

EDITOR'S NOTE — This is Part 1 of a two-part series dealing with the upcoming legislative session. Part 1 deals with the budget shortfall. Part 2 will address other issues facing the Legislature including the coal fired plant in Holcomb and other energy issues.

By EARL WATT

• Daily Leader

When Carl Holmes heads to Topeka for the 2009 legislative session, he will be facing one of the worst economic pictures since he began serving in the Kansas House of Representatives in 1984.

Kansas is facing a \$200 million shortfall on its current fiscal budget that ends in June 2009.

But Holmes said that was just the tip of the iceberg.

"With revenues flat and promises made, you take the shortfall this year plus next year, and it adds up to \$1 billion," he said.

Holmes said the state has faced budget crunches in the past, including 1987, 1993 and 2003.

"None of them compare to what this is," he said.

With the projected shortfall and a challenging economy, there are only two ways to correct — increase revenues to the state through taxes or cut spending.

"There is going to have to be cuts," Holmes said. "Let's face it, Kansas is weathering the economic storm better than some other states, especially western Kansas. The feeling a few months ago was we are in pretty good shape. But a lot has happened. Grain prices are half what they were six months ago. Oil is a third of what it was a year ago. Natural gas is half what it was six months ago. That may be good for the consumer, but it decreases income to the state."

In discussions Holmes has had with other legislators, increasing taxes does not seem likely.

"We're all going to have to tighten our belts," he said.

And by all, he meant Kansans as individuals and the public entities that are funded by them.

The state has a general fund of about \$6 billion annually. Almost \$5 billion of it is used for education and social services alone, leaving the remaining \$1 billion to fund all other components of government, plus user fees that some agencies charge.

Holmes said that a tax increase to make up the shortfall would be about a 2.5 percent sales tax increase.

In Liberal, that would mean a rate hike from the current 7.95 percent to 10.45 percent. That's a scenario Holmes said would not be acceptable.

The remaining alternative is to cut spending.

One of the issues that caused the shortfall was the Kansas Supreme Court mandate that an additional \$400 million per year be spent on K-12 education.

"At that time, we had a \$1 billion surplus," Holmes said. The

Legislature used those funds to pay the additional money, but the surplus is gone.

"It's like a family who starts spending their savings account money," Holmes said. "If they don't put it back, it's not going to be there."

With the surplus expended and the mandate still in place, the Legislature now has to find the money or make cuts in other areas, and the lion's share of the state's general fund goes to education. It seemed unlikely that the cuts could come from all other agencies other than education.

"We could close down the state prison system, the state government, cut off all reimbursements to local governments, suspend all highway construction, close down the highway patrol and the court system, but I don't think the people want that," he said.

When facing budget crunches in the past, Holmes said several agencies used increased user fees to make up the difference. For example, the Division of Water Resources dramatically increased the cost on water applications. That made it highly unlikely that user fees could address the shortfall again.

Gov. Kathleen Sebelius has already canceled all highway construction work in December and January, and while expanding Highway 54 to four lanes is a high priority to those in Southwest Kansas, Holmes said it was highly unlikely anything could be done to further the cause during the upcoming session.

"Let's be frank, education always has a higher priority than highway projects," Holmes said. "Our gasoline tax is higher than it is in Oklahoma and Missouri. It will be difficult to raise gasoline tax."

The industries in Southwest Kansas have been insulated from the national crisis to this point, but Holmes believed the signs indicated that tough times might be on the horizon.

"This economic situation is serious," he said. "People in Southwest Kansas at this point and time haven't seen the collapse of the economy that is being seen on the two coasts and large urban areas. It's starting to be reflected. New drilling programs are being put on hold. There is a question of whether grain will be planted for fall harvest or not. Input prices (seed, fertilizer, etc.) are up, and grain prices have gone down. We may start seeing the problems here that we haven't."

So far, the Legislature has yet to see the governor's proposed budget or recommendations for cuts.

The Legislature will attempt to handle the shortfall with a new leadership team in the House, starting with incoming Speaker Mike O'Neal from Hutchinson. The House will also have one of its smallest freshmen classes it has seen. Only about 20 of the 125-member body are newcomers.

"I think the newly elected legislators do not realize what they are getting themselves into with the budget situation," Holmes said. "At

this point and time I don't know how it will play out. By far, this is the most difficult situation I've faced."