

The State of Kansas “Penny Budget”

Objectives: To understand components of the State of Kansas budget.
To identify revenue (income) sources and makeup.
To identify agency expenditures and amount of total state budget.
To discuss the impact of state government on the lives of Kansans.
To discuss the tradeoff between taxes and services.

Notes:

1. The budget data provided on Sheet 1 are from the Governor’s FY 2003 (July 1, 2002 – June 30 2003) original budget recommendations released in January 2002. They do not include cuts to the budget the Governor has already made to help reduce the deficit.
2. The FY 2003 budget proposes to spend \$9.8 billion (\$9,845,900,000).
3. Students may work in teams of 4-5 students.

Materials Needed:

Income/Revenue Board
FY 2003 Income Sheet 2 & 3 (Projected revenues for the State Budget)
Spending/Expenditure Board
FY 2003 Spending Answer Sheet 1 (Proposed Fiscal 2003 Budget)

Preparation:

Make copies of Income and Spending Board using cardstock or colored paper.
Prepare 1 bag of pennies for each team. Each bag should contain 100 pennies.

State Revenue Exercise:

When using the Income Board, each penny represents 1% of the proposed FY 2003 Kansas revenues (income) from all funding sources (taxes, earning, fees, charges, donations, etc.). Each penny represents 1% of the total revenues, or approximately \$9,489,146,000 (approx. \$9.5 million).

Give each team a Penny Bag and Income Board. Ask them to distribute the pennies onto the squares of the income Board according to what they think are the State’s sources of the revenues/income.

When completed, give the correct answers as shown on Sheet 3 - Projected Revenues for the FY 2003 State Budget - all Sources. Ask students to compare their distribution with the actual distribution. Ask them to move the correct amounts onto the squares so they can visualize the actual makeup of the state’s total revenue/income.

State Spending Exercise:

When using the Spending Board, each penny represents 1% of the proposed FY 2003 Kansas budget spending/expenditures which is \$9,845,900,000. Each penny represents 1% of the total revenues, or approximately \$9,845,900 (approx. \$9.8 million).

Give each team a Penny Bag and Spending Board. Using 100 pennies, each representing 1% of the budget, have teams distribute pennies among the spending categories according to where they think the Kansas government budgeted money for FY 2003.

When completed, give the correct answers as shown on Sheet 1 – Kansas' FY 2003 Budget. Ask students to compare their distribution with the actual budgeted distribution. Ask them to move the correct amounts onto the squares so they can visualize the actual makeup of the state's budgeted money for FY 2003. Leave the pennies in place for another exercise.

State Budget Deficit Exercise:

When spending for the year is greater than revenues for the year, the difference is known as a deficit. Have students compare the State's projected revenue/income (\$9,489,146,000) with the State's FY 2003 Budget (\$9,845,900,000) to identify the state's budget deficit of \$356,754,000.

Explain that when the FY 2003 budget was approved, the state expected to have income to cover all the spending they planned. Explain, however, that a state's actual revenues can rise or fall depending on the condition of the state's economy during that time and the effect that has on the amount of taxes people and businesses have to pay to the state. Review with the students that revenue from taxes provides 45% of the state's revenue/income (Sheets 3).

Sheet 2 provides the most recent estimates of how much revenue/income the state will receive in the form of taxes in FY 2003. Using Sheet 2, have students identify the two major sources of income for the state (individual income tax and retail sales tax). Discuss what changes in the economy could affect the amount of individual income tax and retail sales tax collected. Are there examples of these taking place in your community?

Using the Spending Board, review with the students that the projected deficit for FY 2003 is \$356,754,000 (approximately 4% of the State's FY 2003 Budget). Discuss with the students the different options available to the Governor and the Kansas Legislature in eliminating the deficit – cut spending or raise taxes. Be sure to discuss the consequences of both of these options including how cutting spending could reduce the amount of quality of services the citizens of Kansas have come to expect and how raising taxes could have a further damaging impact on the Kansas economy.

If the students decide to cut spending to eliminate the deficit, have them use the Major Expenditure Descriptions sheet to help them determine which 4 pennies (or portions of

pennies) they would remove from the Spending Board. Have the students share with the class how they made their decisions and what impact removing pennies from the Spending Board might have on the agency and the people that agency serves.

If the students decide to raise taxes to eliminate the deficit, have them use the Sheet 2 to determine which taxes they would raise. Have the students share their thoughts behind how they arrived at their decision and the likely consequences of raising taxes on people's lives and the state's economy.

Income Board: Projected Revenues for the Kansas Budget

Income from Taxes: Includes: Individual Corporate Taxes on Property & Wealth Property Tax on Motor Carriers Estate Tax Retail Sales Compensating Use Cigarette/tobacco/alcohol products Corporate Franchise Severance on Gas & Oil Insurance Premium Miscellaneous Taxes	Motor Vehicle Registration Fees; Non-federal Gifts, Donations, & Grants; Licenses, Permits, and Registrations; Sale of Goods and Services; Special property taxes	Federal Funds
	Lottery ticket Sales	Agency Service Charges
	Motor Fuels Taxes	Dividends, Royalties, Rents
	Sales Tax to Highways	Other Revenues

Spending Board: Projected Spending for the Kansas Budget

Education Department (Elem & Secondary)	Higher Education System	Human Resources, SRS & Hospitals
Transportation Dept	Aging Dept	Prison System
Department of Health & Environment	Kansas Lottery	Commerce Dept
		All Other Agencies

Sheet 1

Kansas' Proposed FY 2003 Budget

(Dollars in Millions)

Agency	<u>Amount</u>	<u>Percent</u>	<u>Number of Pennies</u>
Education Department (Elem & Secondary)	2,642.00	27%	27
Higher Education System	1,593.90	16%	16
Human Resources, SRS & Hospitals	2,416.90	25%	25
Transportation Dept	1,229.10	12%	12
Aging Dept	410.5	4%	4
Prison System	245.5	2%	2
Department of Health & Environment	178.1	2%	2
Kansas Lottery	145.2	1%	1
Commerce Dept	122	1%	1
All Other Agencies	862.7	9%	9
Total Planned Expenditures:	9,845.90	100%	99

Source: *The Governor's Budget Report* for FY 2003

The budget data provided for this lesson are from the Governor's FY 2003 (July 1, 2002 – June 30 2003) original budget recommendations released in January 2002. They do not include cuts to the budget Governor Graves has already made to help reduce the deficit.

Sheet 2

Kansas Revenues from Taxes - FY 2003

Dollars in Thousands

	<u>Amount</u>	<u>Percent</u>
Taxes on Income		
Individual	\$1,845,000	43%
Corporate	154,500	4%
Total	1,999,500	47%
Taxes on Property & Wealth		
Property Tax on Motor Carriers	\$16,500	0%
Estate Tax	\$55,000	1%
Total	\$71,500	2%
Taxes on Consumption & Use		
Retail Sales	1,600,000	37%
Compensating Use	230,000	5%
Cigarette/tobacco/alcohol products	200,700	5%
Corporate Franchise	28,000	1%
Severance on Gas & Oil	65,600	2%
Total	\$2,124,300	50%
Other Taxes		
Insurance Premium	\$85,000	2%
Miscellaneous	3,500	0%
Total	\$88,500	2%
Total Taxes	\$4,283,800	100%

Source: Revised Consensus Estimates Report to Governor Graves dtd Dec 9, 2002

Sheet 3

Projected Revenues for the FY 2003 State Budget - all Sources

(Dollars in Millions)

	<u>Amount</u>	<u>Percent</u>	<u>Number of Pennies</u>
Tax Revenue to State General Fund (From Sheet 2)	4,283,800	45.1%	45
Special Revenue Funds:			
Federal Grants	2,645,856	27.9%	28
Motor Fuels Taxes	382,635	4.0%	4
Agency Service Charges	360,092	3.8%	4
Lottery Ticket Sales	194,496	2.0%	2
Sales Tax Dedicated to Highway Fund	96,869	1.0%	1
Interest, Dividends, Rents, & Royalties	106,312	1.1%	1
Property Taxes Dedicated to Building Funds	39,765	.4%	5
Motor Vehicle Registration Taxes	133,000	1.4%	
Non-federal Gifts, Donations, & Grants	94,387	1.0%	10
Licenses, Permits, and Registrations	86,927	0.9%	
Sale of Goods and Services	120,846	1.3%	
Other Revenue	944,161	9.9%	10
Special Revenue Funds Total	5,205,347	54.9%	100
Total State Revenue Available	9,489,146		

Source: *The Governor's Budget Report for FY 2003 & Revised Consensus Estimates Report to Governor Graves dtd Dec 9, 2002*

*Agency service charges include tuition charged by state universities.

Major Expenditure Descriptions

Education Department

The Kansas Department of Education is the agency responsible for Elementary & Secondary Education. Besides funding for the 304 unified school districts in Kansas, expenditures include running the department itself, and the State Board of Education. (Note: Not all the funding for education comes from the state. Most comes from property taxes levied by counties. This local money is not accounted for in the state's budget. What is accounted for is the difference between what is raised at the local level and the amount the legislature says will be spent on education per child.)

Higher Education System

This budget item includes support for the state's six regents universities, a medical school, a veterinary medical school, 19 community colleges, 16 technical colleges and schools, as well as Washburn University. This amount also provides financial assistance for students.

Department of Human Resources

The Human Resources function of state government contains the agencies that provide a variety of assistance programs to Kansans. These include welfare assistance; medical services; foster care for children, unemployment insurance benefits; care and counseling for veterans, the elderly, developmentally disabled, and mentally ill; and preventive health services through local health departments. This budget item also includes funding for hospitals and care facilities where people with disabilities live and receive training.

Department of Transportation

The Department is responsible for maintaining and improving the state highway system, which contains more than 10,000 miles of roadways. It also provides planning, design, project development, and financial assistance to local governments to improve the overall quality and safety of local streets and roads.

Department on Aging

Provides services to older Kansans including help with the cost of prescription drugs, medical care, long-term care for Kansas elderly, and help for seniors with nutrition and meals.

Prison System

This budget item includes funding for the Department of Corrections and eight adult correctional facilities, the Juvenile Justice Authority and four juvenile correctional facilities.

The Department of Health & Environment

This department has as its goals to improve and protect the health and environment of Kansans. This includes the cleanliness of our air and water along with several

programs to protect the health of individuals like providing immunizations and making sure child care facilities are clean and well managed.

Kansas Lottery

The Kansas Lottery strives to produce the maximum amount of revenue for the state and to maintain the integrity of all Lottery games.

Department of Commerce & Housing

The Department of Commerce and Housing works to build the capability of communities and businesses to develop, innovate, diversify, and expand in a manner that creates wealth, quality jobs, and a superior quality of life for Kansans. In FY 2001, the Division of Housing of the Department of Commerce and Housing.

About Taxes in General and in Kansas

Governments pay for services through revenue obtained by taxing three economic bases: income, consumption and wealth. The Federal Government taxes income as its main source of revenue. State governments use taxes on income and consumption, while local governments rely almost entirely on taxing property and wealth.

Taxes on Income

Income tax is the major source of revenue for the Federal Government. The earnings of both individuals and corporations are subject to income taxes at the Federal and State Levels. A few cities in America also collect income taxes. In addition to money earned on the job, income can include money earned through the sell of stock, interest earned on money in a savings accounts. Most of the Federal Government's revenue comes from income taxes. The personal income tax produces about five times as much revenue as the corporate income tax.

In Kansas personal income tax rates range from 3.5% to 6.45% of a persons income and produces about 43% of the state's revenues. Corporate income taxes in Kansas range from 4% to 7.35% depending on the amount of net income. Corporate income taxes produces about 3% of the state's revenues.

Payroll taxes are also an important source of revenue for the Federal Government. Employers are responsible for paying these taxes, which include social security insurance and unemployment compensation. Employees also pay into the social security program through money withheld from their paychecks.

In Kansas businesses are assessed a tax to pay for the state's unemployment compensation programs which ranges from .04% to 3.13%.

Taxes on Property and Wealth

Property Taxes are city and county government's main source of revenue. Most localities tax private homes, land, and business property based on the property's value. Usually, the taxes get paid monthly along with the mortgage payment. The one who holds the mortgage, such as a bank, holds the money in an "escrow" account. Payments then get made for the property owner with the owners money.

Some state and local governments also impose taxes on the value of certain types of "personal" property. Examples of personal property often taxed are cars, boats, recreational vehicles, and livestock.

Property taxes account for more than three-fourths of the revenue raised through taxes on wealth. Other taxes imposed on wealth include inheritance, estate, and gift taxes.

In Kansas only 2% of the state's revenues is raised through property taxes, however, property tax is the main source of revenue for most city and county governments in Kansas. The state charges a tax on motor carriers that is deposited into a special fund to improve city and county highways. The State of Kansas also imposes an estate tax on the estates of persons who die.

Taxes on Consumption

Sales tax is a very important form of revenue for most states. Retail sales taxes usually get paid on such things as cars, clothing, and movie tickets. Sales taxes are an important source of revenue for most states and most cities and counties. The tax rate varies from state to state, and the list of taxable goods or services also varies from one state to the next.

In Kansas, the sales tax rate is 5.3%, however most cities in Kansas, and some counties, also add an additional amount to the 5.3%. The State of Kansas raises about 37% of its revenues from Retail Sales Tax.

Kansas also charges a compensating use tax on merchandise purchased from other states and used, stored, or consumed in Kansas on which no sales tax was paid. It is also due if the other state's rate is less than the Kansas rate of 5.3% paid at the time of purchase (the same as sales tax).

Excise taxes, sometimes called "luxury taxes," are used by both state and Federal Governments. Examples of items that are often subject to excise taxes are boats, airplanes and airplane tickets, gasoline, beer and liquor, firearms, and cigarettes. Excise tax accounts for 50% of the states revenues from taxes.

The objective of excise taxes are to place the burden of paying the tax on the consumer who actually uses the goods. A good example of this use of excise taxes is the gasoline excise tax. Governments use the revenue from this tax to build and maintain highways, bridges, and mass transit systems. Only people who purchase gasoline -- who use the highways -- pay the tax.

Some items get taxed to discourage their use. This applies to excise taxes on alcohol and tobacco. Excise taxes are also used during a war or national emergency. By raising the cost of scarce items, the government can reduce the demand for these items.

In Kansas, a tax is imposed on the distribution and sales of various motor fuels. A large portion of the revenue raised by these taxes is used to construct and maintain highways in Kansas.

In Kansas, a tax called a severance tax is places on each unit of gas and oil extracted from land in Kansas.

In Kansas, a tax called the corporate Franchise Tax is assessed on corporations at a rate of \$2 per \$1,000 of shareholders' equity with a minimum of \$40 and a maximum of \$5,000.

In Kansas, consumers of tobacco and beer and liquor pay an excise tax on those products. Those taxes account for 5% of the states revenues.