

Approved: 3/1/07  
Date

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Steve Brunk at 9:04 A.M. on January 26, 2007 in Room 231-N of the Capitol.

All members were present except:

Annie Tietze- excused  
Brenda Landwehr- excused  
Lana Gordon- excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department  
Dustin Slinkard, Office of Revisor of Statutes  
Stephen Bainum, Committee Assistant

Conferees appearing before the committee:

Alan Cobb, Director, Americans for Prosperity

Others attending:

See attached list.

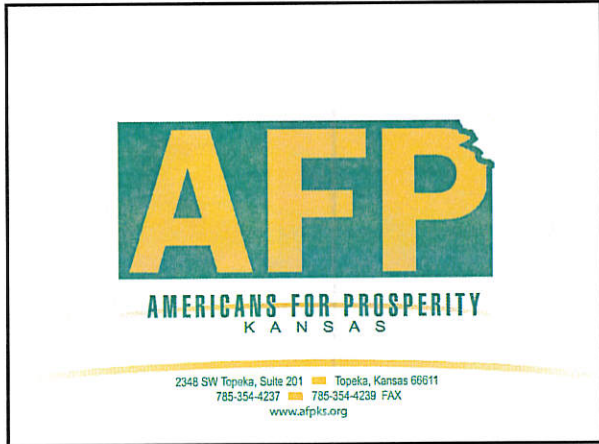
The Chairman asked if there were any bill introductions. Luke Bell, Director of Governmental Relations with the Kansas Association of Realtors introduced a bill to regulate home inspections. It was approved by the committee.

The Chairman introduced the guest speaker, Alan Cobb, Director, Americans for Prosperity. Alan distributed copies of his briefing to the members of the committee, and also projected his presentation on the wall (Attachment 1).

The Chairman again asked if there were any bill introductions. There were none. The Chairman reminded everyone that there was no meeting this coming Monday, January 29<sup>th</sup>.

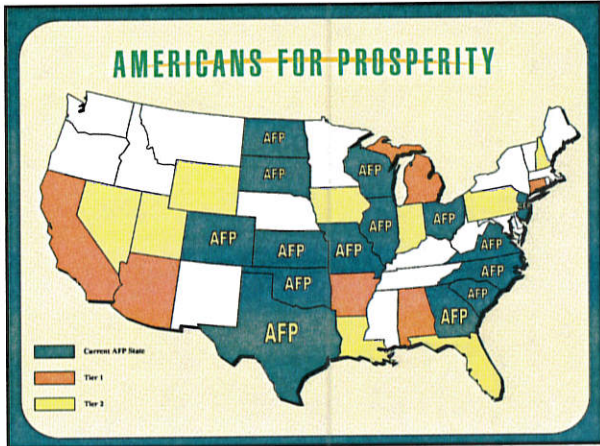
The committee was adjourned at 10:05 A.M.





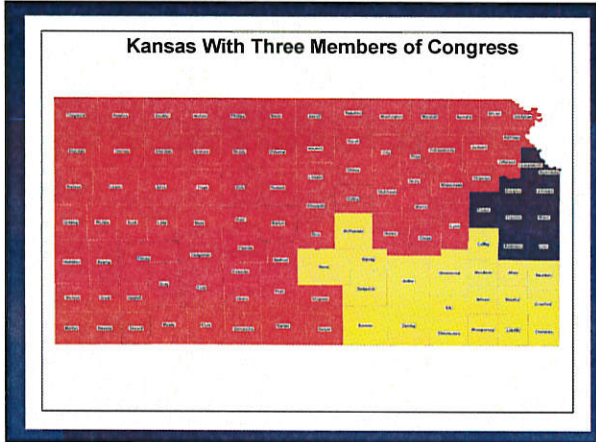
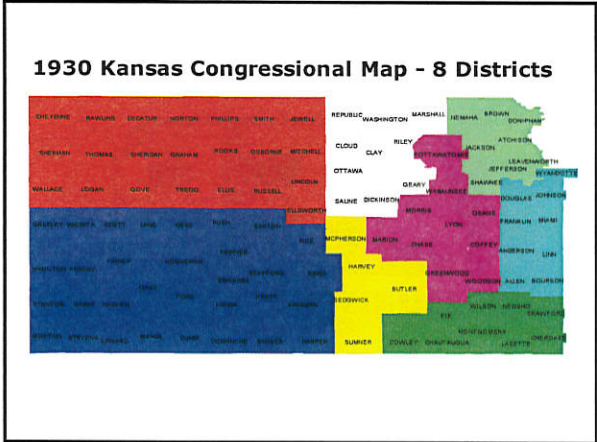
### Who We Are

- A national grassroots organization with a network of over 160,000 citizen leaders
- 2 organizations: Educational foundation and lobbying organization
- Goal: Change the rules in favor of greater economic growth, opportunity, and prosperity through strong ethical foundations, government restraint, and private sector productivity and competition



House Commerce & Labor  
 1-26-07  
 (Attach 1)

# Snapshot of the Kansas economy and government



- ### The Kansas Economy
- Poor job growth
  - Average to poor gross state product growth
  - Average to poor income growth
  - Poor population growth
  - Poor productivity growth

### Economic Growth, 1994 - 2003

Annual % Change	Pop	Ttl Personal Income	Per Capita Income	Earnings by Place of Work	Job Growth	Avg. Earn Per Job	Avg. Rank
Colorado	3	3	9	3	6	1	4
Kansas	35	43	41	37	30	39	38
Missouri	25	33	30	33	37	23	30
Nebraska	33	28	12	22	28	17	23
OK	29	32	19	36	32	37	31

Test State and Region Rankings based on average annual growth rates for the ten year period 1994-2003

Data source: Regional Economic Information System published by the U.S. Dept. of Commerce, Bureau of Economic Analysis  
 Compiled by: The Center for Economic Development and Business Research, Wichita State University

### Kansas Job Growth

Nov 2005 - Nov 2006

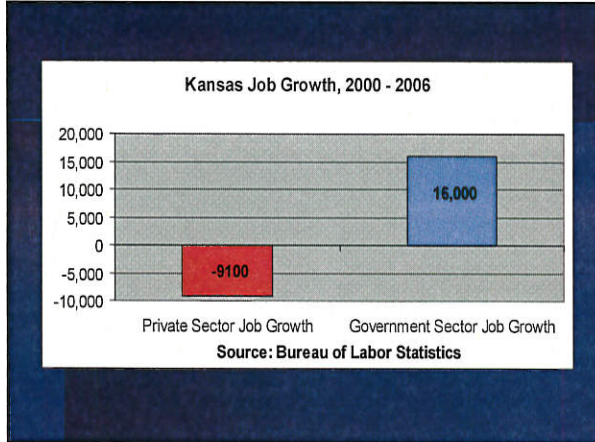
	Private Job Growth Rate	# of new private jobs in Kansas if grew at this rate
Kansas	-0.23%	
Colorado	1.79%	19,461
Missouri	0.56%	6,088
Nebraska	1.50%	16,308
Oklahoma	1.05%	11,416
Avg of Contiguous States	1.23%	13,318
National avg.	1.52%	16,525

### 2006 Kansas Government Job Growth

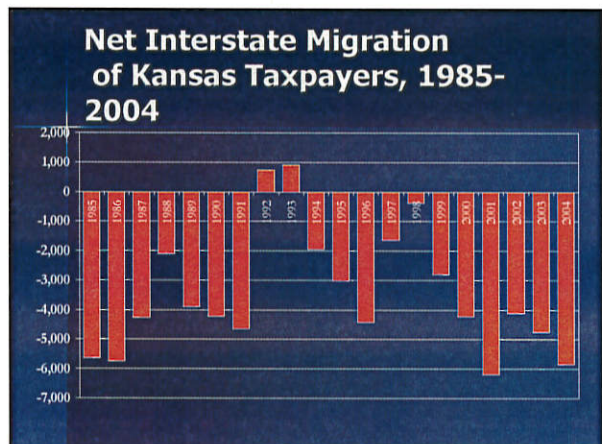
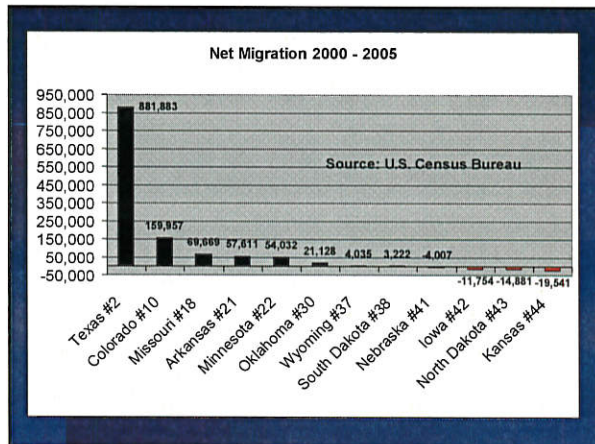
- +5,100, +2%
- #7 among 50 states

### 2006 Kansas Private Job Growth

- +6,000, +.55%
- #44 among 50 states



- ## Kansas Population Growth
- From 2000 – 2005, 83 counties have lost population
  - From 2000 – 2005, Kansas ranks 41st in population growth, averaging .42% annual growth
  - More people are moving out of Kansas than moving in.
  - From 2000 – 2005, we lost 1.37 % of our population to out-migration



## Personal Income per Capita Growth

- **46TH** (1984-2004)
- **38TH** (1994-2004)
- **29th** (2000-2004)
- **40th** (2003-2004)

Kansas Has Experienced Falling per Capita Income Growth Each Decade Since 1980

### Kansas Income Growth per Capita

Years	Annual	Total
1980's	8.1%	81.3%
1990's	5.3%	53.1%
2000-2004	2.4%	11.9%

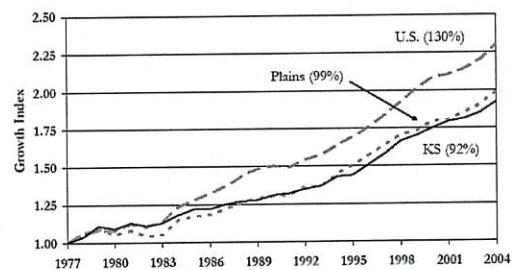
Bureau of Economic Analysis

## Gross State Product

- Kansas GSP in 2005 was \$105 billion.
- Kansas GSP ranks 32nd largest among the 50 states.
- Gross State Product Growth Rank (Rank : 1 best - 51 worst):
- 40th (1980-2005)
- 29th (1995-2005)
- 27th (2000-2005)

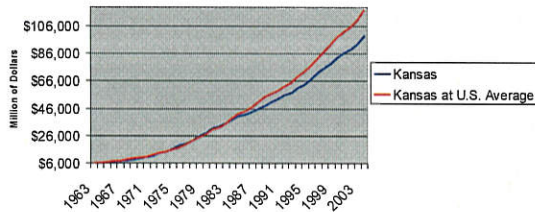
## Trends in Economic Growth (GSP)

Kansas Lags the U.S. and the Plains States



Source: Center for Applied Economics, KU School of Business

## Gross State Product Growth



If Kansas had grown at the 50 state average since 1980, the economy would be \$23.3 billion larger or 22%

To put a \$23 Billion economy into perspective, that was the size of the entire Kansas economy in 1978.

Source: Bureau of Economic Analysis. 1963 is the first year data is available.

## Kansas Average Gross State Product Growth Continues to Fall

**1970's 16.9% per year**

**1980's 7.1% per year**

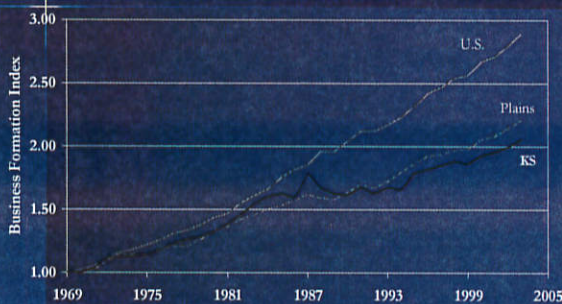
**1990's 5.4% per year**

**2000's 3.7% per year**



## Rate of New Business Formation

Does Kansas Have a Poor Investment Climate?



## Kansas Government

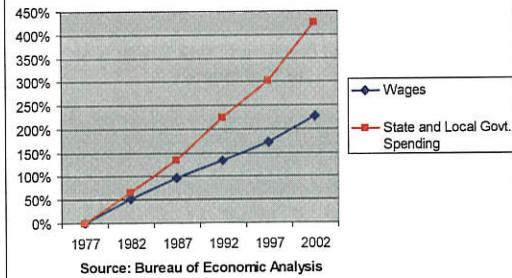
- In the last two years, the Kansas-funded portion of the State budget has increased 8.5% and 9.22%. The State General Fund has increased 9.5% and 9.0%, respectively. The State General fund is now over \$5 billion.
- In 1974, state spending per capita was 3.79% of per capita income; in 2004, it was 5.58%, an increase of 47%.
- Kansas has the 4th highest number of state and local government employees per 100 residents. (Small Business & Entrepreneurship Council, 2005)



## Kansas Government - 2

- From 1972 to 2002, State General Fund (SGF) spending increased 1,119%, while average Kansas wages only increased 348%.
- The number of Kansas elementary and secondary students declined by 1 percent from 1972 to 2002.
- Over the same 30 years, the number of instructional personnel in public schools rose 70 percent and the number of administrators increased 95 percent.

Kansas Local and State Government Spending



Question: What is being spent at...

*\$1,000,000 per hour*



*\$24,000,000 per day*

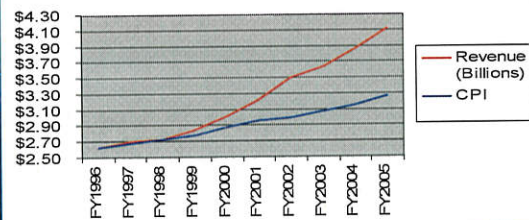


*\$8.6 billion per year*

**Your Kansas Tax Dollars**

Source: Governor's Budget Report 2007

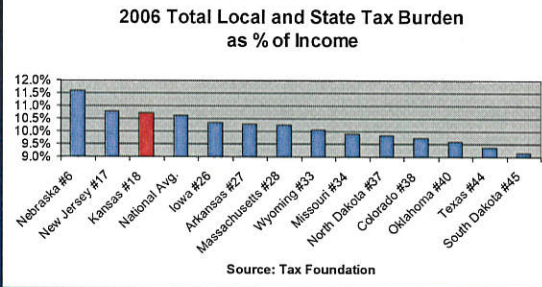
KS Local Tax Revenue vs. CPI



Many local taxes/fees are not tracked by the State of Kansas, a few examples include:

Cable/CATV Franchise Fee Receipts	Excise Taxes on Event Tickets	Storm Water Fees and Services
Electricity Franchise Fee Receipts	Transient Guest Taxes	Fines and Forfeitures Collected
Natural Gas Franchise Fee Receipts	Intangibles Taxes	Municipal Court Costs Collected
Telephone Franchise Fee Receipts	Cable/CATV Sales, Fees, and Services	Dog and Cat Licenses
Other Franchise Fee Receipts	Electricity Sales, Fees, and Services	Building and Construction Fees
Business Improvement District Taxes	Natural Gas Sales, Fees, and Services	Building Permit Charges
Special Assessment District Taxes	Sewer/Wastewater Fees and Services	Contractor License Fees
City Vehicle Taxes	Water Sales, Fees, and Services	Contractor Examination Fees

## Kansas has the 18<sup>th</sup> highest tax burden



## Do Taxes Matter?

10 states with the lowest total tax burden\*\* 10 states with the highest total tax burden\*\*

10 Year Economic Performance 1994-2004

71.7%	Gross State Product Growth	62.4%
70.3%	Personal Income Growth	60.4%
12.8%	Population Growth	6.4%

\*\*New Hampshire, Alabama, Tennessee, Colorado, South Dakota, Missouri, Virginia, Florida Oklahoma and Oregon

\*\*\*New Jersey, Ohio, Rhode Island, Minnesota, Nebraska, Wisconsin, Hawaii, Wyoming, Maine and New York

Source: An Examination of Texas' Economic State by Arthur Laffer

## Top Ten States: Local Governments

- 1) Illinois 6,903
- 2) Pennsylvania 5,031
- 3) Texas 4,704
- 4) California 4,409
- 5) Kansas 3,887
- 6) Ohio 3,636
- 7) Minnesota 3,482
- 8) Missouri 3,422
- 9) New York 3,420
- 10) Indiana 3,085

Government Units per 1000 Persons

in those 10 States.

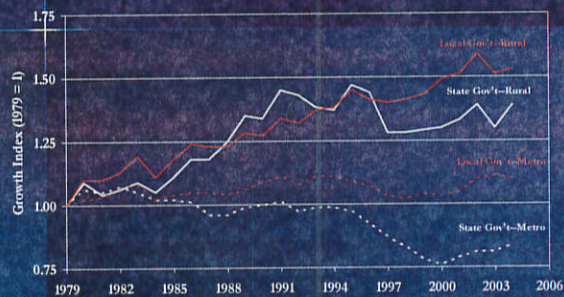
- Kansas: 1.416
- Minnesota: 0.678
- Missouri: 0.590
- Illinois: 0.541
- Indiana: 0.492
- Pennsylvania: 0.405
- Ohio: 0.317
- Texas: 0.209
- New York: 0.178
- California: 0.122

## Number of Local Governments

State	Kansas	Colorado	Missouri	Nebraska	Oklahoma
Counties	105	62	114	93	77
Cities	627	270	946	531	590
Townships	1,299	0	312	446	0
Educational	324	182	536	575	571
Other*	1,533	1,414	1,514	1,146	560
Total	3,887	1,928	3,422	2,791	1,798

\*Kansas has at least 28 different types of special districts, such as watershed districts, cemetery districts and library districts.

## Public Sector Earnings as a Share of Total Earnings



## The Kansas Budget

- From 1997 – 2006
  - State Spending + 41%
  - Inflation + population growth + 28%

## Kansas Debt Facts

• Kansas debt has increased 832% since 1992, from \$424 million in 1992 to \$3.95 billion in 2005. Kansas debt increased 32% between 2003 and 2004 alone.

• Kansas 2005 total debt service (principle + interest) of \$429 million was slightly higher than the total debt outstanding in 1992 (\$424 million). (Kansas Division of Budget, June 2005)

• Kansas ranks the 2nd in the growth of debt as a percent of personal income: 1992-2004 (560% increase).

• During this same time ('92-'04) 20 states actually DECREASED their debt as a percent of personal income. (Moody's Investors Service, 2004)

## Kansas Debt Facts

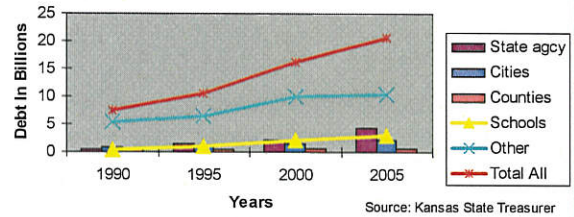
Kansas' debt per capita is much higher than ALL its surrounding states. (*Moody's Special Comment, June 23, 2004*)

Kansas \$963 per person  
 Missouri \$461 per person  
 Oklahoma \$315 per person  
 Nebraska \$43 per person

## Total Kansas Govt. Debt

- Local \$16,500,196,136
- State \$4,249,079,859
- TOTAL \$20,749,275,995
  
- TOTAL Per Capita: \$7,560  
 –Federal Debt per capita: \$26,750

Kansas Public Debt



## Kansas Public Employees Retirement System (KPERs)

- Number of retired members increased from 43,165 in '95 to 69,124 in '04.
- Benefits paid to retirees and their beneficiaries totaled \$677 million in 2004.
- Total assets available to pay future benefits = \$11.2 billion.
- Total assets needed to pay future benefits = \$15.7 billion.
- FUNDING SHORTFALL \$4.7 BILLION
- Funding shortfall = \$1,700 for every man, women and child in the state of Kansas

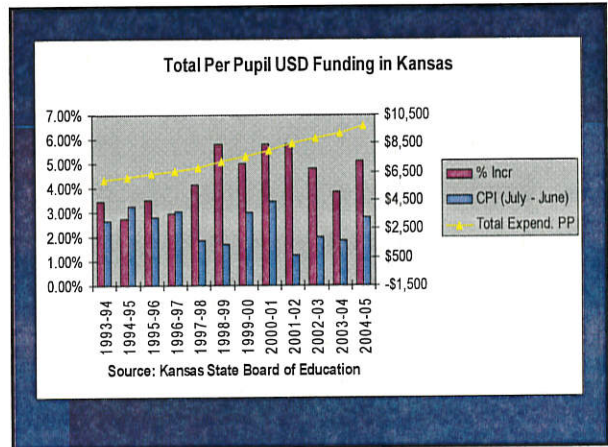
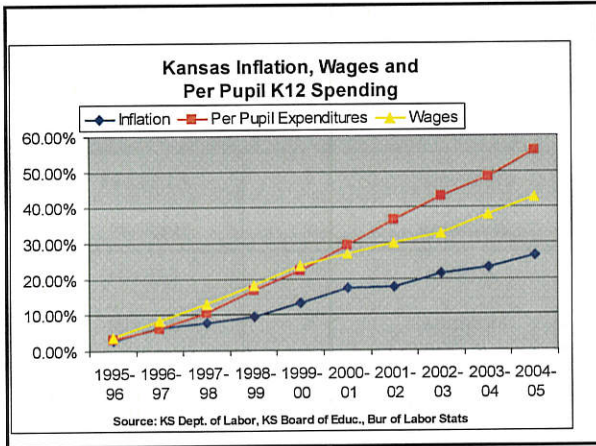
Source: Kansas Legislative Research

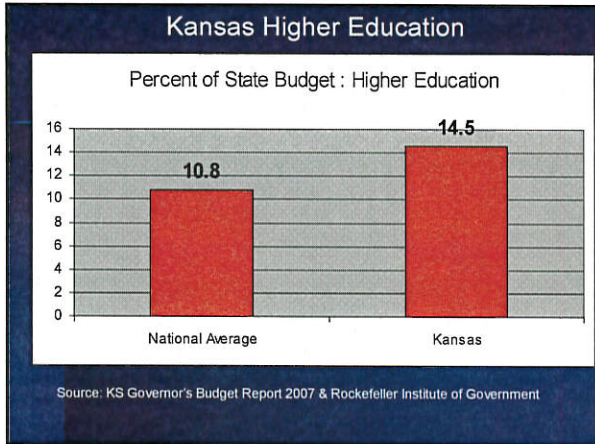
Most States have the same spending priorities as Kansas . . .

But Kansas spends more than most on those priorities.

### K-12 Funding Comparison Rankings

- **K-12 Revenue per Student (03-04)**
  - KS 22th (\$10,190)
  - MO 28th (\$9701)
  - CO 32nd (\$9235)
  - NE 42nd (\$8401)
  - OK 47th (\$7438)
  
- **K-12 Revenue per \$1,000 if Personal Income (03-04)**
  - KS 20th (\$48)
  - MO 28th (\$46)
  - OK 32nd (\$45)
  - NE 44th (\$41)
  - CO 48th (\$38)





### Kansas Higher Education

Kansas Funding 14.5% vs. 10.8%  
Contributes An Additional  
**\$26,125,700** to Higher Education

Kansas Ranks 11<sup>th</sup> in Higher Education Spending per Capita  
(National Center for Public Policy and Higher Education)

Kansas Ranks 13<sup>th</sup> (tied) in Higher Education Spending as a Percent of Personal Income  
(National Center for Public Policy and Higher Education)

## Kansas Medicaid Spending

- ➔ **FY 2006 : Kansas ranked 6th Highest in Medicaid Growth in the Nation**
- ➔ **Since 2000 : Kansas ranks 16th Highest in the Nation.**
- ➔ **Surrounding States Growth Since 2000:**
  - Oklahoma** □ 7th
  - Nebraska** □ 29th
  - Colorado** □ 44th
  - Missouri** □ 36th

### Avg. Annual State Funding for Highways Per Capita, 2002 - 04

Delaware	1	\$1,003.92
Wyoming	2	\$919.71
Alaska	3	\$913.24
Montana	4	\$642.04
<b>Kansas</b>	<b>5</b>	<b>\$640.09</b>

Source: US Dept of Trans, Federal Highway Admin

## Avg. Annual State Funding for Highways Per Capita, 2002 - 04

State	Rank	Amount
Kansas	5	\$640.09
North Dakota	8	\$605.11
South Dakota	10	\$580.52
New Mexico	12	\$533.66
Nebraska	16	\$491.74
Iowa	17	\$478.26
Arkansas	21	\$434.37
Colorado	23	\$428.75
Oklahoma	24	\$417.55
Missouri	31	\$371.41
Texas	44	\$298.87

Source: US Dept of Trans, Federal Highway Admin

## Cost to KS Taxpayers of Local Gov't FTE-to-Population Ratio

Region	Local Gov't FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	4.77	n/a
United States	3.96	\$693 Million
Plains States	4.15	\$537 Million
Contiguous States	3.16	\$1,386 Million
Kansas in 1987	3.94	\$712 Million
Kansas in 1972	3.34	\$1,228 Million

\* Estimated 2002 cash compensation per FTE in KS was \$31,606.

Source: Center for Applied Economics, KU School of Business

What's the Good News?

We Can Change it !



January 25, 2007

REVIEW & OUTLOOK

DOW JONES REPRINTS

---

## **Rich States, Poor States** *January 25, 2007; Page A18*

If you're searching for the next big thing in American politics, it's wise to keep an eye on the states. Here's one possibility: the abolition of state income taxes.

In **Georgia, Missouri and South Carolina**, Governors and state legislatures are drafting serious proposals to repeal their income taxes to promote economic development. **St. Louis**, one of America's most distressed cities, may overturn its wage/income tax as a way to spur urban revival. And in **Michigan**, the legislature is in the last stages of phasing out its hated business income tax -- the most onerous in the land. "States are now in a ferocious competition to attract jobs and businesses," says economist Arthur Laffer, who is advising several Governors and legislators on the issue, "and one of the best ways to win this race is to abolish the state income tax."

The timing for fixing state tax codes could hardly be more ideal because states are swimming in budget surpluses thanks to the booming national economy. This should be a big year for state tax cuts. Governors in **Arkansas, Florida and West Virginia** have already announced major tax relief plans for 2007. Even **New York City** has a \$1 billion surplus and Mayor Michael Bloomberg is promising a property tax cut.

But the biggest target is the income tax. Newly re-elected **South Carolina** Governor Mark Sanford is talking of reviving his plan to phase out the income tax over 18 years. Mr. Sanford ran into opposition from the legislature in his first term, but he tells us that "I still consider this one of my top priorities and if the legislature wants to do it, I would be ecstatic."

**Georgia** may beat Mr. Sanford to the punch. House Republicans in Atlanta have announced that one of their top priorities is to use the half-billion-dollar budget surplus as a downpayment to "dismantle the current tax code." House Republican Majority Leader Jerry Keen tells us the debate in Atlanta is between a flat-rate income tax and a plan that would "do away with the personal income tax but broaden the sales tax by eliminating 107 exemptions. We're committed to a pro-growth tax plan that announces to the country that



Georgia is open for business."

In Missouri the legislature is reviewing a plan by the state think tank, the Show Me Institute, that would increase the rate of the sales tax to 7.5% and limit spending growth to population plus inflation, in return for eliminating the state's income tax over 10 years. House Speaker Carl Bearden says "I would like to see a phasing out of our current tax structure in Missouri. . . . Eliminating the income tax can have a huge positive impact on a state's economy."

The idea of financing state services without an income tax is hardly radical. Nine states today -- Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming -- manage well without one. With a few exceptions, the non-income tax states are America's most prosperous. Meanwhile, the high income tax states, which tend to be congregated in the Northeast, keep surrendering jobs, people, and voters to the South and West.

State lawmakers also seem to have learned from two of the most recent states to adopt an income tax: New Jersey and Connecticut. As recently as 1965 New Jersey had neither an income nor sales tax, but managed to balance its budget every year. Now it has both taxes - its income tax is the 5th highest in the nation -- but the state is facing what Stateline.org calls a "staggering budget deficit." Allied Van Lines reports that the Garden State is now one of the leading places for people to flee.

The latest state to adopt an income tax was Connecticut in 1991, but a new report by the Yankee Institute reveals that the tax has been a calamity. The state has ranked last in employment growth since 1991, losing 240,000 of its native born citizens between 1991-2002. No other state has since enacted an income tax, and lawmakers in Georgia, Missouri and South Carolina say Connecticut is now the model for how *not* to run a state economy.

Whether these states will be able to eliminate their income taxes in the next few years is an open question. But what's undeniable is that the debate in state capitals has swung decisively in the direction of chopping income tax rates, not raising them.

**URL for this article:**

<http://online.wsj.com/article/SB116969533548687229.html>