Kansas Action for Children

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Kansas Action for Children
Verbal testimony in opposition to SCR 1620
Senate Committee on Assessment and Taxation

Chairwoman Tyson and members of the Committee:

Thank you for the opportunity to provide testimony in opposition to this proposal that recommends a constitutional amendment on tax increase decisions. Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families.

We oppose this resolution because it will threaten the state's economic stability and constrain the state's ability to provide basic services to its residents, like well-maintained roads and bridges, adequate public safety, and educational opportunities, that allow our state to reach its full potential.

KAC believes the answers to practical questions about taxes – like how high or low should they be, who should pay and how much, and what should be taxed – flow from six measures, listed at the end of our testimony. Below, we expand on how SCR 1620 does not meet our measures.

Adequacy: Kansas still hasn't recovered from past disinvestment, and this proposal will force the state to, once again, neglect its responsibilities to its residents

Kansas has been here before and learned the painful lesson that cutting taxes does not equal economic growth. Our state needs tax policy that can fulfill its obligations to its residents by funding the services necessary to promote economic growth and the priorities that contribute to a thriving community. This proposal would make it harder for the state to meet its financial obligations to its residents in a variety of areas, including education, infrastructure, public safety, water and agricultural protections, and other things that help our communities thrive.

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"The business community has said this is not good for business and this is not good for Colorado."

— Gail Klapper, president of the Colorado Forum (an organization of 60 of the state's leading CEOs)[i]

Other states have implemented similar policies, with some setting limits on the revenue side, while others have implemented tax limits, like this resolution. It is important to see how policies like these have hindered a state's ability to respond to crises and to invest in the state.

A related policy, the Taxpayer Bill of Rights (TABOR) has been bad for Colorado's economy and quality of life, and other states should learn from their experience. While many people are drawn to Colorado for its natural beauty, the state hasn't been able to manage the growth due to the limitations unnecessarily placed onto itself. TABOR has hindered–not boosted– the state's economic growth.[ii] According to the Tax Policy Center, more than 100 rural school districts (113) operate under a four-day week due to the state's inability to pass an override for funding.[iii] Not only did TABOR contribute to declines in K-12 education funding, but higher education funding and public health programs as well.[iv] Business leaders in Colorado have pushed to end TABOR due to their concern that the lack of investment will thwart economic growth, including a resulting credit downgrade.[v]

"[Business leaders] have figured out that no business would survive if it were run like the TABOR faithful say Colorado should be run — with withering tax support for college and universities, underfunded public schools and a future of crumbling roads and bridges."

— Neil Westergaard, Former Editor of the Denver Business Journal[vi]

In Oklahoma, which has both appropriations and spending limitations, with a three-fourths supermajority, it has been almost impossible for lawmakers to correct their mistakes when they cut too far. As a result, they have become one of the lowest spending states. Education, regulatory, and administrative services have all seen significant budget cuts. Like Colorado, there are school districts with four-day weeks due to the lack of funding.[vii]

"It has been impossible to pass necessary revenue measures to provide for adequate core services in Oklahoma: roads and bridges, public safety, education, public health and corrections."

— Former Oklahoma House Speaker Pro Tempore Harold Wright

Policy experts on TABOR-style revenue and expenditure caps have found that such policies tend to have negative side effects beyond cuts to essential services. States with similar policies, including California, have seen their bond ratings negatively affected.[viii]

Kansas still has not recovered from previous disinvestment, and there is a long list of unmet needs:

- State employees suffered for years from hiring and salary freezes. With the great resignation, Kansas needs to be able to hire and retain employees.
- Understaffing contributed to a foster care crisis (including missing children), as well as prison riots across the state.
- There continues to be 9.5 years long waiting lists for the IDD waiver.
- After years in court, Kansas is finally fulfilling its obligations in K-12 funding.
- The state was just able to lift a moratorium on voluntary admissions to the Osawatomie State Hospital.

Policymakers should be focused on filling these unmet needs, not enacting policy that will make it harder to meet its obligations to Kansans.

Fairness: Limitations will lead to an increase in more regressive taxes, disproportionately hurting lower-income Kansas families

Kansas policymakers should ensure that lower-income households do not pay a higher share of their income in taxes than do high-income households and profitable corporations. However, if tax limitations are in place, when more money is needed (for example, for the next recession), the income tax will be effectively off limits. With the income tax off limits, more regressive taxes (along with fines and fees) will increase, which will disproportionately harm low- and middle-income Kansans, making our tax system even more favorable to the wealthiest Kansans. It is unfair to place artificial constraints that prevent policymakers from raising the revenue needed to finance public investments and to promote shared prosperity.

These caps also fail to address the problem of wasteful tax breaks that special interests have carved into our tax code to their exclusive benefit. This will not address the money for tax expenditures that come off the top before any money goes to schools or infrastructure or other important needs. The state will continue to play favorites with specific industries, and that type of funding will not be subject to the limitations put in place by this proposed legislation. Not all tax expenditures are bad, but more work needs to be done to ensure only tax expenditures stay in place that are effective in creating jobs and opportunity and in helping the broadest number of Kansans. Every dollar lost to these tax expenditures is one less dollar that is spent on public infrastructure and programs that benefit a much greater number of Kansas residents.

Equity: Constitutionally restricting revenue and expenditure growth will hurt communities of color

This proposal will continue to hold back communities of color through the likelihood of future inadequate revenues and subsequent cuts to vital public services. Due to historical decisions that are baked into current systems, communities of color tend to have weaker economic positions and "may be less able to raise local revenue to make up for limited state revenue." In addition, communities of color will be disproportionally impacted "because their lower incomes and wealth may…be hit harder by cuts in economic supports and services."[ix]

Simplicity: Don't stymie lawmakers' ability to respond to crises

A constitutional amendment like SCR 1620 limits the choices we can make as a state. A constitutional amendment will make it difficult for lawmakers to respond to constituent needs and honor the democratic process. Current lawmakers are not the only ones impacted by this taking away of their authority; this policy would tie the hands of future lawmakers and make it harder for them to make choices in the best interests of the state.

Our state and country just experienced a harmful recession; it would not be prudent to put our state through another self-imposed recession. Policies like SCR 1620 can be harmful during unexpected events like recessions, natural disasters, pandemics, or terrorist actions because states need to spend more during emergencies and spending contributes to recoveries by stimulating the economy. Overcutting now, when federal stimulus payments have contributed to the current revenue surplus, could lead the state to experience more acute fiscal crises later when those one-time funds end.

What if previous tax experiments had been amended into the *Kansas Constitution*? It would have been much harder for the responsible, bipartisan cadre of lawmakers to take the necessary action to reverse ineffective policy and move the state forward during this time of relative prosperity.

Sustainability: Bills like SCR 1620 can INCREASE state revenue volatility

Research has shown extreme limits on taxes and spending, like TABOR, increase rather than reduce the volatility of state revenues.[x] Revenue volatility can lead to difficulties in balancing budgets, the over-use of short-term fixes (e.g., fund sweeps, payment rollovers, etc.) that undermine long-term investments, ill-preparation for recessions, and an inability to take advantage of good economic times.

This policy would hurt the very foundation of the Kansas economy. Little evidence suggests such a policy would help Kansas economically or otherwise, just as research shows that income tax cuts are an ineffective strategy for boosting a state's economy and revenues. In fact, states with these caps have lower credit ratings,[xi] which can lead to higher infrastructure borrowing costs and can also fail to produce state economic growth.[xii] At the same time, education and other pillars of a strong economy could be damaged through additional cuts.

Elasticity: This proposal does not adequately adjust when the economy expands

Other state legislatures must override similar legislation because the same lawmakers that voted for these proposals then realize they need adequate funding for schools and health care. These limits do not allow revenue to keep pace with the growth of health care costs and state pensions.

While the state would theoretically bring in more revenue as the economy expands, that fails "to account for disproportionate growth of intensive government service populations like the elderly and school-age children,"[xiii] in a state where the population is aging.[xiv]

Kansas Action for Children has long advocated for balanced fiscal policy, including paying down debts and funding the Budget Stabilization Fund. However, we reject the suggestion that the only way to make progress in those areas is through policy proposals like these. If this resolution passes, it will bind the hands of lawmakers to respond to economic downturns and could spell disaster for the state.

Make no mistake, the passage of this resolution will lead to our state, once again, to choose between painful budget cuts, which will hurt all Kansas residents, or implementing responsive tax policy. Kansas doesn't need to be the laboratory for another damaging fiscal experiment. Kansas Action for Children urges you to reject this resolution. We are happy to answer any questions you may have. You may reach me by email at emily@kac.org.

Appendix 1: KAC Tax Rubric

Adequacy	A tax system needs to pay for the services necessary to promote economic growth and education, to support basic needs, and to provide for many other important functions that contribute to a thriving community. Both short- and long-term adequacy are critical.
Fairness	Lower-income households shouldn't pay a higher share of their income in taxes than do high-income households and profitable corporations. People and companies in similar economic situations should pay roughly similar taxes. The fiscal "rules of the game" shouldn't place artificial constraints – like caps on income tax rates – that prevent policymakers from raising the revenue needed to finance public investments and to promote shared prosperity.
Equity	Equity needs to be built into fiscal policy. That means recognizing that tax policy is not race-neutral. Every policy impacts racial equity. It is important to assess fiscal policies for their impact on racial equity and to pursue policies that deliver anti-racist outcomes.
Simplicity	Tax systems should facilitate compliance by avoiding overly complicated provisions and narrowly applied loopholes.
Sustainability	A tax system needs to be constructed in ways that avoid – as much as possible – unpredictable, large fluctuations in the amount of revenue collected each year.
Elasticity	The amount of revenue collected should increase as the economy expands, reflecting the increased needs of education, transportation, and many other public services.

[i] Center on Budget and Policy Priorities. "Policy Basics: Taxpayer Bill of Rights (TABOR)." November 5, 2019. https://www.cbpp.org/research/state-budget-and-tax/taxpayer-bill-of-rights-tabor

[ii] Urban Institute. "Tax and Expenditure Limits." November 27, 2017. https://www.urban.org/research/publication/tax-and-expenditure-limits

[iii] Governor's Tax Council. Presentation from the Urban Institute. December 17, 2021. https://www.youtube.com/watch?v=wpkr8PgjiZg

[iv] Center on Budget and Policy Priorities. "Florida "TABOR" Proposal SJR 958 Would Endanger Education, Public Safety, and Infrastructure." February 22, 2011. https://www.cbpp.org/research/florida-tabor-

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[v] Center on Budget and Policy Priorities. “Policy Basics: Taxpayer Bill of Rights (TABOR).” November 5, 2019. https://www.cbpp.org/research/state-budget-and-tax/taxpayer-bill-of-rights-tabor

[vi] Center on Budget and Policy Priorities. “Florida “TABOR” Proposal SJR 958 Would Endanger Education, Public Safety, and Infrastructure.” February 22, 2011. https://www.cbpp.org/research/florida-tabor-proposal-sjr-958-would-endanger-education-public-safety-and-infrastructure

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[viii] Public Policy Institute of California. “Fiscal Rules and State Borrowing Costs: Evidence from California and Other States.” 1999. https://www.ppic.org/publication/fiscal-rules-and-state-borrowing-costs-evidence-from-california-and-other-states/

[ix] Center on Budget and Policy Priorities. “Advancing Racial Equity With State Tax Policy.” November 15, 2018. https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

[x] Staley, Tucker. “The Effect of TELs on State Revenue Volatility: Evidence from the American States.” Public Budgeting & Finance, Vol. 35, Issue 1. March 26, 2015. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2584754

[xi] Stallmann JI, Deller S, Amiel L, Maher C. Tax and Expenditure Limitations and State Credit Ratings. Public Finance Review. 2012;40(5):643-669. https://journals.sagepub.com/doi/abs/10.1177/1091142112446844

[xii] Amiel, L, Deller S, Stallmann Judith. “Economic Growth and Tax and Expenditure Limitations.” The Review of Regional Studies. 2012; 42, 185-206. https://rrs.scholasticahq.com/article/8099-economic-growth-and-tax-and-expenditure-limitations

[xiii] National Conference of State Legislatures. “State Tax and Expenditure Limits.” 2010. https://www.ncsl.org/research/fiscal-policy/state-tax-and-expenditure-limits-2010.aspx

[xiv] Kansas Health Institute. “A Kansas Twist — 2020 Census Data Reveal a Changing Kansas.” August 20, 2021. https://www.khi.org/policy/article/21-40