” to the economy didn't significantly move the dial, but the governor narrowly won re-election in November 2014.

Last year, the state of Kansas ranked 43rd in total personal income growth. Kansas gained only 800 private-sector jobs from March 2015 to March 2016, an increase of 0.1 percent.

The House and Senate is up for re-election in 2016, and patience of legislators and the public appears to be waning.

Budget committees in both chambers are expected to meet Thursday or Friday to begin drafting a deficit bill. Full components of the House and Senate return to the Statehouse next Wednesday, and they have a constitutional responsibility to adopt a balanced budget before departing.

Dave Trabert, president of Kansas Policy Institute, said the state’s budget problem boiled down to inability of the Legislature to limit spending. Republicans hold about three-fourths of House and Senate seats.

“It will be interesting to see whether Democrats and enough Republicans have the courage to balance budgets by moving Kansas from being morbidly inefficient to grossly inefficient, or if they will choose to inflict more unnecessary tax increases on citizens,” Trabert said.

Annie McKay, executive director of the Kansas Center for Economic Growth, said the latest revenue estimates illustrated Kansas’ financial health remained in “very poor shape.” She said the governor’s deficit strategy pitted wealthy business owners against children seeking an education.

“More one-time fixes will be used to inadequately support schools, health care and other areas key to a prosperous future for all Kansans,” she said. “Unfortunately, unprecedented and unaffordable tax policy continues to wreck our state’s prospects. When we talk about growing the economy, our early-childhood education and K-12 system is our best shot at doing that.”

[Related: View video of Sullivan from the news conference.](#)

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