
Financing Government
or
Where has all the Money Gone?



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Kansas Secretary of Revenue
November 18, 2009

PLAINTIFFS'
EX. 313

Economic Conditions around the Country and in Kansas



Financing State Government
just became more difficult with
the recent estimates...



Allotments reduced expenditures an
additional \$253 million

FY 2010

- Reduced income by \$235.2 million
- 4.2 percent below the previous estimate
- The revised estimate is \$5.301 billion;
- 5.1 percent decrease below final FY 2009 receipts.

FY2011

- Further reduced income by \$122.2 million
 - 2.3 percent, below the newly revised FY 2010 figure
 - The initial estimate for FY 2011 is \$5.179 billion,
 - 2.3% decrease from 2010
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Where did the drop in \$\$ occur?

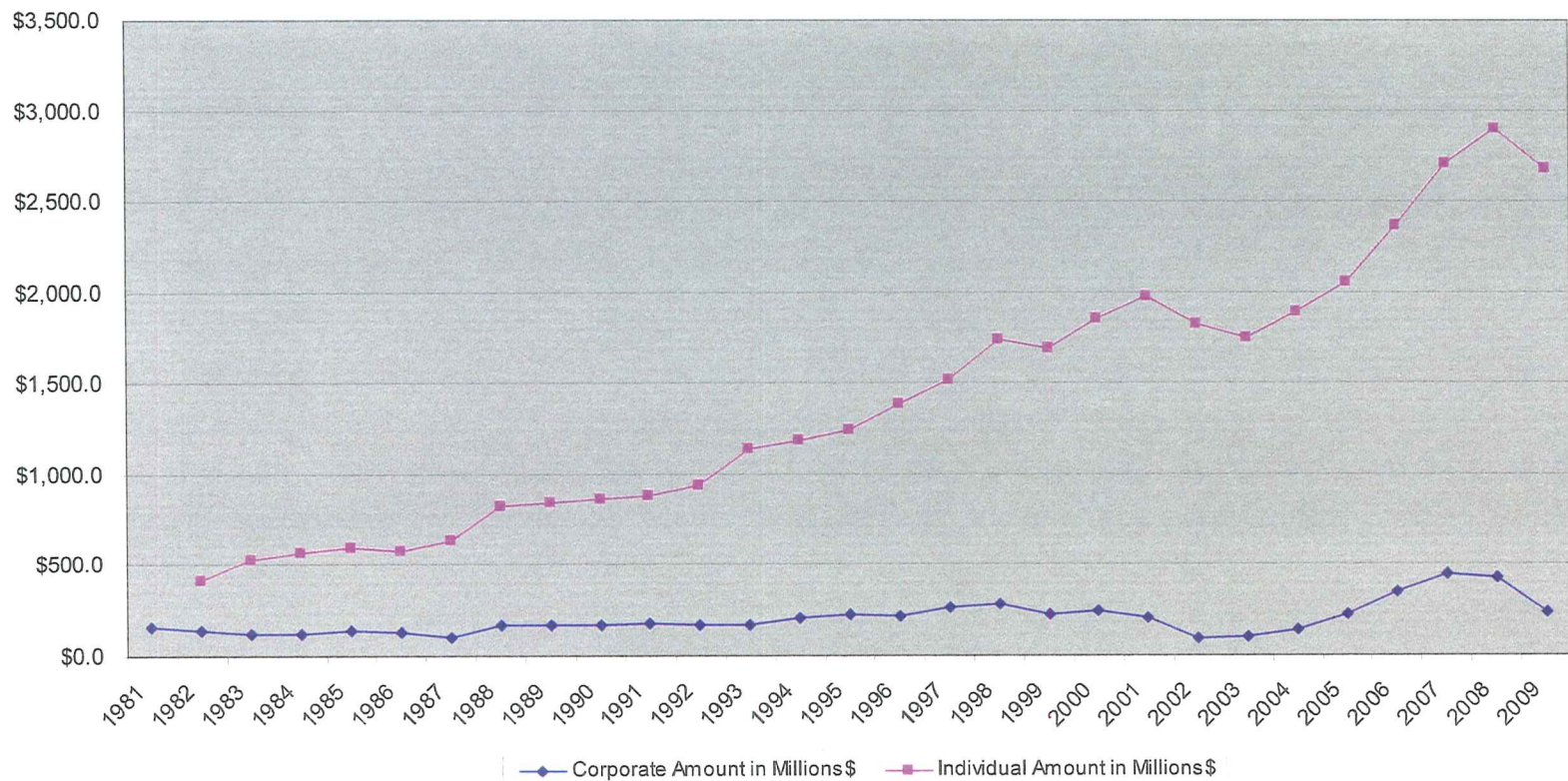
- Kansas Personal Income (KPI) in 2009 is expected to fall by 2.7 percent below the 2008 level.
- Kansas non-farm employment from September 2008 to September 2009 had decreased by about 60,000 jobs, or 4.3 percent
- Kansas jobless rate was 4.4 percent in CY 2008; is expected to jump to 6.95 percent in CY 2009; 7.3 percent in CY 2010; and fall to 6.75 percent for 2011.

Prior Tax Decisions Impacted Future Budgets

- Legislation in 2006 eliminated the Kansas estate tax as of 2010.
 - Reduce receipts by an estimated \$47 million in 2011 and \$52 million in 2012.
- Franchise tax phased out.
 - Reduce receipts by \$37 million in FY2011 and \$48 million in FY 2012.
- Legislation enacted in 2005 will reduce severance tax receipts to SGF by;
 - \$6.3 million in FY 2011 and \$10.7 million in FY 2012 and \$13.4 million in FY 2013.

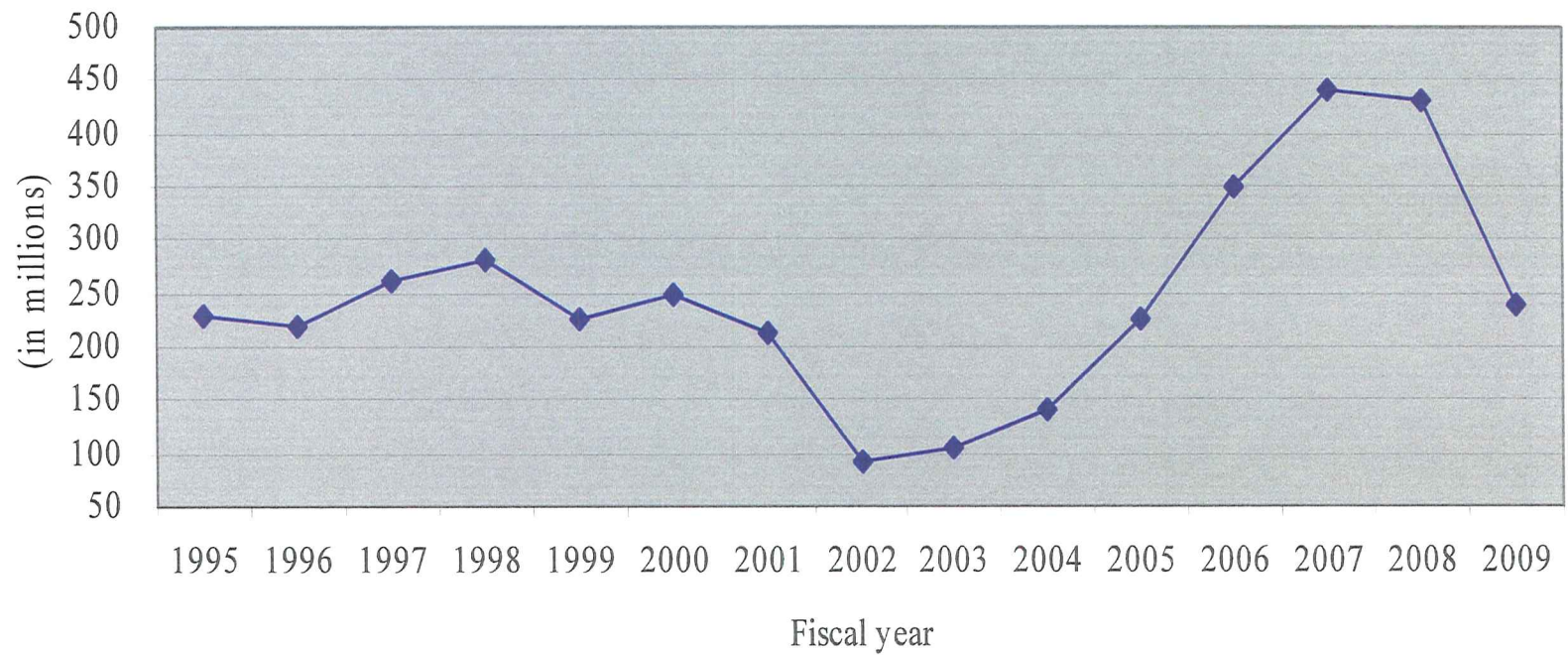
The Long View of Tax Trends

Individual and Corporate



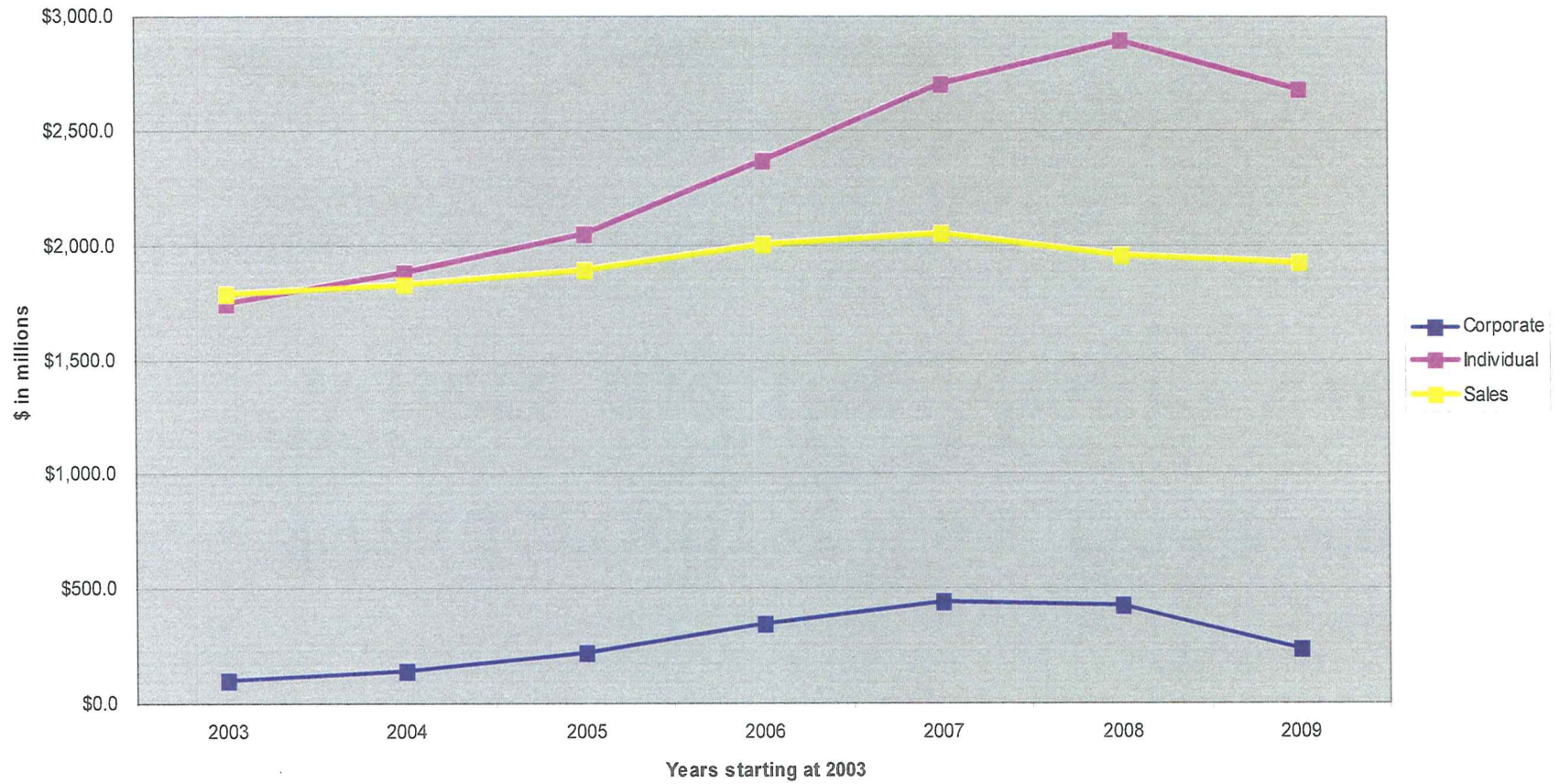
The Rollercoaster:

Corporate Income Tax - State General Fund
Fiscal Years 1995-2009



Major tax sources

Income, Sales and Corporate Taxes



The Eroding Tax Base, or ‘Where did the Money Go?’



How Tax Bases Erode

- Exemptions
- Tax Credits
- Economic Shifts, ie. consumption and business practices; e-commerce, services
- Policy Shifts
 - Tax Credits
 - STAR bonds, TIF's
 - IRB's, EDX's, - other abatements- exemptions

What we Learned from Studies

- Tax Mix is Unbalanced
 - Local Government spending is significant
 - Elasticity is declining
 - Tax base erosion is a major problem
 - Current trends are away from sound tax policy
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Where did the Money Go?

- General property tax and personal property tax reductions -- **\$602 million** in FY2009.
 - Changes/reductions Income taxes -- **\$298.7 million**
 - Sales tax exemptions -- **\$116 million.**
 - Cumulative since FY1995 thru FY 2009, -- **\$10.9 billion**
 - **\$1 billion** in FY2009.
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What does the future hold if the present trends continue?

- Continued Erosion of the Tax Base
- Higher Rates
- Less Equity among Taxpayers
- Less Competitiveness with other States
- More Taxpayer Discontent
- More Special Tax Legislation which further erodes the Tax Base, ...and on...and on...

Tax Policy Recommendations

- Advocates and Legislators should utilize the Policy Evaluation Guide when exemptions or credits are proposed
 - Enact a moratorium for 3 years on all credits and tax exemptions.
 - Institute a Sunset Review on all sales and property tax exemptions.
 - Restructure the financing of local government services
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Serving the people

Let's concentrate on good management, on prudent economies — and on keeping alive the idea and spirit of public service in Kansas.

