

# Kansas has Responsibly Handled its Budget Crisis

by Mark Parkinson, Governor  
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I'm proud of how we have handled the budget crisis in Kansas. While many other states are just now making the tough decisions to balance their next year's budget, in Kansas we have already done so. I wanted to write about how we've been able to do this.

I'm reluctant to write about the challenge that State government has faced in the recession, because I know it is nothing compared to what Kansas families and businesses have had to endure. Lost jobs, lost savings, lost businesses and sometimes, lost hope, are found all too often across the state. I'm very aware of this and praying for those who are facing difficult economic times.

But the job of the Governor is to balance the budget and my goal was to develop a plan that would work for the next five years. Provided that we have normal economic growth, we've been successful in meeting that goal.

## *The Triple Whammy That Created Our Budget Challenge*

Our budget problem was the result of three factors, all of which converged on this fiscal year. Most people realize that the first is the recession. It resulted in much lower revenue for the state. To put this in perspective the state had never had more than one year in a row where we had declining revenue. We have now gone through three years of less revenue than the year before. This created an unprecedented challenge.

The second and third factors are less talked about. The second factor is that we dramatically lowered State taxes during the 1990's and 2000's. You may be asking yourself what I'm talking about because you haven't noticed your taxes going down - and you'd be right. We lowered or eliminated taxes that most people don't pay. For example we eliminated the estate tax, we eliminated the franchise tax, and we eliminated the property tax on machinery used in manufacturing. These actions and others resulted in a loss of over \$1 billion to our revenue.

The third factor is that we were spending more money than we were taking in, even before the recession. This was principally because the legislature responded to a court ruling that required it to adequately fund Kansas

schools, but failed to find the additional revenue to meet this requirement. So, for two years right before the recession we were spending \$500 million more than we were taking in.

The bottom line is that we would have had major budget problems even without the recession. With it, we had a real challenge on our hands.

## *How We Fixed It*

I want to avoid a long discussion of numbers because I realize it's hard to follow. But some general things will help. Our State General Fund budget was around \$6.4 billion. We had a \$1.3 billion shortfall.

We filled the \$1.3 billion shortfall by making \$1 billion in cuts and raising \$300 million in revenue from a sales tax increase that will last three years.

Obviously, my preference would have been to solve the entire shortfall with cuts. No one wants to raise taxes. But, after the fifth round of cuts, I became convinced that to cut any further would hurt our public schools, universities, public safety system, roads and safety net.

Fortunately, 64 members of the Kansas House and 23 members of the Kansas Senate agreed with me. The result is that we balanced our budget for 2010 and now have a balanced budget heading into 2011.

I view this as a significant competitive advantage over many states. While they are still in gridlock, or cutting, we protected what we have built up and are moving forward to the future.

## *The Tough Decisions Avoided a Financial Catastrophe*

There are some who argue that our \$1 billion in budget cuts went too far and others who believe that our \$300 million one-cent sales tax was unnecessary. What those critics fail to realize is that the cost of doing nothing, or delaying the tough decisions into the future, would be much worse.

Many other states in the country have delayed these painful decisions and are just now starting to pay the price. Illinois is just one example. A July 2, 2010 New York Times article explains:

"Even by the standards of this deficit-ridden state, Illinois's comptroller, Daniel W. Hynes, faces an ugly

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balance sheet. Precisely how ugly becomes clear when he beckons you into his office to examine his daily briefing memo.

He picks the papers off his desk and points to a figure in red: \$5.01 billion.

“This is what the state owes right now to schools, rehabilitation centers, child care, the state university—and it’s getting worse every single day. This is not some esoteric budget issue; we are not paying bills for absolutely essential services. That is obscene.”

Unfortunately, Illinois is not alone. Last week I spent time with the Governors from New York, Michigan, Washington, Maryland, and Pennsylvania. The stories were all the same - their budgets are out of balance and essential services of state government like schools and public safety will likely be cut severely.

When you look at the devastation these states will face and what Kansas could have faced, our decision to make deep cuts early and then modest revenue enhancements, appear to be good decisions.

#### *What Can Derail This?*

There are two factors that could un-balance the budget. One would be dismal performance by the economy. We continue to do what we can to create economic growth in Kansas, but at some point we simply need the national economy to turn up.

The second risk is the failure of Congress to provide us some additional aid that is known as the Federal Medicaid Assistance Program (FMAP). Congress provided this aid to the states as part of the Recovery Act and it looked like it would provide additional aid this year. We reluctantly counted on getting this money, about \$130 million, in our 2011 budget. We only counted it after it had passed both the US House and US Senate. Unfortunately, it passed in different bills that now need to be reconciled. More unfortunate is that this issue has become political, delaying its ultimate passage. I’m continuing to lobby Congress to set politics aside and get this done for states.

#### *Biggest Jobs Bill I Can Remember*

In addition to how we handled the budget situation, what makes me most proud of the legislature is that we not only protected what our ancestors had built, but we passed legislation that moves us into the future. The

most significant was the passage of a transportation plan that will build roads, maintain existing roads, work on railroad lines and airports all over the state. Not only will this create tens of thousands of jobs during the construction phases, it will create enduring economic development once the projects are complete.

And just to top it off we also passed legislation that created a statewide public smoking ban, passed a bill that takes the first step in expanding insurance coverage to include autism, and ended a dispute that will result in nursing homes across the state receiving additional federal funding.

It was a great session. As you learn about the incredible struggles that most other states are having, I hope you take pride that in Kansas we have solved our budget challenge. The solution, however, is fragile. Under any scenario we need the economy to grow. Without growth even the best laid plans simply won’t work. In the meantime let’s celebrate a legislative session where Republicans and Democrats came together, solved some difficult problems and actually finished ahead of time.

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