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Editor's Comments

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Each year in October The Institute for Policy & Social Research holds its State of the State—Kansas Economic Policy Conference (KEPC). The conference features a theme related to important policy issues confronting Kansans. In 2006, the conference considered the policy challenges created by population trends in Kansas, especially the geographic redistribution of population across the state, and changes in the characteristics of that population. Since 2005, each year's conference has also included a "State of the State" panel discussion in which scholars from around the state assess economic, demographic, and public finance trends and the public policy issues that they raise.

This issue of the *Kansas Policy Review* contains articles based on three presentations made by participants in the "State of the State" session, as well as an article by Suzanne Leland adapted from her keynote address on city-county consolidation efforts.

The 2007 Kansas Economic Policy Conference: ***Kansas E^3 = Energy + Economics + Environment*** is scheduled for Thursday, October 11, 2007. The conference will address the Kansas E^3 challenge: How do we meet the often competing demands of our energy and environmental needs while growing and maintaining a healthy economy? Join us as we consider the challenges and possibilities presented by these important issues through keynote speakers and panel discussions. In addition to the main conference site in Lawrence, Kansas, there will be a satellite site in Ulysses, Kansas, location of the afternoon panel.

We hope you will attend this year's conference. Please visit our website, <http://www.ipsr.ku.edu/>, later this summer for details about the conference and registration.

The ***Kansas Policy Review,*** published by the **Institute for Policy & Social Research, The University of Kansas**, is free and available semi-annually on our Web site. We welcome research studies and reports on contemporary public policy topics, in addition to economic and business issues, relevant to Kansas, the High Plains region, and the Nation.

To submit articles for review, please contact the editor, Joshua L. Rosenbloom, by e-mail: **jrosenbloom@ku.edu**

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Baby Boomers and Immigrants on the Range: Population Trends in Kansas[1]

László J. Kulcsár

Introduction

Demography is an important component of socioeconomic development, because population trends shape development paths. Population size and composition are related to a wide variety of factors in social organization and economic vitality, such as employment, taxation, consumption, housing, environmental pressure, transportation, business location, voting patterns, education, law enforcement, and healthcare. Population change can be a response to, as well as an agent for, changing social organization and economic structure (Brown, 2002). Therefore, it is very important to understand these trends, including their interrelationship, for successful development planning and policy implementation, especially that due to increasing global integration rural areas and economies are no longer isolated from mainstream economic, political and societal processes (Summers 1993).

Sociologists and demographers have long been aware of prolonged population decline in the Great Plains (Rathge and Highman, 1998; Johnson and Rathge, 2006), caused partly by the "great agricultural transition" discussed by Lobao and Meyer (2001). Population decline, however, is a relative term, and it covers different dynamics for different places across the Plains. The aggregate population of the Great Plains is not shrinking yet, but its growth rate is well below the national level. Trends at the county level differ greatly between metropolitan and nonmetropolitan places. Many rural areas experience actual population decrease, and their age structure and migration patterns suggest prolonged decline for the future as well. Localized, positive net migration in the Great Plains is usually associated with either suburbanization or the availability natural amenities (Cromartie, 1998).

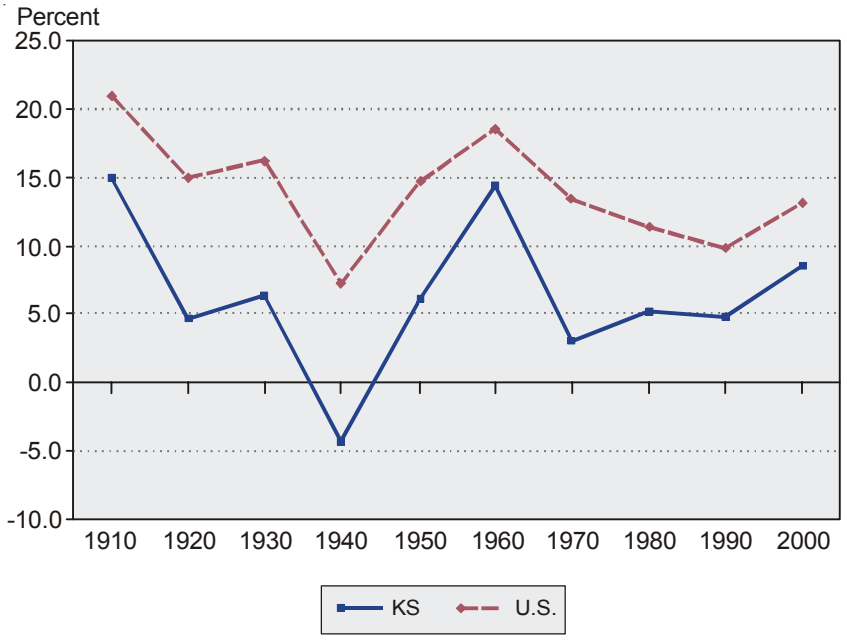
Present day Kansas has three main demographic challenges: increasing population concentration in urban areas, increasing population diversity, and the aging population. None of these three are new phenomena, but slowly unfolding macro level trends corresponding with general demographic dynamics in the United States. This study investigates these trends in detail and discusses the related development implications and possible future paths for Kansas.

Population Concentration

In the 20th century, the population of Kansas increased from 1.5 to about 2.7 million people, growing approximately 8% per decade. In the decade before the last decennial census, Kansas grew at 8.5%, compared to the national average of 13.2%. Historically, when comparing two decennial censuses, Kansas has experienced 5 to 10% less growth than the nation (Figure 1), and 67 of the 105 counties reached their peak total population by 1930. In the 1990s, only 9 counties experienced growth equal to or greater than the national average growth rate.

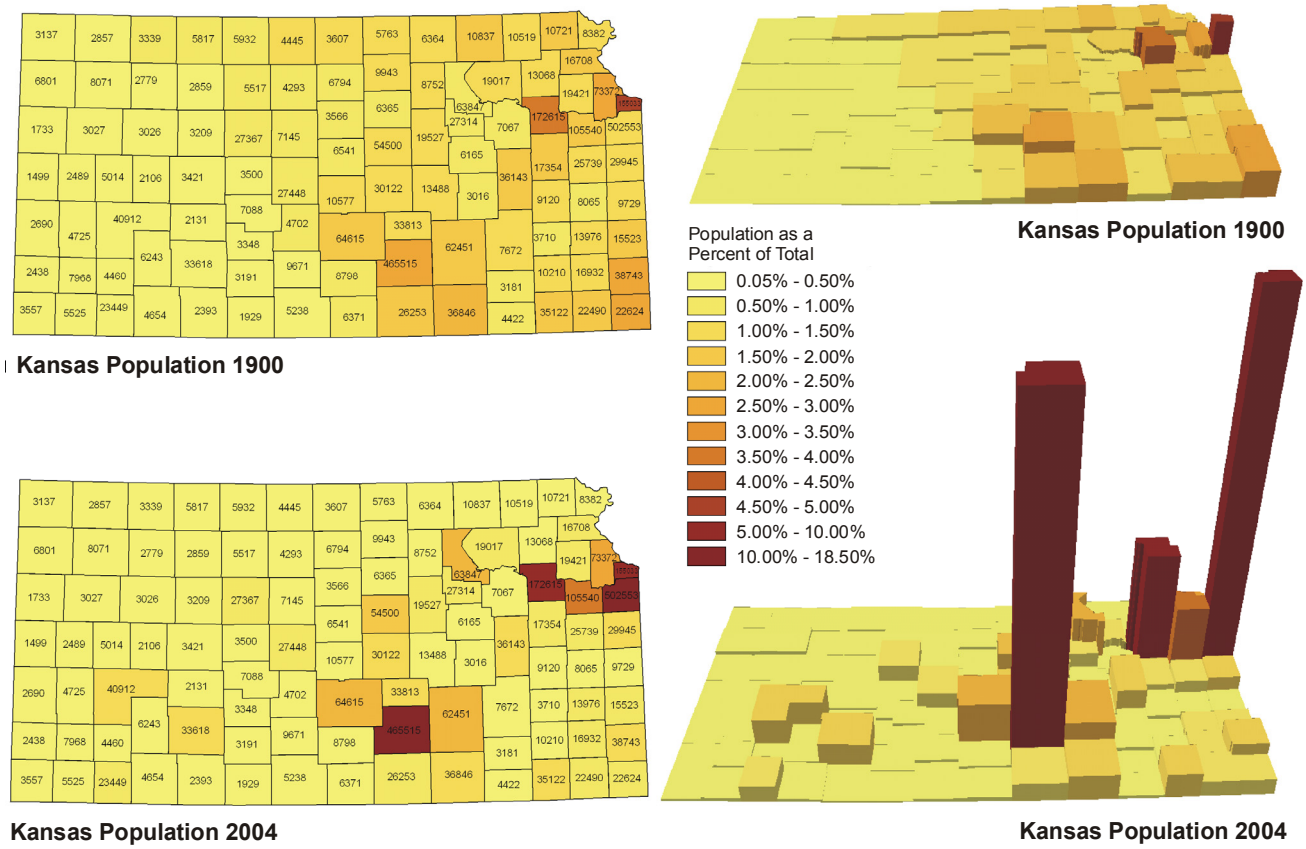
Even this slow growth occurs unevenly in space. The population of Kansas is much more concentrated

Figure 1. Percent Population Change Compared to the Previous Decade



Source: Kansas County Historical Dataset, Kansas Population Center.

Figure 2. Kansas County Population in 1900 and 2004 as a Percent of the State's Population



Source: Kansas County Historical Dataset, Kansas Population Center.

today than in the beginning of the 20th century (Figure 2). On average, most rural counties account for less than only 0.5% of the state's population. But neither the slow population growth nor the population concentration should be surprising. The Great Plains had very similar population dynamics over the 20th century (Johnson and Rathge, 2006). The Depression and the Dust Bowl caused many people to leave rural areas, while the post-war mechanization of agriculture, farm consolidation, and the industrial boom were also responsible for population concentration (Table 1).

Farm consolidation in Kansas was a process inherently linked to urban concentration, embedded into the general transformation of rural America. In fifty years, the number of farms declined more than 50%, while their average size doubled. The farm population of the state declined from almost half a million people to below a hundred thousand. While in 1950 about one in every four persons in Kansas lived on farms, now this proportion is less than one in every thirty (Table 1).

Despite the image of Kansas as part of the nation's breadbasket, urbanization has been one of the most profound changes over the 20th century. The proportion of the urban population of Kansas reached 71% in 2000, up from 52% in 1950. This population concentration occurred in and around those counties that host the three large urban centers: Kansas City, Topeka, and Wichita. Applying the 2000 metropolitan status definition, the nine metropolitan counties gained more than 130,000 people on average over the 20th century. At the same time, the average population growth in the 96 non-metropolitan counties was only 152 people. The average county population increased from 15,000 to 25,000 over the 20th century, but this increase was exclusively the population boom of the existing or would-be metropolitan areas. The average population

Table 1. Agricultural Change in Kansas, 1950-2000

Year	Number of Farms	Average Size of Farms (acres)	Farm Population	Farm Population as a Percent of State Population	Percent Urban Population
1950	135,000	374	443,739	23.3	52
1960	110,000	456	320,508	14.7	61
1970	87,000	574	252,529	11.2	66
1980	75,000	644	172,901	7.3	67
1990	69,000	694	108,083	4.4	69
2000	64,000	742	89,758	3.3	71

Source: Kansas County Historical Dataset, Kansas Population Center.

of a rural Kansas county remained around 12,000 people over the course of 20th century. There are six counties in Kansas that lost population in each decade since 1900, and 37 that had a negative net migration rate in each decade since 1950.

While metropolitan counties rapidly gained population, and most rural areas faced slow population decline, some non-metropolitan counties were able to turn around this declining trend. Of those nine counties that experienced growth between 1990 and 2000 equal to or greater than the national average, three are not metropolitan hinterlands, but destinations for immigrant laborers who come to work in the food processing industry in Southwest Kansas. These workers contributed to increasing population diversity in the state.

Increasing Diversity

Population diversity refers to both the ethnic and racial composition of the population, as well as the proportion of foreign born people. Kansas, like many rural Midwest regions, has been ethnically homogeneous and predominantly white for most of the 20th century. Until the 1960s, more than 95% of the state's population was white. However, this proportion declined to 86% by 2000, mostly taking place in the 1990s. Similarly, the foreign born population of Kansas also increased, from 1% in 1970 to 5% in 2000.

There are two causes for increasing population diversity in Kansas—one general and one specific. The general cause is Kansas experiences the same trend as the United States as a whole. Increasing immigration to the U.S. after the 1970s caused the population to become more diverse. At the same time the increasing social tolerance for racial diversity resulted in a geographically less concentrated minority population. This process was supported by the increasing urban concentration, since urban areas are traditionally more diverse than rural areas. Hence, population concentration in Kansas was one driving force for increasing population diversity.

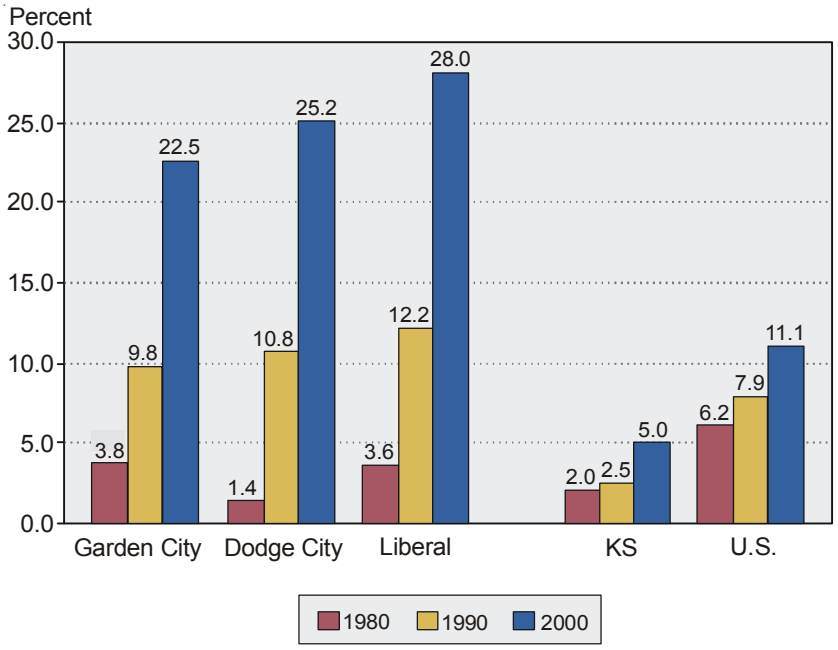
In addition to this general cause, Kansas experienced a particular phenomenon which contributed to increasing population diversity. The most remarkable contemporary migration trend in non-metropolitan Kansas was the influx of workers into the food processing industry. As a result, three southwestern Kansas counties that were primary meat processing areas experienced changing population trends. These are Finney County (Garden City), Ford County (Dodge City) and Seward County (Liberal). The food processing industry changed the demographic trends for a number of communities, both in terms of population size and composition.

Corporate recruitment strategies have a large impact in developing these new migration streams (Krissman, 2000). Once migration networks develop, they provide linkages between origin and destination, and not only help to overcome the obstacles by diminishing risks, but also increase the volume of migration over time by providing positive feedbacks for further migrants (Massey, 1990). In some cases, firms rely more on such informal networks than on traditional recruitment strategies, since they can get a steady supply of unorganized, low-skilled, low-wage workers (Kandel and Parrado, 2006).

The net migration rate of the foreign-born population in Kansas between 1995 and 2000 was 47.6 compared to the rate of –5.2 in the native population. About 35 thousand (approximately one-fourth) of the foreign-born living population in Kansas in 2000 were abroad in 1995. More than half of the 114 percent increase in the foreign born population between 1990 and 2000 was a result of newcomers arriving in the U.S. in the 1990s. In other words, the growth of the foreign-born population was not a result of the redistribution of long term foreign-born residents, but the emergence of a new migration flow attributed to the presence of the food processing industry concentrated in Southwest Kansas (Figure 3).

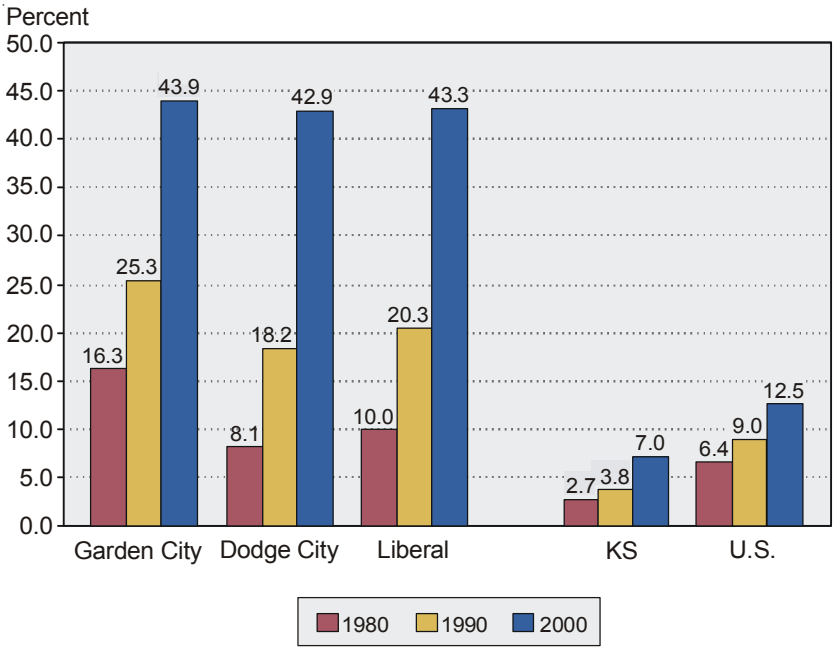
Many of the workers are from Latin America, making Hispanics the largest ethnic group in Garden City, Dodge City and Liberal, all meat industry boomtowns (Figure 4). This corresponds to a larger

Figure 3. Percent Foreign Born Population



Source: Kansas County Historical Dataset, Kansas Population Center.

Figure 4. Percent Hispanic Population



Source: Kansas County Historical Dataset, Kansas Population Center.

structural redistribution trend of the Hispanic population, which has two basic characteristics. First, there is an unprecedented Hispanic population boom outside urban areas, and second, there is a regional change of Hispanics who no longer live only in the southwestern states of Arizona, New Mexico, Colorado, Texas, and California (Kandel and Parrado 2006).

While increasing diversity helped to stabilized the decline in population, many aspects of community development remained a challenge for rural places with insufficient resources to accommodate the needs of their new populations (Broadway and Stull, 2006). Healthcare, education, and housing were the most urgent issues to address, given the linguistic isolation of the new immigrants. Moreover, the high turnover in the meat processing industry created mixed results related to economic multiplier effects, due to the presence of a transient population which is less integrated into the local community.

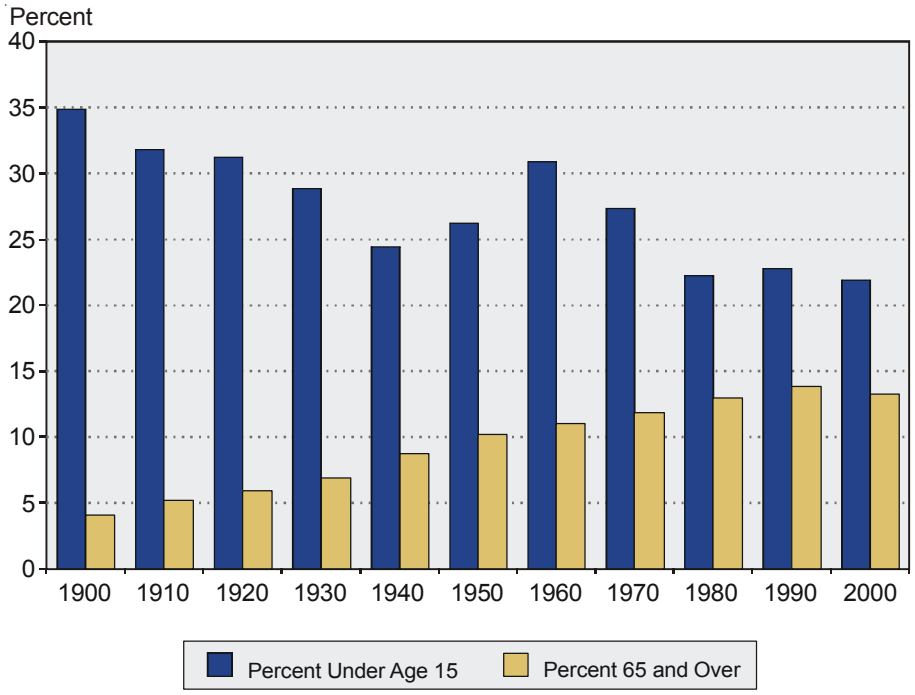
Migration is age-selective for those in their 20s and 30s, so the new immigrants helped slow down the aging population trend in Southwest Kansas. Elsewhere in the state, especially in rural areas, population aging is one of the most significant challenges for community development.

Population Aging

The demographic dynamics behind the aging population reflect a complex web of societal processes, albeit with relatively simple demographic root causes. First, declining mortality resulted in high life expectancy at birth, increasing the number of people who survive to old age. Second, declining fertility changed the overall age composition.

With fewer children born, the younger population cannot balance out the increase of the older population. The third factor is migration, and this made most of the difference for Kansas. Until the late 1980s, Kansas was characterized by the outmigration of the younger generation who left the state for job opportunities elsewhere. At the local level there are various dynamics in age composition. Urban places resemble the average U.S. age distribution, while places without significant labor attraction are slowly ending in a vicious cycle of disappearing businesses, diminishing capacity to retain the younger generations and shrinking population dominated by the elderly cohorts.

Figure 5. Young and Older Population in Kansas



Source: Kansas County Historical Dataset, Kansas Population Center.

The national context of this trend is the aging of the Baby Boomer generation. Those who were born during the postwar fertility boom are close to retirement and this transition alone will increase the number and proportion of elderly population nationwide. In this context, population decline in the Midwest, perpetuated by age-selective out-migration from the region, will pose a significant economic development challenge for many rural communities.

Historically, Kansas mirrored the aging trends of the United States (Kulcsár and Bolender, 2006), although the percent population 65 and older has always been higher in our state. During the 20th century, the 15-or-younger population group declined from 35 to 22 percent (Figure 5). Most of this decline occurred before 1950. Shortly after the Second World War the period of high birth rates, known as the Baby Boom, resulted in a short period of proportionate increase of younger people, helping to create a population rise.

At the same time, the proportion of 65 and above increased from 4 to 13 percent. Interestingly, this process was not affected by the Baby Boom. One could expect a temporary decline in the proportion of 65 and above when the proportion of 15 and younger increases. Since it did not occur in Kansas, we can conclude that the proportionate decline was concentrated in the working age population (between 15 and 65), especially in the 1960s when Kansas lost more than 130,000 people (about six percent of its population) due to out-migration.

Contemporary demographic dynamics are good predictors of future trends. According to Census Bureau projections, the population of Kansas will increase by approximately 252,000 people by 2030. This population increase however is very unevenly distributed across various age groups. Most of the increase (237,000 people) will occur in the 65+ age category. In other words, out of every ten people Kansas gains in the next 25 years, nine will be 65 or above. This projection does not count retirement migration streams to Kansas. These people are already here: they are the active Baby Boomers who will retire by 2030. This will change the age composition of the state, and due to its uneven geographic distribution will mean significant problems for many communities.

What are some examples of social change and community development challenges regarding population aging? One of the most important challenges communities face is institutional care and the provision of related community services. These services have

functions that exceed healthcare needs and maintain a social network of older people (Luetz et al, 1993). The integration of the elderly into community life is vital for long-term community development. Also, while Social Security provides a basic income for older people, it makes a significant difference in the status of the elderly whether they can accumulate personal savings or if they have the opportunity for part-time work. Urban and suburban communities have a better chance at providing these opportunities, while rural communities have a disadvantage.

The issue of the family network is closely related to the living arrangements of the elderly. While the basic preference is to live in an independent household as long as one can, such independence is strongly contingent on supportive family and community networks, as well as transportation possibilities, physically accessible housing, and local social services. Research indicates that with regard to housing and transportation, especially, older people in rural areas have a traditional disadvantage (Coward, 1988).

Population aging in Kansas, similarly to other Midwest states, is ahead of the United States as a whole. This aging is very different from what one sees in popular retirement destinations, such as Florida or Arizona. Aging in Kansas is, first of all, aging in place. The Baby Boom cohort, which had a mitigating impact on aging in the mid-20th century, will have an accelerating impact on aging very soon. In Kansas, this will mean that community challenges with respect to aging will intensify, with spatially less mobile and socially and economically more disadvantaged elderly population.

Conclusions

Demographic trends in Kansas include increasing population concentration, slow population growth, increasing population diversity, and aging in place. These trends are similar to what is experienced across the Midwest. The increasing global integration of rural America will result in gradual demographic convergence when general trends will be more and more applicable to Kansas as well. This demographic convergence however occurs in the context of spatial heterogeneity, due to various levels of community capacity to address traditional and new challenges.

Spatial inequalities in Kansas will probably increase in the future, and this will result in increasing socioeconomic inequalities as well. Immigration, for instance, will have a substantive impact on general social change in the state, but it will be concentrated in Southwest Kansas and in the large metropolitan areas. Population growth will occur mostly in metropolitan places and their outlying areas, which will accelerate the aging population trend in most rural counties. Aging at county level has a strong negative impact on income and there is a certain path-dependency, since the aging situation in 1950 is a relatively good predictor of income in 1999. Furthermore, the process of population aging is very difficult to change. The fact that it can be a persistent problem in certain counties for 50 years indicates that in many cases, local communities are ill-prepared to address development challenges that arise from population aging. Aging itself is not a problem, though the difficulties are results of insufficient community capacity to address new challenges.

The population concentration in Kansas has important implications for policy-making and representation in state legislation. Since population dynamics in Kansas are driven by urban population processes, rural places are disadvantaged because urban population dynamics can mask rural problems. This means that sparsely populated rural areas might have difficulties receiving statewide attention.

We also have to ask whether policy makers have sufficient information to assess these trends at both the state and local levels. Detailed knowledge about past demographic trends and contemporary dynamics can help Kansas communities prepare for today's challenges. And in the midst of an increasing diversity of interests and agendas, state policy should enhance local capacity to help communities make better decisions.

Note

[1]This study was presented at the 2006 Kansas Economic Policy Conference at the University of Kansas.

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The State of Innovation in Kansas

Joshua L. Rosenbloom

Over the past century the standard of living of an average citizen of the United States has increased by a factor of 7.[1] Despite inequality in the distribution of income all citizens of the United States can afford a vastly larger and more varied set of consumption goods today than they could 100 years ago. Moreover, because of increased years of education, longer life expectancy and shorter workweeks, the amount of leisure time has increased along with consumption of material goods.

The dramatic growth of material well being that has taken place over the past century is attributable in large part to technological innovations.[2] The development of internal combustion engines, computers, lasers, and a host of other technologies have contributed to the development of new products and reductions in the cost of producing existing goods and services.

At the national level sustaining the pace of innovation is important for maintaining the country's technological and economic leadership in the world. Innovation also has more localized effects, however. The prosperity of Silicon Valley and the economic transformation of the Route-128 area outside Boston, MA are commonly attributed to concentration of high technology businesses in these regions. Other examples of innovation-based local economic development include Austin, Texas, and the Research Triangle area in North Carolina.

More systematic evidence of the importance of innovation can be found at the state level. Patents provide one measure of innovative output in a state. Figure 1 plots the relationship between state income per capita and the number of patents issued to residents of the state relative to the total state population. There is a generally positive relationship between state-level prosperity and this measure of innovative activity. Figure 2 shows that the same relationship holds in between state income levels and the level of R&D spending per capita in the state.

Innovation and Economic Policy in Kansas

The connection between innovation and economic development has been accepted among Kansas policymakers for some time. The 1987 Redwood-Krider report, for example, advocated the promotion of a diversified economic base for the state, and identified promotion of innovation as one route to this end. The state's 2001 strategic plan went further, stating that: "An Essential element of Kansas' economic vision is to apply new technologies in every industry, be they new economy or old economy industries." The Kansas Economic Growth Act similarly emphasized the growth of the knowledge-based economy generally and the specific importance of bioscience industry development.

Yet Kansas faces significant challenges if it is to pursue an innovation-based economic development strategy. The most significant challenge is size. Innovation is a highly concentrated activity, reflecting the strength of agglomeration economies in science and technology. Taking patents as an example, residents of just five states—California, Massachusetts, Michigan, New York and Texas—accounted for 46% of all U.S. patents even though they contained only 32% of the nation's population.

The goal of this essay is to assess where Kansas stands relative to the nation and other benchmark

Figure 1. Personal Income per Capita vs. Patents per Capita, 2003

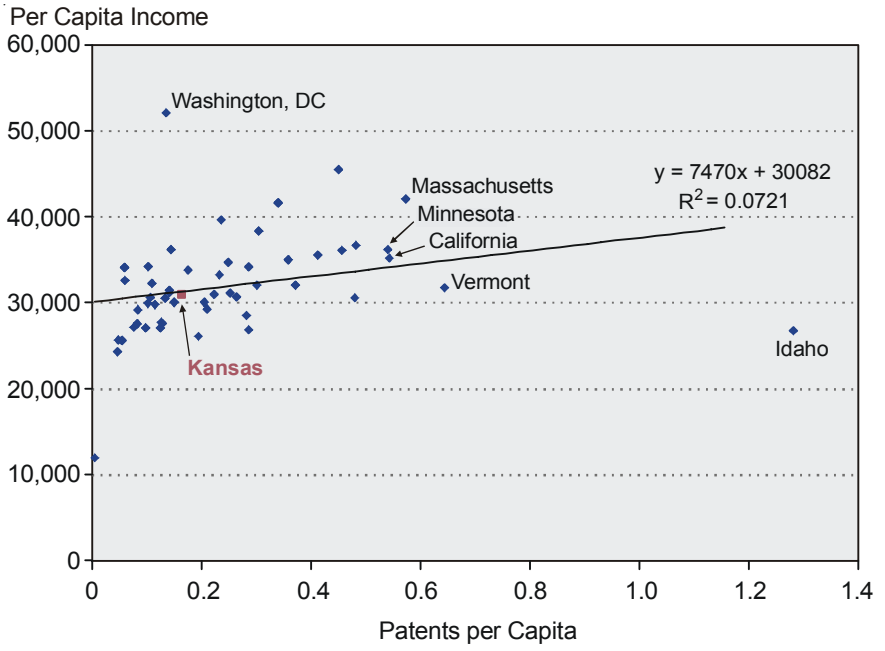
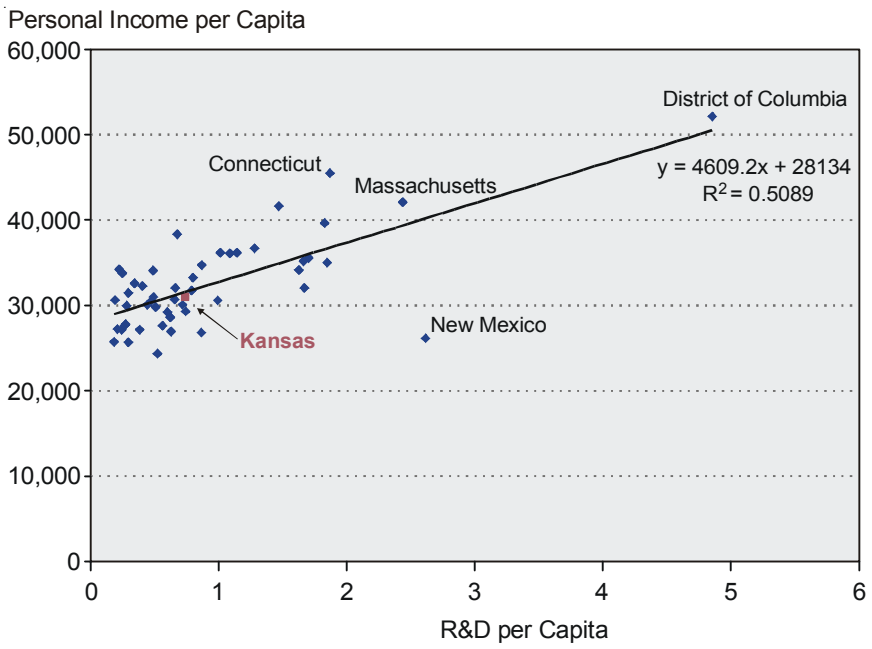


Figure 2. Personal Income per Capita vs. R&D Spending per Capita, 2003



states. As I show, Kansas has had some success in increasing Research and Development (R&D) spending but this has not yet had much impact on measurable aspects of business innovation. But, looking at the record so far should give policy-makers some reason for caution. Efforts at innovation-based economic development strategies will need to be realistic about their goals and sharply focused on specific objectives. Given the small size of the state, Kansas cannot afford to take a general and unfocussed approach to innovation.

Measuring Innovation

Innovation cannot be directly measured. Instead it is necessary to focus on a variety of related indicators that capture one or another dimension of economic activity related to innovation. These measures include:

- R&D spending—Expenditures by industry, universities, and other organizations on research and development are an important input into the production of new innovations.
- The Science and Engineering labor force—Innovation is the result of efforts primarily by skilled workers with backgrounds in science and engineering. The number of such workers provides another measure of state innovation capacity.
- Venture Capital investments—The process of converting promising ideas into marketable products typically requires substantial financial investments. Venture capital is one important source of funds to support these efforts at an early stage. Availability of venture funds will determine whether promising ideas are developed in the state or if they must be developed elsewhere.
- Small Business Innovation Research (SBIR) grants—The SBIR program, administered by the U.S. Small Business Administration is another important source of funds to develop innovations into commercially viable products.
- Patents—Not all innovations are patented, and not all patents result in commercial products. Nonetheless the number of patents provides a rough measure of the output of new innovations.

Figures 3 and 4 compare Kansas' performance on these varied innovation indicators to appropriate benchmarks.[3] Figure 3 focuses on the Science and Engineering workforce, making comparisons to the state's population. As the first bar indicates, Kansas accounts for slightly less than 1% (0.92%) of the U.S. population. But it lags behind this proportion in its share of PhD Scientists and Engineers. Thus the skilled workforce in the state is smaller than would be predicted based on population alone. More encouragingly, however, the state produces 0.99% of new PhD holding Scientists and Engineers. Together these data suggest that the state is experiencing a net drain of skilled technical workers.

In Figure 4, R&D spending, SBIR grants, and patents are compared to the state's share of the economic activity. Consistent with Figure 3, these data suggest that generally innovation is less important in Kansas than we would predict based just on the size of the state's economy, with the gap being largest for SBIR funding.

Figure 3. The State of Innovation in Kansas

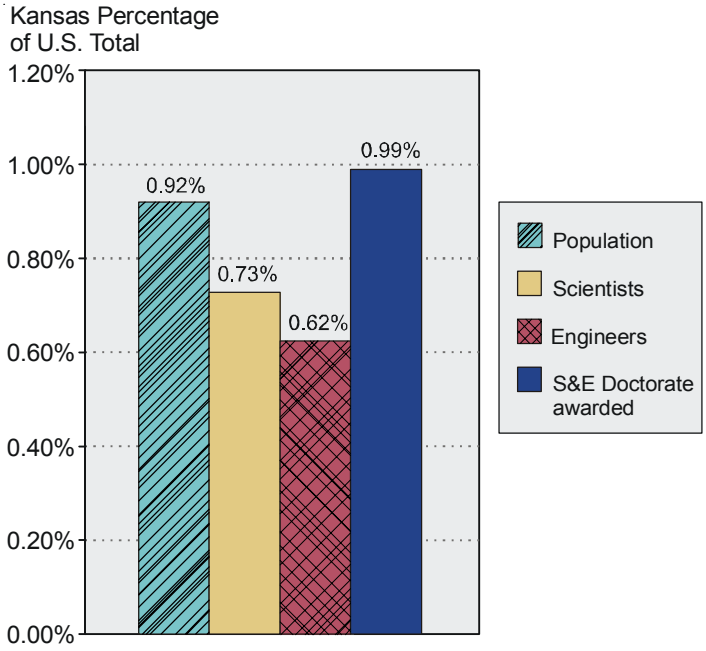
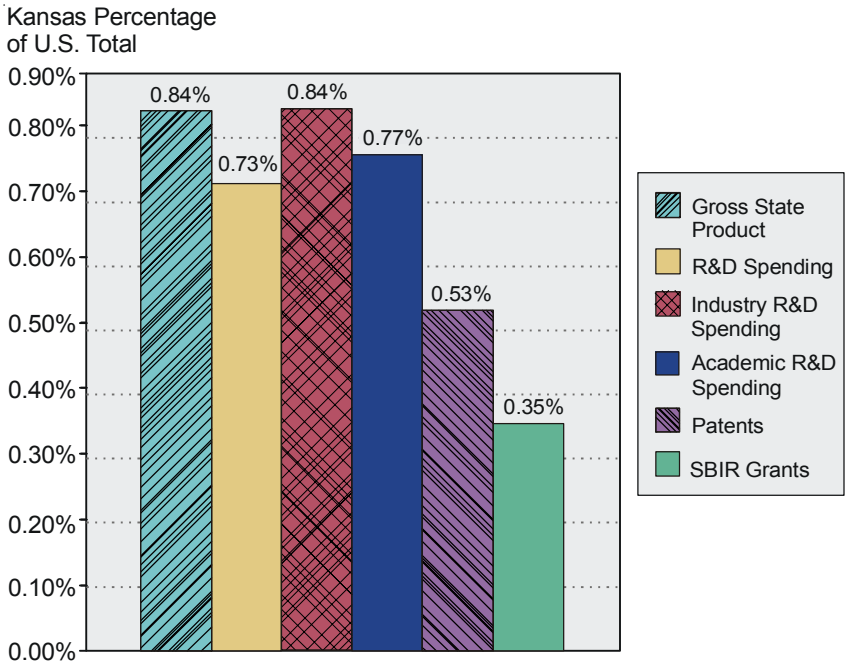


Figure 4. The State of Kansas innovation



Venture capital funding in Kansas is quite limited. Figure 5 compares the value of venture capital investments in Kansas with that in surrounding states over the past few years. It is apparent that the situation in Kansas is not very different from the situation in other Great Plains states, but that in general the region receives relatively little venture funding.

Figures 6 and 7 provide a long-term perspective on the current situation. In Figure 6 it appears that Kansas has been successful in expanding its share of R&D relative to the national total. The year-to-year figures are quite volatile, reflecting the small overall size of the state's efforts. But the long-run upward trend is clearly evident. Figure 7 indicates, however, that increased R&D effort has not, so far, translated into increased levels of patenting. Between 1981 and 2001, if anything, the state's share of patents appears to have been falling. Since 2001 there is some evidence of a reversal of this trend.

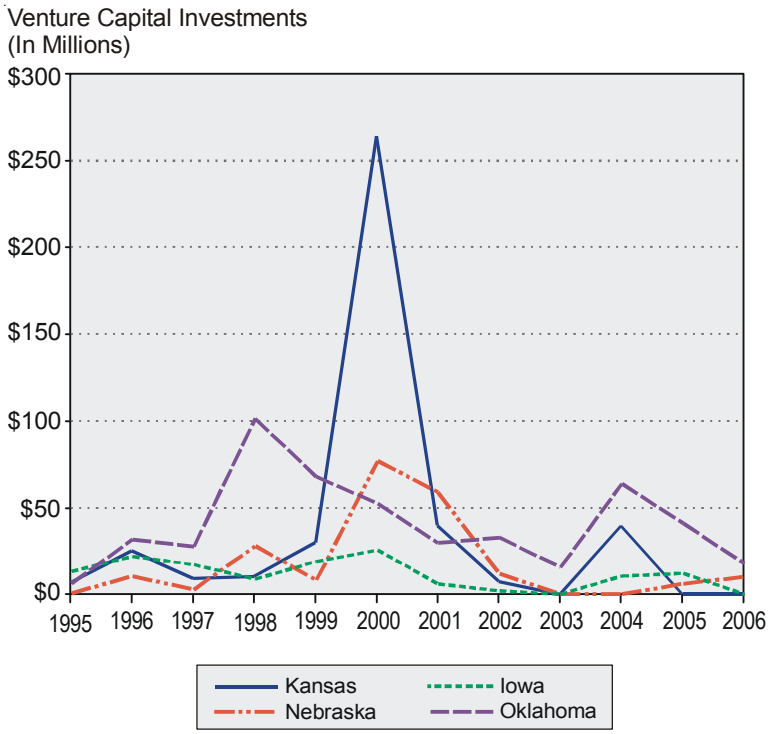
Conclusions

The development of innovations and their conversion into commercial products requires a high level of interaction between innovators, and between innovators and sources of funding. Face-to-face communication remains important even today in explaining complex technological ideas and in securing funding to develop these ideas. These facts account in large part for the tendency of innovative activity to concentrate in places like Silicon Valley.

Kansas cannot afford to not compete in the knowledge economy. But the state's small size means that it cannot afford to invest in a diverse portfolio. Rather, it must focus on areas of existing strength. These strengths are likely to be particular niches within broader streams of innovation.

The state may also need to do more to increase the availability of venture funding given the concentration of the sources of these funds

Figure 5. Venture Capital Investments in Kansas and Selected Neighbors, 1995-2006



today, and the resulting concentration of new businesses in close proximity to the sources of funding.

Notes

[1] More precisely, real per capita GDP (measured in prices of the year 2000) increased from $4,943 in 1900 to $37,232 in 2005. If anything this increase understates the improvement in the quality of life because it makes no adjustment for modern goods—antibiotics, cell phones, computers—which were not available at any price in 1900. For historical comparisons of GDP see http://eh.net/hmit/gdp/.

[2] The other major contributor to economic growth is the accumulation of physical and human capital. Precisely decomposing the sources of growth between different contributors is difficult. Nonetheless, most conventional calculations attribute the majority of growth in per capita income to technological change rather than accumulation.

[3] Data on employment, SBIR grants, patents, and R&D funding are reported by the National Science Foundation in state profiles that are available on-line at http://www.nsf.gov/statistics/nsf05301/. Historical data on patents are compiled by the U.S. Patent Office and can be obtained from http://www.uspto.gov/go/taf/cst_utlh.htm. Data on venture capital funding are tabulated by Price Waterhouse Coopers, and are reported on-line at http://www.pwcmoneytree.com/moneytree/index.jsp.

Figure 6. Kansas R&D Spending as a Percentage of U.S. R&D, 1963-2003

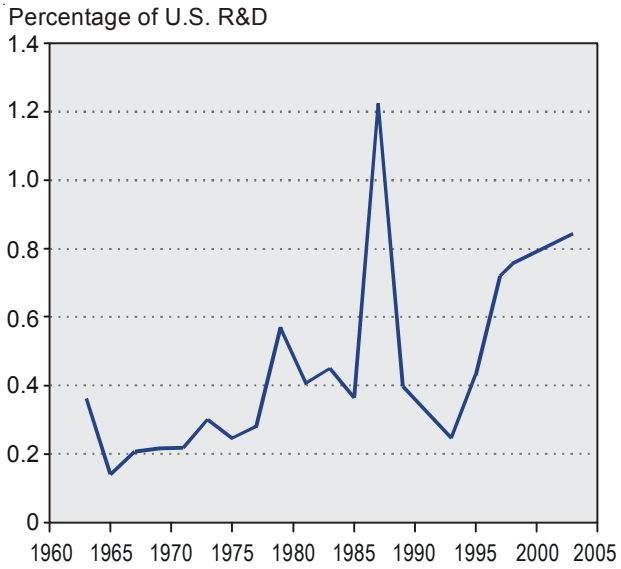
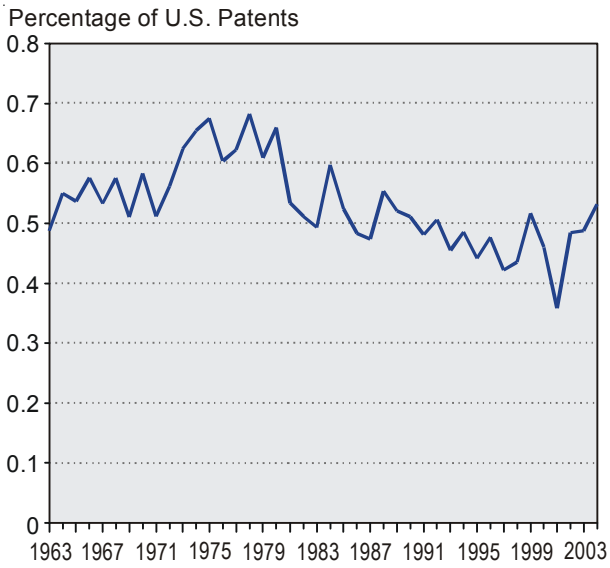


Figure 7. Kansas Patents as a Percentage of All U.S. Patents, 1963-2003



Sizing up Kansas Public Finance

Glenn W. Fisher
H. Edward Flentje
W. Bartley Hildreth
John D. Wong

In 2005, the State of Kansas and its 3,887 local governments collected $3 billion in property taxes and $2 billion in retail sales and use taxes. In addition, those governmental entities had $12 billion in bonded debt outstanding which represent claims on future revenues. This fiscal profile was the recent focus of several studies conducted through the Kansas Public Finance Center at Wichita State University.[1]

While the Spring 2006 issue of the *Kansas Policy Review* provided an overview to the recent history of *state* government revenues, expenditures and debt, the purpose of this current article is to size-up two major taxes relied upon by both the State of Kansas and its local governments: the property tax and the retail sales (and use) tax. Based on the tax principle that a broad tax base permits a low tax rate, the focus is on the extent of tax base erosion over time. To complement the earlier review of state debt, this article also examines local government debt. Together, these two articles serve as an overview to the fiscal profile of state and local finances in Kansas.

In 1995, the Governor's Tax Equity Task Force recommended that all tax legislation be evaluated with several objectives in mind, including this one:

> "Tax revision should not unduly erode the tax base. A broad tax base allows the lowest possible rate, while also enhancing compliance, public acceptability, and the stability of the revenue source. But, there is a tendency to grant exemptions from a uniform or general treatment, and once granted they are hard to remove. It is poor public policy to erode the underlying tax base by granting unwarranted, gratuitous exemptions or exclusions. It is important to remove items from taxability, including but not limited to economic development incentives, only upon meeting rational, economically meritorious criteria. Further, all exemptions and exclusions should have a specified life, instead of an indefinite period" (page 12).

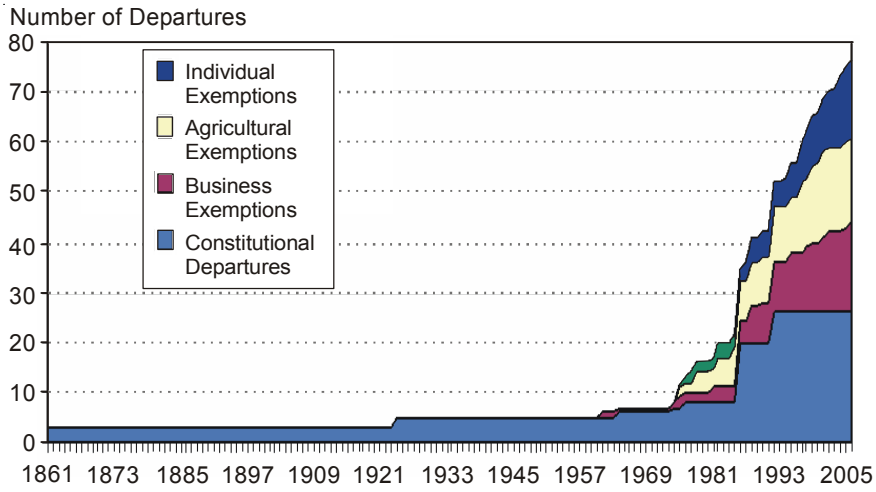
Studies on the erosion of the property and sales taxes were conducted to determine the impact of deviations from their respective estimated tax base, and are reported here. While these studies pointed out the extent of erosion of these two important taxes, they did not recommend the removal of all exemptions or even particular ones. Rather, the focus was to suggest the need to periodically review each tax to ensure that it continues to reflect economic and fiscal goals.

Property Tax

In its beginning as a state, Kansas defined the property tax broadly. The Wyandotte Constitution of 1859 states: "The Legislature shall provide for a *uniform and equal* rate of assessment and taxation; but all property used exclusively for State, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation." These were the only Constitutional departures from a uniform and equal tax. Governor Thomas Carney, who served from 1863-1865, championed the constitutional ideal with his 1862 declaration: "Let all protected by the State share equally its burdens in proportion to their property." A relevant question is how well does the current Kansas property tax meet the "uniform and equal" standard?

Plotting the number (not the dollar value) of changes to the "uniform and equal" concept since 1859, as performed in Figure 1, reveals that most of the changes occurred in the last 25 years. From the few specified departures from uniform and equal assessment quoted from the Wyandotte Constitution, successful amendments to the Constitution's finance and taxation article have occurred on only eight occasions concerning matters of property taxation. There were two amendments in 1924, one in 1964, 1974, and 1976 each, two in 1986, and one in 1992. The classification amendments of 1986 and 1992 are two of the most noteworthy changes. These amendments resulted in the current classification of residential property at 11.5 percent of appraised full market value while classifying commercial and industrial property at 25 percent of its value. When the eight amendments are examined in terms of who directly benefits from the Constitutional departures, the results reveal that 14 benefited business, 5 benefited agriculture, 3 benefited homeowners, and one benefited nonprofits.

Figure 1. Cumulative Number of Constitutional and Statutory Departures from Uniform and Equal Taxation of Property

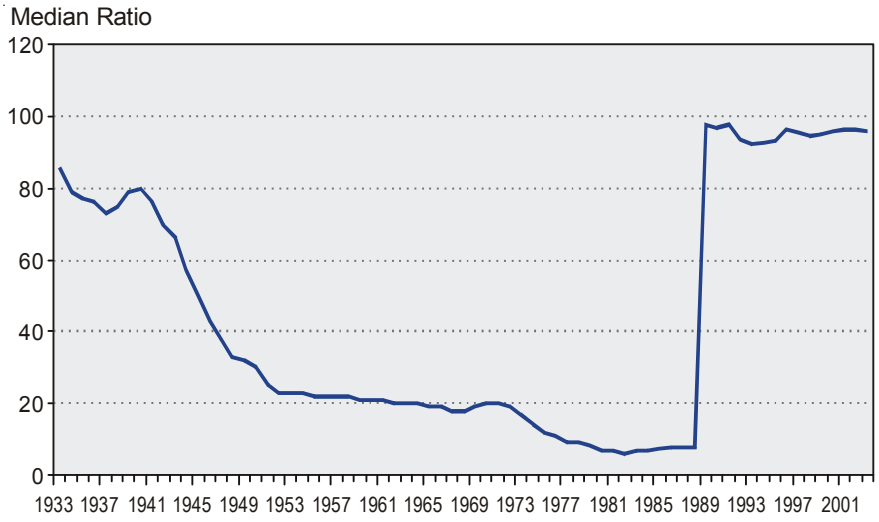


In contrast to the infrequent and low number of Constitutional departures, Figure 1 also conveys that most of the property tax base changes represent statutory exemptions, including 20 benefiting business property, 17 benefiting agricultural property, and 15 benefiting the property of individuals. As shown, the sheer number of changes to the property tax has escalated in recent years.

A tax on property includes the value of real estate (that is land and improvements to land—such as buildings) and the value of personal property, both tangible and intangible. By definition, tangible property includes movable items such as machinery, equipment, inventory and even household goods and farm animals. Intangible property, by definition, includes investments (such as stocks, bonds and bank account balances) and even the value of intellectual property. The Kansas property tax excludes many of these items from taxation.

The current property tax base is increasingly focused on real estate instead of personal property, and specifically residential real estate instead of that owned by business, agricultural, or other owners. Of total assessed value, real estate comprised 44 percent of the property tax base in 1988 but increased to 65 percent in 2005. Residential real estate represented 22 percent of total assessed value in 1988 but almost doubled (40 percent) by 2005. It should not come as a shock that this movement to a *residential* real estate tax is being felt in the political environment as those residential owners equate with "voters" who demand relief.

Figure 2. Median Appraisal/Sales Ratio for Real Estate, 1933-2004



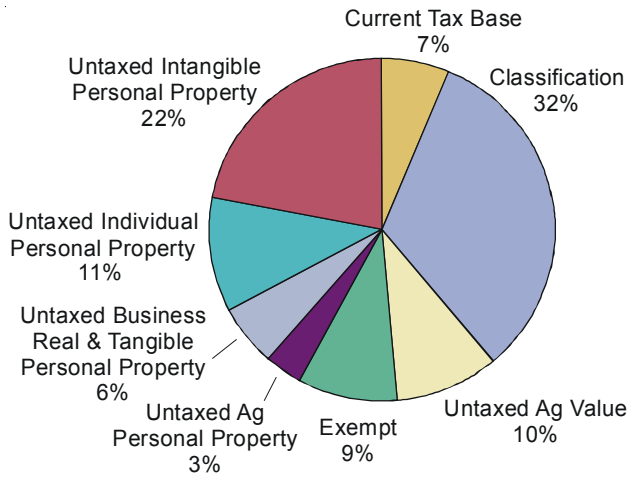
One test of equality in the administration of the property tax is to compare the appraised value of property (that is the value estimated for tax purposes) to the actual value of the properties when sold. Figure 2 shows the ratio of sales value to appraised values for real estate in Kansas. In 1933 the law required that property be assessed at 100 percent of market value but the median ratio was only 86 percent. It declined rapidly to 20 percent in 1962. More recently, the state's median real estate ratio is within acceptable boundaries—tax appraisals are within 96 percent of residential actual values. This positive result is due to changes brought about after the classification changes in 1986 and 1992,

and especially Judge Bullock's 1993 opinion on school finance that mandated statistical appraisal standards. The message here is that professional administration of the property tax promotes equity in the appraisal process.

Property taxes were originally intended to tax the stock of wealth, in essence all property—real and personal, tangible and intangible. The framers of the Kansas Constitution provided exemptions only for public, educational, and charitable purposes, plus a $200 exemption of personal property per family. A comprehensive property tax with few exemptions was believed to be the most equitable form of taxation. Estimating the property tax base without any exemptions or other legal deviations from market value is an exercise that permits the discussion to return to the original concept of an "ideal" property tax on all property, including the original constitutional exemptions. Although no previous attempt to estimate this total "theoretical" property tax base in Kansas could be found, a series of estimating assumptions generated an admittedly imprecise initial estimate.

Based on this estimating exercise, the Kansas constitution and statutes currently exempt or otherwise do not tax approximately 93 percent of the estimated total tax base, as shown in Figure 3. Taxing all property would encompass the following types of assets currently untaxed: the difference between full market value and the classification levels; the difference between agricultural use value and full market value; tangible personal property, including household goods, business inventories, and farm equipment and animals; and personal and business intangible personal property including bank account balances, securities holdings, and other intangible assets. In summary, Kansas taxes an estimated 7 percent of the total possible property tax base. Any future exemptions would aggravate this situation.

Figure 3. Total Estimated Market Value of Real and Personal Property in Kansas



Several competing policy options arise from the property tax erosion study:

- Continue on the current path. This choice will undoubtedly make financing local government more difficult and will raise the burden on residential property. More significantly, this choice may eventually spark a taxpayer revolt that could lead to the kind of arbitrary tax or expenditure limitations that have hampered the provision of government services in California and many other states.
- "Clean up" the property tax laws and develop rational policy for exemptions and then examine all present and proposed exemptions in light of the policy. This approach has severe limitations since some needed changes would likely require constitutional amendments and any attempt to repeal existing statutory or constitutional exemptions would meet fierce opposition.
- Return toward "uniform and equal." Drafting and passing such an amendment would require the agreement of major interest groups and might require a commission or some kind of "mini" constitutional convention.
- Repeal all taxes on personal property and reconfigure local government and government functions so that local governments finance only property-related services from the property tax. For example, social services now funded with local property taxes would have to be financed by state revenues or other revenue sources.
- Authorize local government broader access to sales and income taxes. This choice might be done by consolidating small governments or by creating taxing districts that could more effectively levy income or sales taxes. More governmental functions, for example, schools, could be shifted to the state level.

Sales and Use Tax

The Retailers' Sales Tax Act, passed by the 1937 session of the Kansas Legislature, imposed a tax at the rate of two percent on the gross receipts from retail sales of tangible personal property or from the furnishing of

taxable services, on and after June 1, 1937. Currently, the state tax rate is 5.3 percent (in additional to local tax rates).

Figure 4 shows the cumulative number of statutory sales and use tax changes since the tax was first imposed. Since 1937 there have been 71 original exemptions and exclusions from the sales and use tax, 53 expansions in exemptions or exclusions, 20 restrictions in exemptions and exclusions, and 62 other changes in the sales and use tax statutes, for a total of 206 legislative enactment or changes in the Kansas sales and use tax statutes.

When adjusted for inflation, the total value of sales and use tax exemptions in 2005 is estimated to be twice the size of the present tax base. As shown in Figure 5, the most significant exclusion is for component parts and items consumed in the production process. This tax exemption is consistent with the aforementioned Governor's Tax Equity Task Force statement because physical ingredients that comprise a product should not be taxed until the finished item is sold to the ultimate retail consumer. Otherwise, double taxation would occur because a tax would be collected on component parts (such as a gasoline tank purchased by a lawn mower manufacturer for installation in the mower) as well as a tax on the overall retail price paid by the ultimate consumer.

As a share of the overall personal income of Kansas residents (Figure 6), the sales and use tax base has declined over the past 60 years. This trend is repeated nationally as the retail sales tax, focused originally on purchase of manufactured goods (food as well as durable goods such as appliances), has failed to address the growth in the purchase of services (e.g., personal care, home care, and legal and accounting services).

Although the sales tax is generally perceived by many to be a broad-based tax on final consumption, generally it is neither broad-based nor limited to final household consumption. In practice, the tax applies to a number of purchases for use in production, such as machinery and equipment. Moreover, there are numerous exemptions embedded in state law. The Kansas retail sales and use tax does not tax approximately 76 percent of the estimated total tax base (Figure 7). Taxing all sales and use activity would require the removal of all existing exemptions in state law, taxing services broadly, and capturing remote sales through a more effective use tax. If all these changes occurred (which the study did not advocate), collections are estimated to increase by approximately 4.7 times the present annual sales and use tax amounts. In summary, Kansas taxes an estimated 24 percent of the total possible sales and use tax base. Any future exemptions would aggravate this situation.

Figure 4. Cumulative Number of Statutory Sales and Use Tax Changes

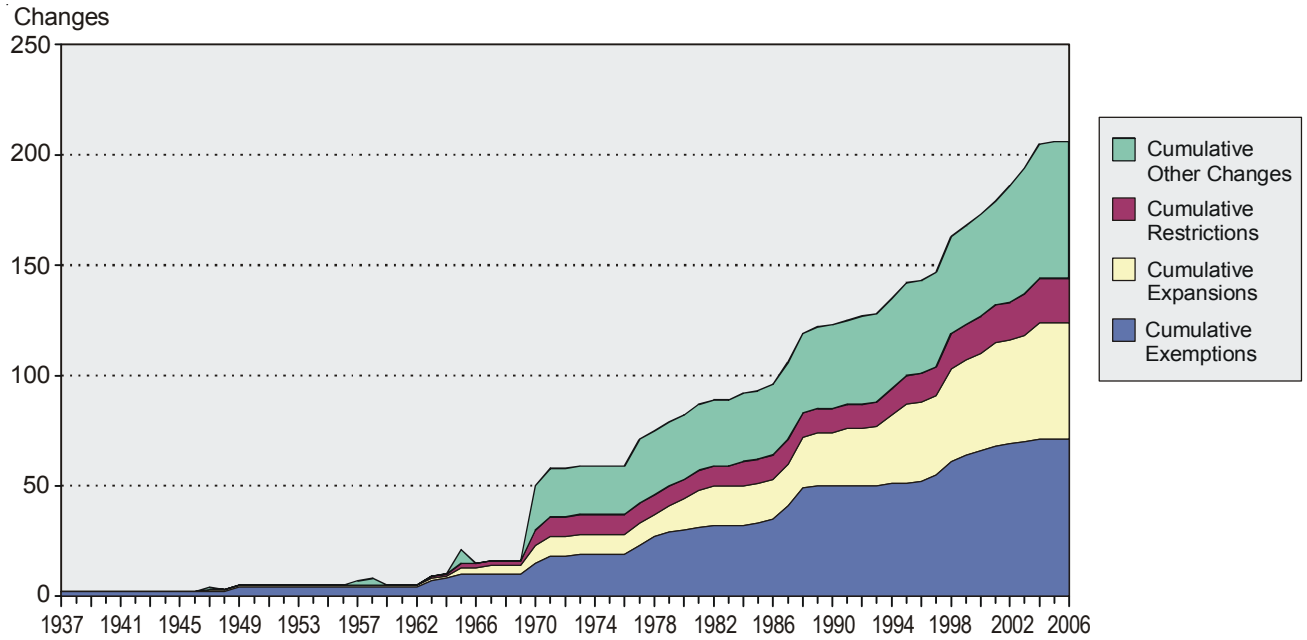


Figure 5. Real Value of Sales and Use Tax Exemptions by Type

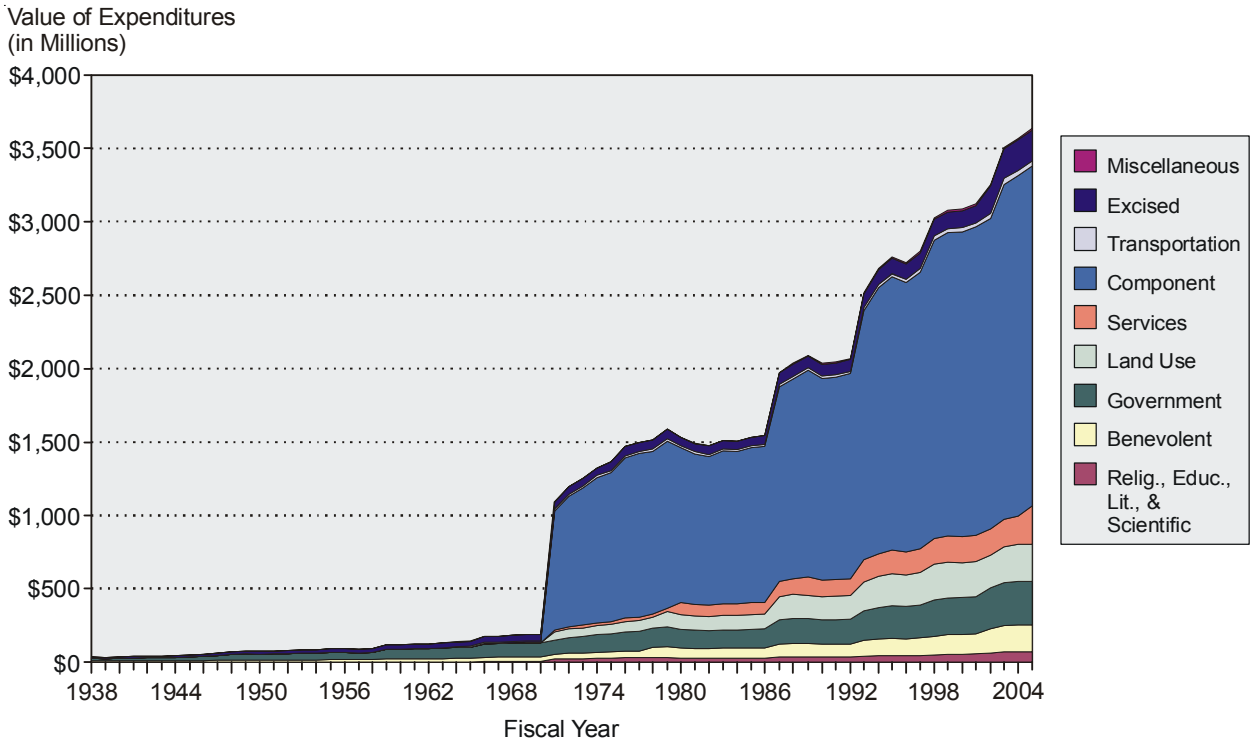
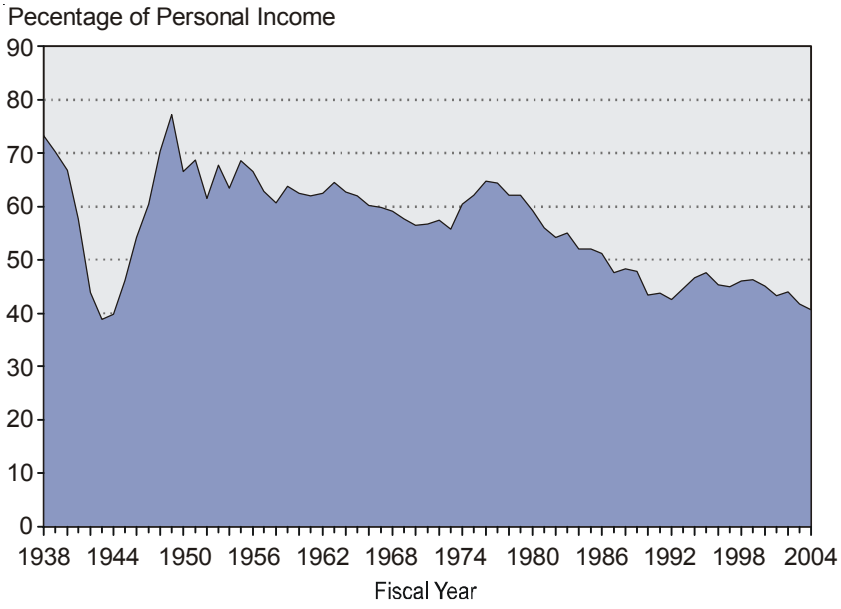


Figure 6. Sales and Use Tax as a Percentage of Personal Income



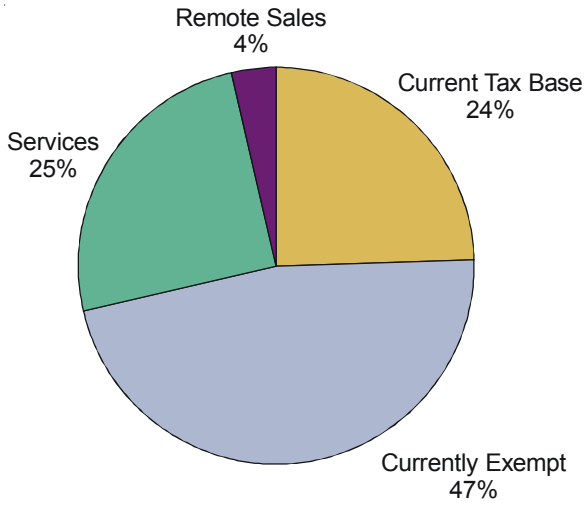
Consistent with national overviews on the future of the retail sales and use tax,[2] there are four policy options to address the erosion of retail sales and use taxes:

- Avoid proliferation of sales taxes on business inputs;
- Keep household purchases of tangible personal property inside the tax base;
- Bring household purchases of services into the tax base; and,
- Get Congress to help states enforce use taxes on remote sales.

Local Government Debt

Debt is not a bad word. However, too much debt can reduce money for current services and negatively influence a governmental jurisdiction's ability to borrow at a low cost of capital. Essentially, debt is

Figure 7. Total Estimated Sales and Use Tax Base in Kansas



just a way to leverage future revenue flows. Erosion of the revenue base reduces debt security whether it concerns the property tax which backs ultimately all General Obligation bonds or the local sales tax which underpin many local budgets and associated debt.

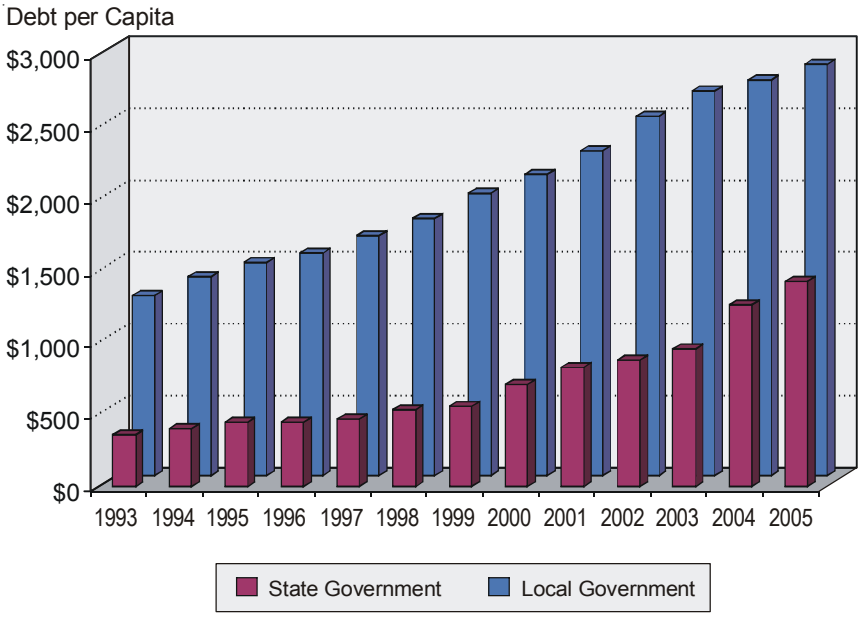
As an overview of debt, Figure 8 compares changes in per capita amounts of State of Kansas debt to that of local government debt in the state.[3] State debt increased an annual compound rate of 13.5 percent due mostly to $2 billion of debt (or one-half of the State's $4 billion of debt) to implement two successive multi-year state transportation programs. In comparison, local government debt increased at a 7.5 percent compounded rate over the same period to almost $8 billion in 2005. It should be noted that a significant part of state debt is for capitalizing two revolving loan programs for local government water and wastewater improvement facilities that are obligations ultimately of those participating entities.

Figure 9 shows the growth in local government debt to almost $8 billion in 2005. All the items represent General Obligation debt (backed by the property tax) except for the item labeled Revenue Bonds (backed by an assortment of dedicated taxes and enterprise operations).[4] Significant growth occurred in school debt, which increased from 19 percent of all local government debt in 1990 to 39 percent in 2005. In contrast, the city debt share decreased from 35 percent in 1990 to 29 percent in 2005. State policy has encouraged more local school debt by covering part of the yearly debt service.

City residents have to pay for the direct debt of that city and the overlapping debt of the county, school district, and other special districts. Figure 10 shows the percentage of total city area debt contributed by K-12 education and all other overlapping local governments (such as the county and assorted special districts) for selected Kansas cities.[5] The difference between the bar and 100 percent represents the city's own direct debt. This figure conveys that when these cities borrow money they have to contend with the burdens imposed by other local entities. Essentially, the debt boat of any single jurisdiction floats or sinks together with all entities sharing the same tax base.

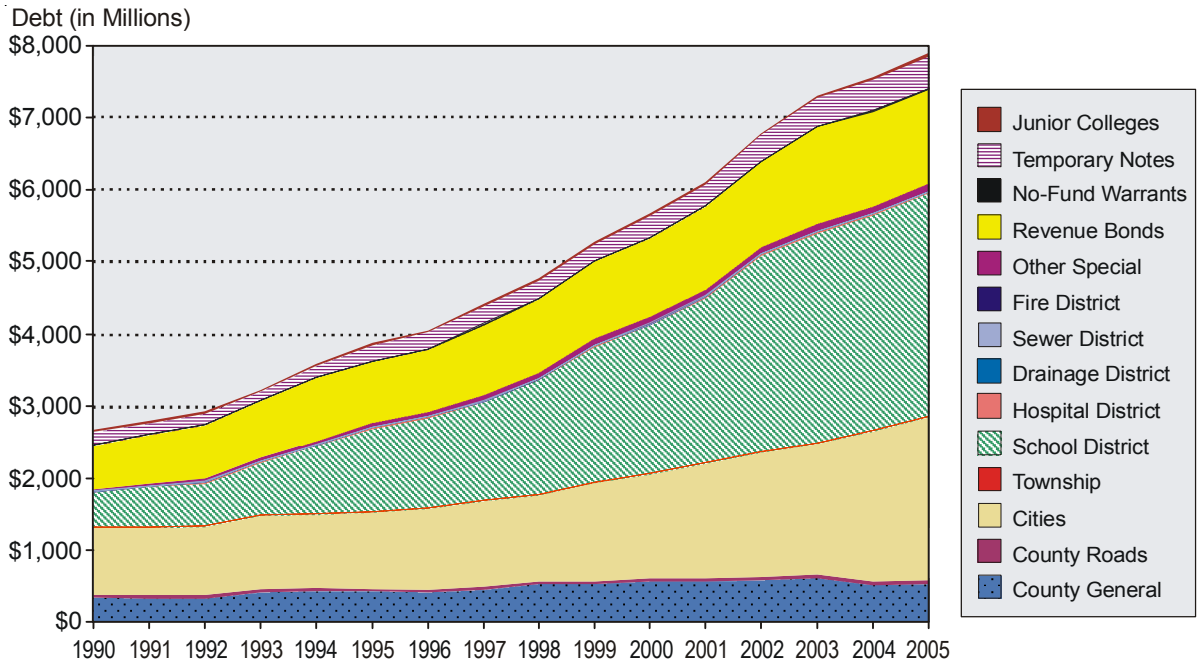
While bond rating firms refrain from emphasizing one factor over all others, published research suggests

Figure 8. Per Capita State and Local Government Debt in Kansas, 1993-2005



Sources: Kansas State Treasurer Bonded Indebtedness Spreadsheets as of June 30, 2005 and the State of Kansas 2005 Debt Affordability Study.

Figure 9. All Kansas Local Government Debt, 1990-2005



Sources: Kansas State Treasurer Bonded Indebtedness Spreadsheets as of June 30, 2005.

that economic base diversification is one of the more important factors in determining a bond rating. Consider how vulnerable a one-industry town is relative to a city with a diverse local economy where no single taxpayer or industry can weaken a tax base. Figure 11 plots the relationship between total general obligation bonded debt per capita and tax base concentration measured by that city's top ten property tax payers as a percentage of assessed value. The extreme lower left area in Figure 11, representing low debt per capita and a highly diverse economy, is occupied only by Overland Park, consistent with its status as the only triple-A credit among all cities in Kansas. The implication is that local economies experience lower public debt when there is a more diverse property tax base. Rich communities can afford issuing more debt but they do not do it. Capital markets are not a redistribution mechanism—the rich get richer.

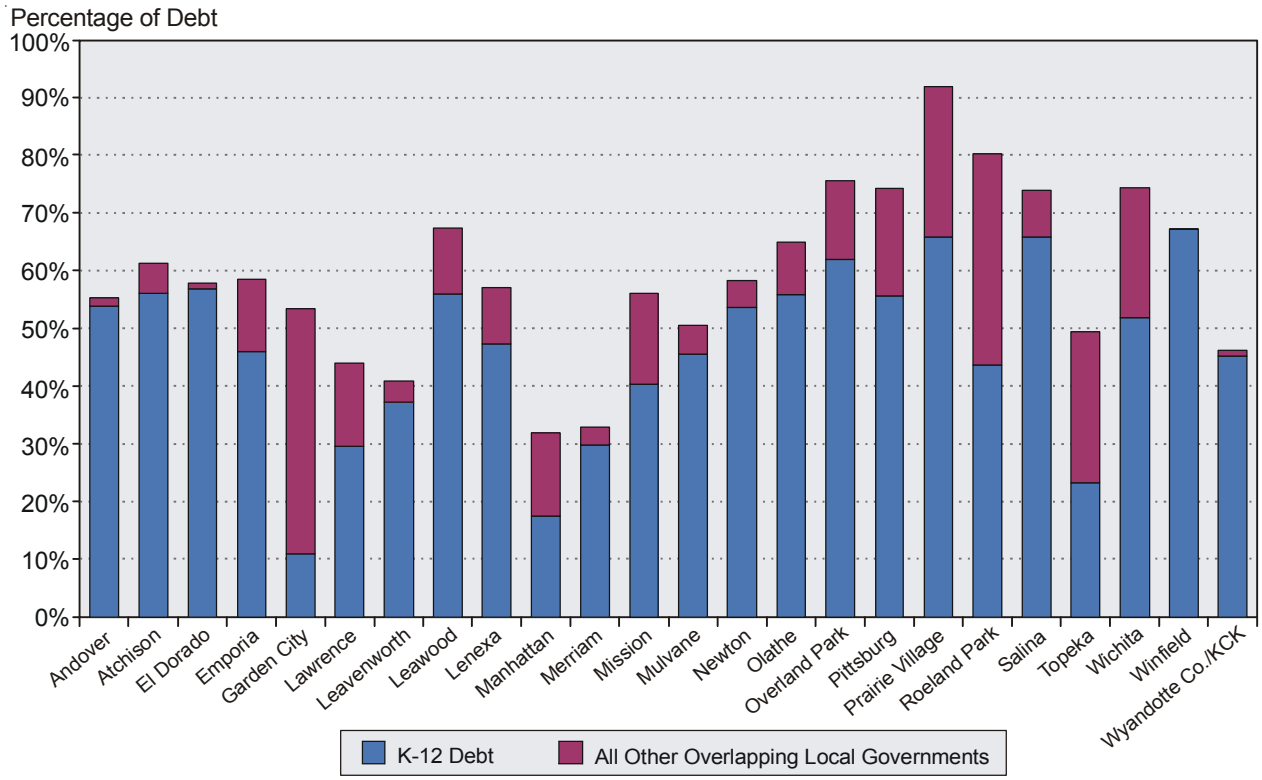
There are several policy options based on the study of local debt:

- Monitor the growth because city and county credit ratings take into account the overlapping debt burden caused by school debt growth.
- Weigh tighter limits, but realize that tight limits reduce local flexibility and can negatively influence the cost of capital.
- Preserve bond security by realizing that sales and property tax erosion hurts debt collateral.
- Promote debt coordination of local governments sharing a tax base. Local governments in Johnson County use to do this through a voluntary Debt Management Advisory Council, but despite receiving national recognition for innovation it is no longer active.
- Enhance transparency though a "Truth in Borrowing" statement for every bond transaction similar to the disclosure on the property tax bills. However, any such initiative should not unduly restrict the borrowing decisions of locally elected officials or threaten the legality of bond transactions.
- Enable taxpayer comparison shopping. The State could compile detailed financial records on each local government, thereby promoting accountability by helping taxpayers vote with their feet if they are not satisfied with a local government and its finances.

Conclusion

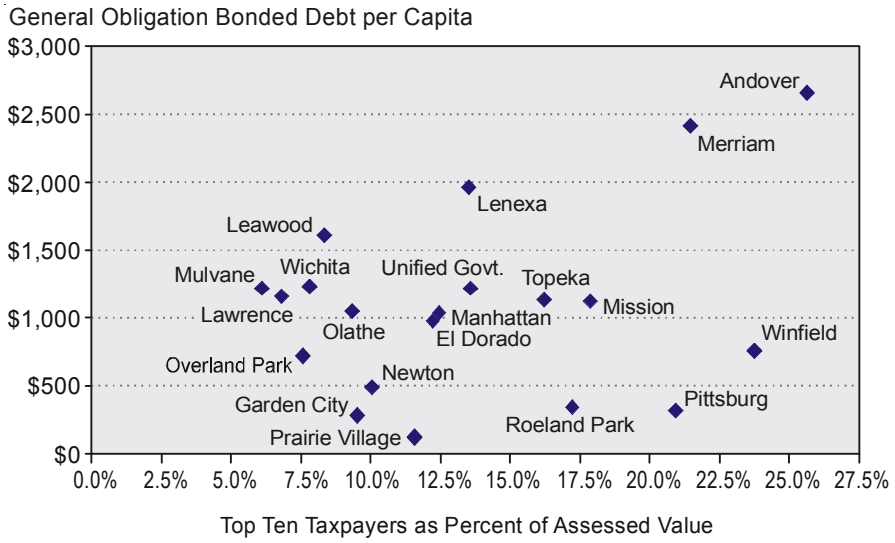
The property tax base has evolved far from the "uniform and equal" concept suggested by the Kansas Constitution, inviting a taxpayer revolt. Yet, there is great virtue in local determination of the property tax

Figure 10. Percentage of Total City Area Debt Contributed by K-12 Education and All Other Overlapping Local Government



Source: Comprehensive Annual Financial Reports from Various Cities, 2005.

Figure 11. Debt and the Lack of Economic Diversity in Kansas Cities, 2005



rate and its linkage to locally determined services.

The sales tax is neither broad based nor limited to final consumption. It is not the solution for all difficulties. Equity is needed between the taxation of out-of-state purchases and those made on Main Street.

While the market continues to assess local debt as affordable, the growth in school debt affects city and county debt ratios with potential impact on borrowing cost. It suggests the need to improve debt coordination because the past growth rate is not sustainable over the long-run.

This series of studies issued by the Kansas Public Finance

Center at Wichita State University provide an overview to the fiscal profile of state and local finance in Kansas.

Notes

[1] All of this research was conducted by faculty members and public administration graduate research assistants affiliated with the Kansas Public Finance Center (KPFC) in the Hugo Wall School of Urban and Public Affairs at Wichita State University. Research projects on sales and property tax erosion and local debt were funded by the Kansas Department of Revenue on behalf of the Kansas Advisory Council on Intergovernmental Relations (KACIR). The full report on each topic, and the specific researchers responsible for that work, is available from the KPFC web page (hws.wichita.edu/KPF/reports-publications).

[2] William F. Fox, "Can the State Sales Tax Survive a Future Like the Past?" In *The Future of State Taxation*, edited by David Brunori. Washington, DC: Urban Institute Press, 1998, 33-48.

[3] Local debt is from the State Treasurer's web page and state debt is from the *State of Kansas 2005 Debt Affordability Report* (available from the KPFC webpage).

[4] Industrial Development Bonds are excluded from all tables because such debt is not the legal obligation of the governmental entity.

[5] All Kansas cities that issued Comprehensive Annual Financial Reports and made them available for this research project.

Remarks from Keynote Address

City-County Consolidation: Reshaping the Local Government Landscape

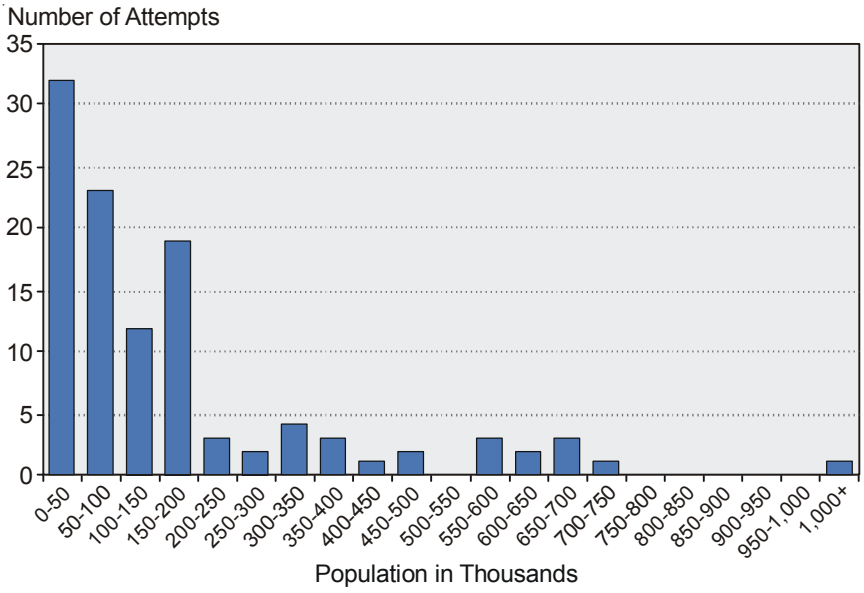
Suzanne M. Leland

City-County consolidation is when a county and the cities within a county merge to form a single government entity and boundary lines of the jurisdictions become coterminous. It is the most visible and comprehensive change that can occur in the local government landscape. Consolidation is also known as an "exotic local government reform," yet remains an "evergreen issue." While rarely adopted, it is a frequently discussed reform. The odds are long and are considerably against adoption.

There have been over one hundred attempts since 1970, but only 19 passages (a total of 38 governments). Figure 1 shows the distribution of these attempts by county size, while Figure 2 depicts their frequency by state. Figure 3 presents another perspective plotting the number of attempts chronologically. Consolidated governments make up only slightly more than 1% of all county governments and have an 85% failure rate via referendum. Ten cases have been enacted by legislatures as opposed to direct vote (New Orleans, UniGov) and twenty-seven have occurred by referendum, most recently Wyandotte County/Kansas City, Kansas and Louisville/Jefferson County, Kentucky.

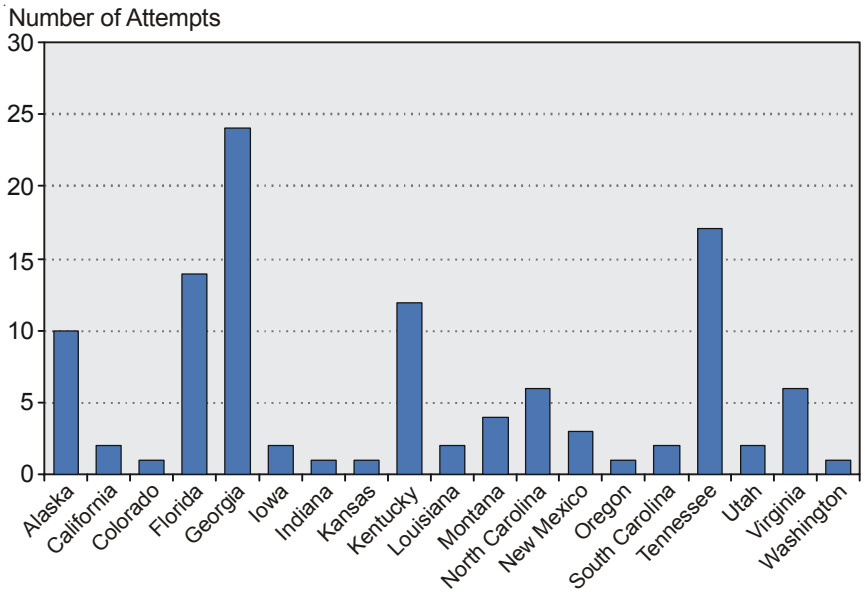
In 2004, Kurt Thurmaier and I studied what factors affect the outcome of an effort to consolidate two local governments. We, along with several authors who contributed case studies for a book project, analyzed in-depth 12 cases of city-

Figure 1. Number of Consolidation Attempts per County Size Since 1973



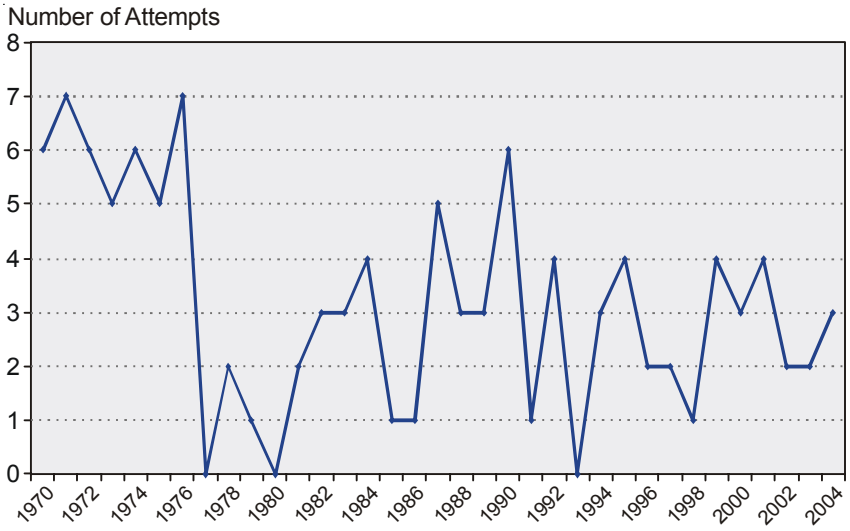
Source: Leland, Suzanne and Kurt Thurmaier. 2006. "Lessons from 35 Years of City-County Consolidation Attempts." The Municipal Yearbook 2006. Washington DC: ICMA.

Figure 2. Number of City-County Referenda by State Since 1970



Source: Leland, Suzanne and Kurt Thurmaier. 2006. "Lessons from 35 Years of City-County Consolidation Attempts." The Municipal Yearbook 2006. Washington DC: ICMA.

Figure 3. City-County Consolidation Attempts Since 1970

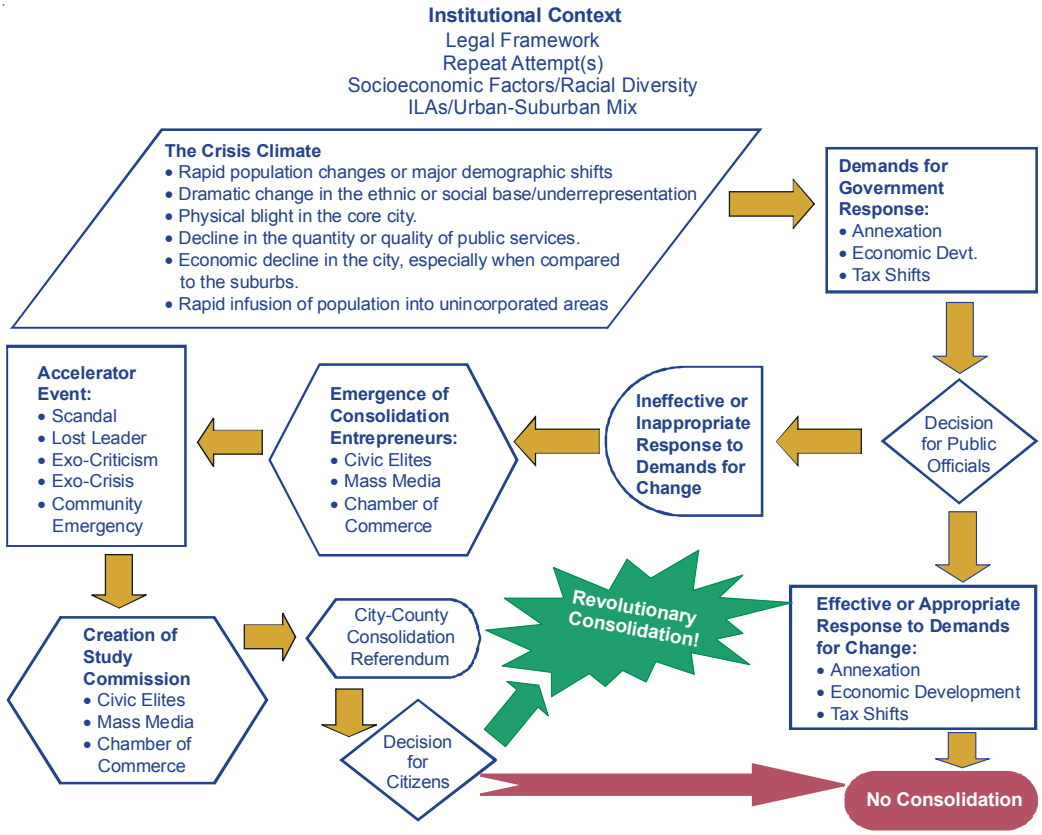


Source: Leland, Suzanne and Kurt Thurmaier. 2006. "Lessons from 35 Years of City-County Consolidation Attempts." The Municipal Yearbook 2006. Washington DC: ICMA.

county consolidation and one city-city consolidation that took place during 1970-2004. The goal was to determine which factors had the most influence on the outcome of the referendum process. Using a rigorous comparative case study design, we tested several hypotheses posited in the literature regarding critical factors in city-county consolidation referenda. Figure 4 presents the C^3 model of the city-county consolidation process that Kurt Thurmaier and I developed from this research.

The C^3 model synthesizes the existing literature and transforms the extended stages of consolidation attempts into a set of measurable criteria that apply to each of the consolidation movements that have

Figure 4. C^3 Model: Enhanced R & K Model



Source: Leland, Suzanne and Kurt Thurmaier. Reshaping the Local Government Landscape: Case Studies of Local Government Consolidation. Editors. M.E. Sharpe. 2004.

reached a referendum in the United States over the last fifty years. In brief, we expand and modify the basic crisis climate model developed by Rosenbaum and Kammerer in 1974. Part One focuses on elite agenda-setting activities that culminate (or not) in a consolidated government charter proposal that is presented to voters. Part Two focuses on the election campaigns for and against the proposed charter, culminating in the referendum itself.

Our analysis suggests four potential types of consolidation efforts. The probability of a successful consolidation referendum depends on the combination of campaign efforts for and against consolidation, as presented in Table 1. Our sample cases suggest that a successful referendum campaign is not about outspending opponents. In fact, in the cases we studied, pro-consolidation forces always outspent consolidation opponents in all failed referendum.

We found that successful consolidation campaigns are simply not about the traditional managerial reform values of economy and efficiency, nor about what new regionalists advocate—city-county consolidation to achieve equity between the inner city and suburbs. Arguments about efficiency gains from consolidation have fallen on deaf ears (as in Des Moines) or have been rejected or refuted by well-organized opposition campaigns (as in Sacramento). Arguments for equity also find little support.

On the other hand, a strong economic development message is a necessary but insufficient condition for successful consolidation referenda. Another necessary condition is the construction of a consolidation charter that restructures the local government(s) for economic development while avoiding crucial political "poison pills" such as including small towns or abolishing the elected position of Sheriff. Charter provisions are often at the center of the consolidation debate. Civic elites who have gotten the issue on the agenda and have pushed the process of consolidation to the point of a study commission, then need to carefully shift perspectives from development politics to constitutional politics, the politics of what the new unified government will look like and how it will work.

In sum, we find after extensive analysis of the referendum process, success lies in the ability of civic elites to define the economic development vision for the community. They then must build momentum in the community and successfully convince the average voter that the existing political structure is inadequate to support and implement that vision. Only then are conditions ripe for communities to turn to the rare solution of consolidation.

Table 1

Predicted Results for Combinations of Consolidation Campaigns		Strength of Pro-consolidation campaign	
		Strong Arguments (Economic Development)	Weak Arguments (Efficiency, equity)
Strength of Anti-Consolidation Campaign	Strong opposition	Louisville Kansas City Jacksonville Even Odds	Des Moines Wilmington Fail
	Weak opposition	Favorable Odds Athens Augusta Columbus Lafayette	Fail Knoxville Sacramento Tallahassee

Source: Leland, Suzanne and Kurt Thurmaier. Reshaping the Local Government Landscape: Case Studies of Local Government Consolidation. Editors. M.E. Sharpe. 2004.