

John Michael Hayden

Answering the Challenge

Ad Astra. To the Stars. Kansas has a rich tradition of reaching for mankind's highest goals.

As historian Carl Becker said in 1910: "The belief that Kansas was founded for a cause . . . lifts the history of the state out of the commonplace . . . and gives to the temper of the people a certain elevated" purpose and quality.

Kansas is not a geographical expression but a state of mind. Times may have changed but the Kansas character remains. Nowhere is that unique character more visible than in our dedication to the dignity of the family.

When I stood before you two years ago and delivered my inaugural address, I spoke of dreams and challenges: the dream of a better future for our children and grandchildren, and the challenge of making that dream a reality.

Today I return to that inaugural pledge. Our path toward this dream requires a commitment to solvency, scholarship and stewardship for all the citizens of Kansas.

This commitment has been the hallmark of my administration, and I will continue to pursue it:

Solvency, in the form of fiscal integrity and sound financial management;

Scholarship, through a continuation of our state's Margin of Excellence campaign and increased funding for public schools; and

Stewardship, social, economic and environmental--through new initiatives for our children and families, disadvantaged and elderly, through creative development of our economic potential, and through stringent protection of our environment.

The challenges which confronted us two years ago have not vanished. But our ability to meet those challenges has improved. We are a much stronger state today.

When I took office, state government faced a projected deficit of more than \$30 million. This year, the situation is vastly different. Together, we have transformed an ailing treasury. Fiscal integrity has been restored. We can meet our operating expenses without borrowing money. This year we will continue that success story.

In my 1987 State of the State Message, I said my objectives were twofold: first, I pledged to operate state government in the black; second, I asked for state tax reform. For the first time since 1967, the Legislature was presented with a rare opportunity for major Kansas income tax reform.

Last year the Legislature responded by enacting Kansas' most far-ranging tax reform package ever, returning a significant portion of the federal tax windfall to Kansas taxpayers. With caution and restraint, we delivered to Kansans the largest income tax cut in state history, while maintaining adequate reserves for our state.

In 1988, I recommended to you the first phase of the return of the windfall to Kansas taxpayers. Today, I am pleased to be able to recommend--in fulfillment of my pledges to you in 1987 and 1988--the second phase: full return of the federal tax windfall to the taxpayers of Kansas.

This year, we reap the dividends of last year's caution and restraint. Our fiscal conservatism has paid off. Today we step into a brighter future thanks to the hard work and sacrifices of the past two years. Let us continue this trend of fiscal and social responsibility.

Let us be stewards and not just spenders. For if we adopt a role of stewardship just as we do for our families, if we treat each dollar as if it were our very own, our success story will be one of the greatest chapters in Kansas history.

A Better Future

For Our Families

I. Solvency

Fiscal Integrity

The Success Story

When I took office in 1987, I had two goals. One was to restore fiscal integrity to state government. The second was to return to the Kansas taxpayers as many dollars as possible through tax cuts.

At that time Kansas was faced with a projected deficit of more than \$30 million and more than \$140 million in certificates of indebtedness. My administration responded by cutting the state budget and encouraging conservative spending.

As a result, we now have adequate reserves in our state treasury, the threat of deficit spending is a thing of the past and we have no outstanding certificates of indebtedness.

One measure of our fiscal well-being is our ranking among the 50 states in ending reserves as a percentage of expenditures--commonly referred to as fiscal integrity.

This budget is based upon the return of the windfall and the ability to pay our current operating expenses without borrowing money.

In 1978, we were seventh in the nation, in 1982, we ranked 28th, and by 1986 we had dropped to 33rd among all states. But under this administration we have significantly reversed that

downward trend. Last year we ranked 5th of 50 states in fiscal integrity.

Restoration of our fiscal integrity was important to all Kansans, and together we achieved it. It is a record of which we can all be proud. Consider the condition of other states which have had to borrow from their pension funds, go deep in debt or raise taxes to finance government operations.

I have always maintained that state government should operate like a family checkbook: do not spend more than you bring home and keep some in reserve for a rainy day.

We must avoid the approach to state government that has been evident in past administrations--exemplified by the issuance of certificates of indebtedness and dangerously low budget reserves. Since 1983, Kansas used this borrowing techniques five times in order to meet ordinary and current expenses. I liquidated the last of those certificates in 1987 and have not issued any since.

Sound financial management will continue to be the hallmark of my administration. Like a family planning its household budget, we must pay operating expenses as we go and always prepare for emergencies.

I believe the ending balances in our state treasury should be 10 percent of total state expenditures. This would leave a reserve of 5 percent for cashflow requirements and 5 percent for emergencies.

This is not a new suggestion, or even a high figure. But due to the spending habits of past years our necessary reserves dwindled, and they must be restored.

We have not yet achieved my goal of a 10 percent reserve, but we are making steady progress toward it.

By taking advantage of improvements in the Kansas economy to gradually increase our reserves for a rainy day, we are avoiding the financial crises which plagued the state in the past decade. You will recall that on four occasions since 1970 our reserves dropped precipitously. Each time the Legislature was compelled to raise taxes.

The budget I recommend this year was not achieved without difficulty. The task was to construct a budget that allows us to return the windfall and maintain fiscal integrity, without neglecting education, economic growth, social welfare, public health and all of the other vital obligations of state government.

This budget is based upon the return of the windfall and the ability to pay our current operating expenses without borrowing money. It also maintains a reserve of more than 8 percent. Our fiscal integrity has been restored.

Finally, it is important to note that with restoring fiscal integrity we were able to address quality performance in the basic functions of state government. These governmental duties have been efficiently provided by a team of competent and capable employees.

At the front line of our government mission is our state's civil service workforce. In recognition of their value and dedication, we have implemented continued reclassification for state employees. To date this has affected 70 percent of the classified civil service.

I remain committed to continuing the reclassification process as well as other measures to guarantee that our state workforce is a positive and productive team for Kansas.

Return

Of the

Windfall

Last year, Kansas was a leader in cutting income taxes. We cut taxes more than 47 other states.

Together, we accomplished the most sweeping changes to our state income tax code in its 55-year history.

- * Income tax rates were slashed;
- * Inequities were addressed through a rebate to our senior citizens;
- * Depressed family farms were given a boost with a sales tax exemption on new farm machinery;
- * Our ability to attract jobs to the state was enhanced through a sales tax exemption on new business machinery and equipment; and,
- * 105,000 low-income Kansans were removed from the state income tax rolls.

GOVERNOR'S PLAN FOR RETURN OF THE WINDFALL AND ADDITIONAL PERMANENT TAX CUTS

These recommendations fulfill my promise to return the federal tax windfall.

Many states have found that estimating their federal tax windfall can be difficult if not impossible. Kansas is no exception. In my 1987 message I said to the Legislature and the public that it is a highly speculative process. Quantification today is not much better.

The State Consensus Revenue Estimating Group has determined that \$135 million is the total of the federal tax windfall. This is a fair number and the best estimate.

I have promised to return the windfall. And while common sense and sound fiscal policy have dictated a delay, I will keep my promise.

Today, I am recommending nearly \$80 million in income tax cuts- -to cut taxes for all Kansans. The chart below does not include the 105,000 low-income Kansans we removed from the tax rolls last year.

IMPACT OF GOVERNOR'S TAX CUTS ON INDIVIDUAL TAXPAYERS

I am calling on the Legislature to enact these tax cuts and return the windfall by February 1, 1989.

Coupled with our tax cuts of last year, this recommendation completes the return of the windfall to the people of Kansas.

The greatest portion of these cuts will put more dollars back in the pockets of middle-income families who are struggling to educate, house, clothe and feed their children.

With the adoption of my tax cut proposal, for the first time in decades, our state income tax rates will be below 5 percent for Kansas families. I believe these tax rates will make Kansas even more attractive as a business location.

Kansas has made great strides in its job creation programs. One of the most important services we can perform for our children and grandchildren is to provide them a decent job when they are ready to enter the workforce.

Some might suggest we need to spend millions of new dollars for government programs to meet the objectives of economic opportunity and growth. But I believe the best thing government can do for economic development is cut taxes. Frugal but fair, I guess, best describe my approach.

I am calling on the Legislature to enact these tax cuts and return the windfall by February 1, 1989.

My income tax cuts include the following benefits:

- * Every taxpayer in the State of Kansas will receive a tax rate cut;
- * The windfall is returned through permanent tax cuts;
- * Tax simplification measures adopted last year are retained;
- * Our income tax system becomes even more competitive with our sister states, enabling us to attract more jobs to Kansas; and
- * Tax cuts are proportionally directed at middle-income families.

Taxpayer

Bill of Rights

The tax collection process of our state depends heavily on voluntary compliance by Kansas taxpayers. The vast majority of Kansans pay in full and on time.

Occasionally, however, tax disputes do arise. To assist taxpayers in dealing with such matters, I am proposing a Taxpayer Bill of Rights as a part of my legislative package.

Some taxpayer rights already are a part of Kansas law and will be codified with the additional guarantees we now propose.

Kansans deserve a tax system that is fair, stable, efficient, competitive and understandable. Of course, we will continue to vigorously pursue collection of taxes from those few who attempt to avoid their tax responsibilities.

This law will formalize our pledge to all Kansans that we will approach our tax collection duties not only with vigor, but with fairness and a large measure of common sense.

Taxpayer Bill of Rights

* Taxpayers shall have a right to be heard on tax matters--including the right to a prompt refund hearing on any disputed tax, penalty or interest and the right to professional representation at all stages of appeal proceedings.

* Taxpayers shall have a right to access to information regarding tax matters--including the details of the tax appeal process and the right to expect examination of their tax records during reasonable times and at reasonable locations.

* Taxpayers shall have a right to reasonable treatment concerning tax payment--including the prompt release of tax liens paid or filed in error; interest on tax refunds; cancellation of penalties under certain extenuating circumstances and, where appropriate, the opportunity to enter into installment payment agreements.

* Taxpayers shall have a right to rely on the professionalism of the taxing agency--where agency errors cause expense to a taxpayer, such loss may be recovered through abatement of interest caused by delays; abatement of interest and penalties caused by reliance upon written agency advice; and attorney fees and legal expenses where agency claims are substantially unreasonable as to the nature or amount of the tax claimed.

* Taxpayers shall have a right to expect agency integrity--including the confidentiality of tax records in accordance with state and federal laws and the assurance that no agency employee shall be paid, promoted, or in any way rewarded on the basis of the number or amount of assessments or collections.

Kansas Development

Finance Authority

The Kansas Development Finance Authority (KDFA) has continued to improve access to long-term capital markets for state government.

To this end, KDFA has issued bonds for such projects as parking garages, building renovations at Regents institutions, multi-agency equipment purchases and the expansion of the Ellsworth Correctional Facility. For the Ellsworth project, KDFA was able to use innovative financing techniques which resulted in a \$2 million reduction in debt service costs.

KDFA also is active in attracting new capital for local development projects. During the coming months KDFA will introduce new programs to offer low-interest loans to cities and counties for infrastructure improvements, and to small and medium-sized Kansas businesses.

Today, we are proposing legislation authorizing KDFA to issue bonds to finance energy-saving improvements to state-owned buildings. An initial program will target energy conservation improvements for approximately 50 projects and cost no more than \$5 million in FY 1990. The bonds will be repaid within five years exclusively from the savings in energy costs made possible by the new improvements.

Finally, we are proposing legislation to allow KDFA to initiate a low-interest loan program to help local community organizations expand facilities for the care and treatment of mentally ill and retarded persons outside of institutions.

II. Scholarship

Margin of Excellence

Partnership Act

The best possible Kansas for all Kansans depends on many partnerships. Partnerships between government, business, industry and agriculture are important, but a partnership that must be included and encouraged is the partnership between government, education and the private sector.

Neither economic development nor quality of life can occur without the best educational system possible.

I am proposing a comprehensive, seven-part Margin of Excellence Partnership Act.

To this end, I am proposing a comprehensive, seven-part Margin of Excellence Partnership Act.

Regents Institutions

In order to continue the state's commitment to higher education, I endorse the second year of the Margin of Excellence for unclassified staff and program enhancements. My recommendations will provide an average merit salary increase of nearly eight percent at the six Regents universities. This is a level of funding which will continue to make the universities competitive with their peers and other schools across the nation.

I recommend that funding be provided for the equipment and library needs of the institutions and that selected program enhancements be funded to support the defined missions of the Regents institutions.

In addition, I recommend that the Regents institutions' base operating budgets be increased by 4 percent, that student salaries be increased by 5 percent, and that \$1.3 million be allocated to the servicing of new campus facilities.

Washburn University

My Margin of Excellence Partnership Act is a comprehensive plan for higher education in Kansas. This plan will result in better coordination and planning for all of higher education.

A key component is the recommendation that the responsibility for the administration of Washburn University be transferred from the State Board of Education to the Kansas Board of Regents. Beginning in FY 1990, with a five-year phase-in, Washburn can become a Regents

institution.

This recommendation also provides for the phase-out of out-district tuition paid by the counties and townships of Kansas through local property taxes.

Washburn University is currently the only municipal university left in the nation. Yet in many ways, it is already a state institution.

The State provides more than 20 percent of the operating revenues, directly controls and restricts the University's local property tax levy capability, and more than 100 state statutes affect the operations of Washburn University. Yet there is no coordination of its services as they relate to the Regents institutions in Kansas.

This recommendation will consolidate governance of all four-year public institutions under one Board, improving oversight and coordination of higher education in Kansas.

The issue we face is not institutional competition for resources, but how we are to provide the best possible education for Kansans.

Community Colleges

The state community colleges continue to play an important role in the provision of continuing education to the citizens of Kansas.

I recommend a five-year phase-in of state funding for the community colleges--to reach 40 percent of the community colleges' operating budgets in FY 1994--and the corresponding elimination over five years of out-district tuition currently paid by counties. This will eliminate what has been a source of frustration to local governments which, on occasion, have had to issue No Fund Warrants to cover their costs because of the obvious estimating difficulties.

Private Colleges

Our state's private colleges continue to provide an important alternative to the public universities in Kansas.

In recognition of the difference in tuition costs at our public and private institutions, I recommend that Halve the Gap be funded through the Tuition Grant program to allow 1,350 students who wish to attend a private college to qualify for a grant.

Qualified Admissions

After several years of discussion, we have yet to establish adequate performance standards for admission to our Regents institutions.

Many students enter the universities poorly prepared for the rigors of university work, causing our institutions to dedicate resources to remedial courses.

The Board of Regents reaffirmed its endorsement of a qualified admissions program for the universities at its December 15, 1988 meeting. Such an educational reform would help guide students in their preparation for a college education, would establish standards for the secondary schools of our state, and would help improve the quality of our Regents institutions.

I strongly urge the Legislature to support a qualified admissions plan this session.

Regents Center

I am recommending funds for a proposed University of Kansas Regents Center to replace the 13-year-old Regents Center currently in existence in Johnson County.

The new facility would be able to serve more than 2,000 students, thus improving the quality and scope of programs offered. The university proposes to fund the project through a combination of private and corporate contributions, state money and student fees.

The KU Regents Center has long been a valuable resource for the Johnson County area. With the tremendous growth and development taking place in Johnson County, the role of the Regents Center and its contributions to the community are, in turn, expanding.

I command the University of Kansas for its efforts in striving to meet the growing higher educational needs of the area. My Secretary Administration will work closely with all parties to see that this project becomes a reality.

Institute for Aviation

Research

As part of our educational initiatives, I am recommending that state government participate in aviation research as we do in agricultural and oil and gas research, the three basic industries supporting the Kansas economy.

In recent years, the Institute for Aviation Research at Wichita State University has made dramatic strides toward national and international leadership in aviation research.

The Institute has attracted \$7 million in federal research contracts through the Federal Aviation Administration and the U. S. Army.

Construction of a new \$7 million facility for the Institute is underway and has been underwritten jointly by taxpayers in the City of Wichita and Sedgwick County and by private contributions from major aircraft manufacturers.

I propose that state government become a partner with the federal, local and private interests and make commitments to the Institute's research of \$150,000 for FY 1989, increasing to \$300,000 in FY 1990, in addition to other support services

Elementary and Secondary Education

The future of our state rests on the continuation of a sound educational system. Support of education for the youth of Kansas must remain a high priority.

For the first time in our state's history, my budget recommendations move state funding for local school districts over the \$1 billion mark.

For the first time in our state's history, my budget recommendations include more than \$1 billion in state aid to local schools

My recommendations for aid to school districts include:

- * \$45 million in new funding for school district equalization aid.

- * An increase in the income tax rebate from 20 percent to 22 percent of resident liability. This change will provide nearly \$15 million more in income tax rebate payments to school districts. This rebate of income taxes paid is a source of funding for every school district in our state and is a major revenue source for many school districts.

- * Funding for initiation of an At Risk Public Assistance program. The funds for this program will be used to identify at risk Kansas students who experience problems that interfere with their learning, school attendance, preparation for employment, or satisfactory progress toward graduation.

The level of funding I am recommending will equate to an estimated 45.3 percent of the total statewide unified school districts' general fund budget. The recommendations also allow for an increase in teachers' salaries of 4.25 percent.

My administration will also continue its partnership with schools to prevent and reduce drug abuse. To date, more than 80 percent of our schools are taking part in the Drug-Free Schools program.

This year I am recommending a substantial increase in funding for this effort. We will enhance our assistance to local school districts in implementing drug education programs, as well as additional funding for the Kansas School Team Teaching training program for drug education.

I also am recommending the establishment of Drug-Free School zones. I am asking the Legislature to provide for mandatory sentences for the trafficking of illicit drugs within 1,000 feet of a school.

We must not tolerate the selling of drugs to young Kansans. This new law would enhance our efforts to make Kansas the worst possible market for selling illicit drugs.

Increased Funding

for Libraries

My FY 1989 budget recommendation reflects increased expenditures from federal funds. A significant amount of these funds will be used for the state's adult literacy program.

My recommendation for FY 1990 would expand the part-time literacy coordinator position to full-time status.

For FY 1989, I recommend a supplemental appropriation of \$123,850 for aid to public libraries. This provides for an increase in state aid of five cents per capita.

In FY 1990, I recommend an additional five cents per capita in state aid to public libraries over the FY 1989 per capita recommendation.

My recommendation for FY 1990 also includes increases in state aid for the Kansas Library Network and Services for the Blind and Physically Disabled programs. State aid funding for the Kansas Library Network Program would increase to \$650,000 for the Inter-Library Loan Development Plan over the FY 1989 approved expenditures of \$600,000.

I recommend an increase of \$137,150 in FY 1990 as state aid funding for the six sub-regional libraries of Kansas to serve blind and physically disabled library patrons. This FY 1990 recommendation calls for \$320,000 in total state aid, compared to \$182,850 for FY 1989.

III. Stewardship

Rural

Health Care

Tort Reform

Beginning with the medical malpractice insurance crisis of the early 1980s, the escalating costs of liability insurance and civil litigation in Kansas have become a widely publicized problem--one that was not likely to disappear by itself.

Since 1985, the Kansas Legislature has recognized the severity of the problem and the need for reform. By overwhelming majorities and with bi-partisan support, it enacted, and two Kansas Governors approved, modest tort reform measures designed to hold down excessive liability awards and corresponding awards and corresponding insurance costs.

I support the people's right to vote on the important statewide issue of tort reform.

Today, key provisions of such corrective legislation have been declared unconstitutional by the Kansas courts, and other legislative enactments appear likely to suffer the same fate.

As a result, the problem has worsened. Liability insurance premiums have become prohibitive for some. Insurance carriers are refusing coverage or even to do business in this state.

Our rural communities seem to be the hardest hit and appear increasingly unable to provide adequate and affordable health care.

Businesses, large and small, are adversely affected, as are their employees and customers. The uncertainty and expense of our state civil liability system are impeding the delivery of health care services and discouraging economic development.

I have supported the tort reform measures enacted by the Legislature, and I believe the Legislature should have a constitutionally recognized role in solving this problem.

I believe that most Kansans and members of the Legislature agree. And when there is a dispute or question as to which branch of our state government should have authority in a certain area of the law, we traditionally turn to the voters to resolve the issue.

I support the people's right to vote on the important statewide issue of tort reform, and I encourage the Legislature to create an opportunity for the voters to be heard in the 1990 elections.

Nurse Scholarship Program

Quality and availability of health care is vital to all Kansans, but a critical shortage of nurses in Kansas is threatening our health care delivery system.

To encourage more of our citizens to enter the nursing profession, I am recommending the implementation of a Nurse Scholarship Program.

This program will be available to all students attending a public or private university or college in Kansas. The program also will be available to students enrolled in hospital-based diploma programs and at community colleges which have LPN programs.

In the first year there will be 250 scholarships available, in amounts not to exceed \$3,500 per scholarship. Fifty percent of the cost would be financed by a sponsoring hospital or nursing home and fifty percent by the State.

In return, the student must serve as a staff nurse at the sponsoring facility for a period of time specified in the scholarship contract.

Of the scholarships to be awarded, at least 100 will be for students sponsored by hospitals and nursing homes in rural areas, 50 will be for LPN students enrolled in community colleges and the remaining 100 will be awarded to students sponsored by any hospital or nursing homes.

Doctor Scholarship Program

I am recommending the Medical Scholarship Program for medical doctors and doctors of osteopathy be renamed the Doctor Scholarship Program.

I recommend \$1.5 million to finance 149 doctor scholarships. Of that number, 50 are new first-year scholarships, while 99 are reserved for second-year, third-year and fourth-year students.

To date, 323 doctors have initiated practice in underserved areas of Kansas upon completing the program. The 50 new scholarships recommended for FY 1990 are the maximum number permissible under the law.

More Equitable Reimbursements For Kansas Hospitals

Pressure on the health care delivery system in Kansas is coming from many directions. One of the problems threatening access to health care in our state is the current system of payments to hospitals under both the federal Medicare program and the federal-state Medicaid program.

The current Medicaid payment system pays hospitals at levels less than the cost to hospitals of providing care.

Therefore, I am recommending implementation of a new Medicaid reimbursement system. This proposal would add nearly \$10 million in additional state funds to Medicaid payments.

This recommendation addresses the problem of rural and urban hospitals which are not adequately reimbursed under the current Medicaid system.

At the federal level, my administration will continue to fight for a more equitable Medicare reimbursement system. The current system is highly discriminatory toward our rural hospitals and is jeopardizing access to affordable and adequate health care for our citizens.

Public Safety

Capital Punishment

For most of our state's history we have had a place in the law for capital punishment. It is a place reserved only for the most heinous of crimes--the murder of innocent human beings.

For such crimes as first-degree murder, killing of law enforcement personnel and drug-related killings, a swift and severe punishment is clearly warranted. Yet for more than a decade we have not had a legal procedure to adequately deter or punish even the most vicious and cruel killers among us.

Certainly, the death penalty is an issue of conscience and a matter about which reasonable minds and hearts may differ. But I know of no other issue on which our fellow Kansans are more united in their support.

As a legislator and now as governor, I have supported the enactment of a comprehensive and constitutional death penalty.

Again, I urge the Legislature to reconsider the issue. It is time for us to address the public need and respond to the overwhelming public sentiment for capital punishment.

New Corrections Facility

Over the past decade, Kansas has experienced a tremendous increase in the number of individuals incarcerated in its prison system.

Between 1980 and 1987, Kansas had the 10th highest rate of prison population growth in the nation. From the 1981 fiscal year-ending population of 2,666 inmates, the prison population exploded to 6,013 inmates by 1988.

Kansas Prison Population vs. Prison Capacity

The problem has not yet been resolved and the Court is poised to intervene further if we do not act.

This increase is the result of a combination of factors, all related to the public's very real and legitimate concern for public safety.

The enactment of more and tougher laws, the Court's more frequent use of incarceration and the imposition of longer sentences, plus the granting of fewer paroles are but three of the factors which contribute to the current overcrowding in the Kansas prison system.

In recent years, the Legislature has become keenly aware of the increase in our state's prison population and the impact of this increase on the facilities and personnel of the Department of Corrections. The Legislature has not ignored the problem and has taken action to address the issue.

The 1987 Legislature provided for 539 new inmate beds. The 1988 Legislature authorized an additional 1,000 beds. But despite these efforts the problem of too many inmates in too little space still plagues our state prison system.

On April 1, 1988, and again on December 23, 1988, the U. S. District Court addressed the issue of overcrowding in Kansas prisons.

Since the Court's order in April, the inmate population at the Kansas State Penitentiary has been reduced by 600. However, the Penitentiary's total remains 450 above its operating capacity.

The Kansas State Industrial Reformatory currently has almost 1,700 inmates--almost twice its designed capacity of 847 inmates. Most recently, the Court ordered that the Reformatory's population be reduced to not more than 1,303 by April 1, 1989. Even then, the Reformatory will be more than 450 inmates over its operating capacity.

These numbers clearly indicate that the problem has not yet been resolved, and the Court is poised to intervene further if we do not act.

Just as public safety was a factor in the creation of the over-crowding problem, so is it a consideration in its solution. The issue is whether we create sufficient and adequate space to incarcerate those in our prison system or whether we restrict the numbers of inmates so as to accommodate only the prison space we now have available.

In answering this question, public safety is again the controlling factor.

The new bed space which has been constructed in recent years has largely been used for the housing of minimum-security inmates.

The court-ordered reductions at the Penitentiary and Reformatory will soon limit those institutions to about one-half the population formerly confined there. This will mean that hundreds of inmates now confined at those institutions must soon be relocated.

These inmates will not be appropriate for release or placement in minimum-security institutions. New space must therefore be created.

To address this problem in both an immediate and long-term manner, I am recommending the construction of a new, multi-security facility.

The facility would house 750 inmates with expansion capabilities to 1,400, and be located in El Dorado, with Concordia as the next most attractive site. The total cost of the single facility is estimated at \$55.3 million. If a two-facility project were initiated, this would add an additional \$52.8 million to overall costs.

I am recommending that this institution be authorized and funded as soon as possible, to allow construction to begin so that the institution may be in full operation by July 1, 1991.

Automated Fingerprint

Identification System

One of the most essential services of state government is public safety, which includes protecting our citizens from crime. To this end, I recommend that we bring Kansas into the modern era of crime investigation and prosecution with state-of-the-art technology.

Technology is available today that creates a revolutionary impact on law enforcement's capability to apprehend offenders and solve crime.

The Automated Fingerprint Identification System (AFIS) is a high-speed computer system designed to search and match fingerprints from a crime scene against fingerprints on file at the Kansas Bureau of Investigation and the Federal Bureau of Investigation.

AFIS would allow a fingerprint to be quickly scanned and matched against the millions of other prints in the computer's data base. Approximately 75 non-federal AFIS sites in 28 states already have this capability.

I recommend \$3.7 million for capital outlay and support personnel for AFIS.

Initiatives Against

Drug and Alcohol Abuse

The abuse of alcohol and other legal drugs and the use of illicit drugs remains a tremendous

problem for this state and nation.

Experts estimate the financial cost to Kansans of alcohol and other drug abuse to be \$1.1 billion annually. The human cost in shattered dreams and families is truly incalculable. We know that this abuse undermines our achievements and saps our strength.

My administration will continue its vigorous leadership to prevent and reduce drug abuse in its many forms. It is a huge problem that demands a Herculean effort. But despite the size of this problem, it is not a hopeless fight and we are not helpless against it.

In the past two years, we have created many tools to assist us in our efforts:

- * More than 800 percent of our schools now participate in the Drug-Free Schools program;
- * We have banned tobacco use in our schools;
- * We have new, comprehensive DUI laws;
- * We have instituted the largest employee assistance program in this state's history; and
- * We have a nationally acclaimed drug testing program for state employees.

I am recommending a substantial increase in funding for our educational Drug-Free Schools program.

Our campaign against illegal drug pushers is paying off:

- * Local law enforcement agencies participating in our program arrested more drug traffickers in 1988 than were arrested by all the police and sheriffs departments in Kansas during the previous year;
- * More than \$1 billion of marijuana was destroyed by Kansas law enforcement agencies in 1988; and
- * Treatment services for indigent youth have been expanded significantly.

I intend to continue my strong support of these efforts and propose new initiatives to further improve the State's ability to address the problem of illicit drug use and alcohol abuse.

My administration is committed to utilizing available community resources in the fight against

drugs.

Consequently, I will sponsor a statewide conference on alcoholic families for teachers, counselors and other service professionals. And I will sponsor conferences to help community leaders identify and combat local substance abuse.

Toward a Drug-Free Kansas prevention grants to local communities will continue to offer much needed funding for innovative approaches to substance abuse problems.

Our seven regional prevention centers will continue to offer substance abuse outreach to families, churches, schools and other organizations.

I am recommending a substantial increase in funding for our Drug-Free Schools program, to help local school districts implement drug education programs, as well as additional funding for the Kansas School Team Training teacher drug education program.

We must look to Kansas youth to assist us in our efforts. My administration will establish a Governor's Center for Drug-Free Youth, to offer drug abuse prevention training for youth teams.

We must protect our youth from drugs. Therefore, I am recommending the Legislature provide for mandatory sentences for the trafficking of illicit drugs within 1,000 feet of a school.

This legislation would create Drug-Free School zones, sending a strong message that we will not tolerate the selling of drugs to the young people of Kansas.

Our universities also play a significant role in reducing the demand for drugs. I am proud to announce that all of our Regents institutions have joined the National Network of Drug-Free Colleges, making Kansas the first state to have made such a commitment.

To be successful, we must attack drug traffickers from all angles. Seizing the assets of drug pushers allows the State to cut the financial threads which support drug trafficking organizations.

Therefore, I am proposing a Criminal Audit Unit within the Department of Revenue, with specially trained auditors to review the assets of convicted drug traffickers.

These auditors would team with law enforcement officers to seize assets used in or acquired from drug trafficking.

To effectively combat drugs in our state, we must employ all available resources.

The Kansas National Guard will join our ongoing efforts to eradicate marijuana by training flight crews to spot marijuana fields from the air. Guard radar units will offer information and support to law enforcement officials by spotting unidentified aircraft landing on remote roads, fields or deserted runways.

I will continue to support the state and local Narcotics Enforcement Grant Program. Participating

police and sheriff departments have used these funds to implement innovative approaches to drug enforcement.

To complement existing drug education initiatives, the nationally known DARE drug education program--designed by the Los Angeles Police Department--will be brought to Kansas to train law enforcement officers and educators.

In my message to the Legislature last year, I requested a number of measures to combat drunk driving, I am pleased that the Legislature adopted these measures. Today they are law.

This new law has brought Kansas national acclaim and \$4.1 million in new federal funding.

This new revenue will be used to:

- * Implement a comprehensive system to track the sentences of DUI offenders;
- * Place new breath-testing equipment in local communities;
- * Provide state-of-the-art DUI training for law enforcement officers, prosecutors and judges; and
- * Initiate the largest public awareness campaign on drinking and driving ever mounted in the state.

Drinking and driving is a crime against all of us and will not be tolerated. I believe these efforts will lead to reduced drunk-driving, enhanced law enforcement and fewer alcohol-related traffic fatalities. In short, they will make our streets and highways safer.

Our new DUI laws have brought Kansas national acclaim and \$4.1 million in new federal funding to fight drunk driving.

Rehabilitation is another cornerstone of our efforts. Our program has greatly enhanced access to treatment, yet more must be done.

I have directed the Secretary of SRS and the Commission of Alcohol and Drug Abuse Services to undertake a drug and alcohol treatment study, with the goal of improving indigent treatment. I recommend that existing treatment services be continued, pending the results of this study.

Finally, I support legislation requiring alcohol and drug evaluations for those under 21 who are convicted of alcohol or drug violations. These assessments promise an effective method of early intervention.

Crime Victims

Bill of Rights

Victims of crime are entitled to more from our system of justice than they now receive. They are entitled to more than sympathy. They deserve respect, compensation where necessary, and a chance to be heard.

To ensure that our criminal justice system is responsive to the needs of crime victims, I join Kansas Attorney General Bob Stephan in proposing that the Legislature adopt a Victims Bill of Rights. This would guarantee victim access to needed health and social services, a right to be heard at critical stages of the legal proceedings, and a more adequate measure of redress and protection.

Victims of crime are entitled to more from our system of justice than they now receive.

Furthermore, I am recommending that the Crime Victims Reparations Board be placed under the authority of the Kansas Attorney General and that the Legislature authorize continued funding for direct assistance to the victims of violent crime.

I am convinced that these measures will further demonstrate that Kansas is a peaceable, just and compassionate place to live and rear a family.

Natural Resources

and the

Environment

Protection of our environment and wise management of our natural resources will continue to be emphasized in my administration.

We have made significant gains in these areas during our first two years, but much more remains to be done if our children and families of the future are to enjoy the quality of life, the healthy environment and the abundant natural resources that we wish for them.

Kansas has a long history of environmental stewardship, and this concept will continue to be a part of my administration. This stewardship must be based on sound ecological principles tempered by the reality that agriculture and industry play a vital role in the quality of our lives.

Environmental

Protection

Last year marked the first time in our state's history that significant funding to impalement the State Water Plan was recommended and approved. I recommended, and the Legislature supported, more than \$4 million in new natural resource initiatives, including:

- * Cleanup of sources of groundwater contamination;
- * Enhancement of recreational facilities on our lakes and rivers;
- * Measures to combat soil erosion; and
- * Protection of critical wetland habitats.

This year I am recommending additional measures to address those environmental problems we have inherited from the past. We must take steps now to protect the environmental legacy we leave to our children and grandchildren.

Therefore, I am recommending significant increases in funding to continue and expand the environmental protection efforts we began last year. Included in these efforts are:

- * A doubling in funding for the Water Resources Cost Share Program, which provides for land conservation treatment;
- * An increase in funding for the cleanup of hazardous waste sites in Kansas;
- * State funds to match federal funds for the Arkansas City Superfund toxic waste site;
- * Funding for the Jetmore Multi-purpose Small Lake Project and renovation of Ford County Lake; and
- * Major improvements to address the water delivery system within the Cheyenne Bottoms, a wetland area of international significance.

I have included numerous other enhancements of state environmental protection efforts throughout my budget.

Recreational Access and

Natural Resources

Management

Access to outdoor recreational facilities is an important factor in the quality of life for all Kansans. The State's small public land base--only about 3 percent of all land in Kansas is public property--limits these recreational opportunities.

Consequently, I recommend a voluntary Recreational Access Program to improve public access to private lands. Under this initiative, farmers who choose to lease their lands for recreation will have more income and limited liability.

Outdoor enthusiasts who wish to buy land-use permits will have access to thousands of acres of farmland that might otherwise be closed.

When I created the Department of Wildlife and Parks, the issue of natural resources was elevated to a position of prominence in state government. During the past year, the Department has successfully completed major restructuring.

I have been supportive of the interim legislative effort of complete recodification of wildlife and parks laws, and encourage quick action on this recodification bill.

State Water Plan

One of the most significant issues we face is funding for the State Water Plan.

Without enough water of adequate quality, we have no foundation on which to build and maintain our economic development efforts. We must have dependable and permanent funding to continue the phased implementation of the State Water Plan.

As I did last year, I am recommending that a portion of the lottery proceeds be used for natural resources. I am aware that there probably is no single source of revenue that will meet all the needs of the State Water Plan.

We must take steps now to protect the environmental legacy we leave to our children and grandchildren.

My budget reflects a mixture of funding for natural resources, including State General Funds. Environmental issues have not fared well in the past when competing with the needs of education, social services and other programs traditionally funded from the State General Fund.

I stress my willingness to work with the Legislature to explore additional funding sources to meet our long-term water resource needs in a fair and equitable manner. With long-term, stable funding, we can move aggressively forward in a number of efforts, including:

- * Aid to local communities in public water supply protection, sanitary codes, waste management and other preventative measures;
- * Control of non-point source pollution through increased targeted conservation land treatment; and
- * Management of underground storage tanks to prevent groundwater contamination.

Pilot Paper

Recycling Program

Throughout the nation, concerns about solid waste management are becoming increasingly urgent. Solid waste disposal costs are increasing as space in existing landfill facilities is depleted.

Environmental, geographical and political concerns make development of new sites difficult. We need to take positive steps to prevent a solid waste management crisis similar to those faced in other states.

Through responsible management of solid wastes generated by state agencies, state government can provide leadership and a model in constructive solid waste management practices. One such practice is recycling of solid wastes.

Other states have estimated that 50 percent of the solid wastes generated by their state agencies consists of paper. The Special Committee on Energy and Natural Resources has studied and endorsed the concept of a pilot paper recycling program.

Such a recycling program assists in extending the life of existing landfills, thus reducing the need for new sites, and conserves and protects natural resources.

For these reasons, I am directing the Secretary of Administration and the Secretary of Health and Environment to investigate paper recycling programs in other states and to establish a paper recycling pilot program within the Topeka Capitol Complex area.

I look forward to working with the Legislature in a spirit of positive, non-partisan cooperation to fulfill our responsibility for environmental stewardship. The generations of Kansans who will follow us deserve that commitment.

Children

and Families

Initiatives to Help Families

The future of our state's children and families has always been of paramount concern to my administration. As a father myself, I cannot help but consider our families to be our most precious asset, and our children our most critical investment.

Consequently, I appointed last year a Governor's Commission on Children and Families--to identify key problems and research proposed solutions in this very important area.

Because I place such value on the future of our children and families, and feel such a strong personal commitment to this issue, I asked my wife, Patti, to serve as co-chair of the Commission.

On December 1, 1988, the Commission presented to me its final report. The Commission did not attempt to address all of the problems facing our children and families. But the Commission's report is a strong beginning in this area.

Consequently, I endorse all of the recommendations for children and families, including:

* Expansion of the Maternal and Infant Program (M&I):

M&I serves low-income families by providing free pre-natal care for qualified expectant mothers and well-baby check-ups for infants up to one year of age.

* Expansion of the Healthy Start Program:

Healthy Start helps new parents with prenatal care, infant health care and healthy parenting techniques. Similar parent education programs have been found to be successful in reducing child abuse and improving infant health.

* An increase in both the rate of SRS child care reimbursement and the number of SRS-funded child care slots.

This would help low-income families find affordable child care by making SRS child care reimbursement rates more competitive with market rates.

* Expansion of the Special Supplemental Food Program for Women, Infants and Children (WIC):

WIC is a federally funded program that provides food to low-income mothers and children. Commission recommendations to expand the number of WIC participants by 5,400 are included in my budget recommendations.

* The amendment of Kansas law to classify the killing of a child by abuse as Class-A felony murder, and the creation of a new crime of aggravated child abuse, a Class-B felony, where child abuse results in serious or permanent injury:

While both child abuse and murder are already prohibited by Kansas law, following a 1988 Kansas Supreme Court decision, the death of a child as a result of child abuse is no longer considered felony murder.

I agree with the Commission that such a crime is so heinous as to support a charge of felony murder.

In addition, child abuse which is not fatal but results in serious or permanent injury to the child should carry a stiffer punishment than the current Class-E penalty for child abuse. Any individual convicted of child abuse which results in death or permanent injury deserves the gravest wrath of our judicial system. And I pray that stiffer penalties will help deter such senseless crimes.

Day Care

Business Tax Credit

Another Commission proposal which I endorse is the establishment of a Day Care Business Tax Credit.

This refundable tax credit would help Kansas families by encouraging private industry to become more involved in employee child care. Specifically, this proposal would create a special tax incentive for businesses which offer employee child care assistance.

Access to quality, affordable child care is a critical problem for Kansas families. I am recommending proposals to aid low- and middle-income families.

Businesses will qualify for this tax credit by providing various forms of child care assistance, such as:

- * Offering child care at or near the work site;
- * Offering flexible (cafeteria-style) benefit plans which feature child care as an employee benefit; or
- * Contracting with local child care centers for special employee discounts.

Improving

Foster Care

Finally, the Commission recommended a review of the State's foster care system. An estimated 5,500 children may be found in state custody on any given day, and the Kansas foster care system is under-funded to deal with this tremendous caseload.

Our families are our most precious asset and our children our most critical investment.

Because I feel so strongly about the plight of the thousands of children who enter our foster care system, I am taking the Commission's recommendation one step further.

I am recommending that funding for foster care be increased. My budget recommendation would

increase payments for foster care providers by 5 percent, and increase the number of eligible foster care recipients by nearly 4,000.

Programs For

Senior Citizens

Senior Care Program

There are many older Kansans who face difficulties in maintaining an independent lifestyle in their later years.

This difficulty often leads to inappropriate or premature institutionalization of senior citizens, and frequently exhausts the financial resources of these involved.

I am recommending the implementation of the Senior Care Program, to develop and deliver a coordinated system of homemaker and personal care services. This is a \$250,000 pilot program with a 50-50 match provision, for Kansans 65 years of age or older who have functional limitations which restrict their ability to remain in their homes and maintain an independent lifestyle.

Division of Assets

Helping protect access to adequate and affordable health care for our state's senior citizens has long been a top priority.

We have been aggressive in our attempts to preserve access to the kind of health care that our citizens deserve. A major accomplishment in this regard is last year's passage of a Division of Assets law.

This initiative allows a married couple to divide its income and assets in half when one spouse needs long-term care. This sick spouse then qualifies for help when half of the couple's resources are spent, leaving half for the well spouse.

Prior to enactment of the Division of Assets law, older Kansans were faced with the threat of seeing their life savings disappear when a spouse fell victim to a catastrophic illness.

This situation has changed. To date, more than 400 Kansans and their families have been helped by the Division of Assets initiative.

Older Kansans can now be assured that poverty need not accompany a long-term illness. Kansans are now allowed the dignity to live by their own means when a catastrophic illness strikes a loved one.

The swift and sure enactment of this program is an accomplishment that will continue to improve the overall quality of life in our great state.

Quality Care In

Nursing Homes

For those Kansans receiving long-term care in nursing homes quality care must be insured through proper regulation. I am concerned with the manner in which nursing homes in Kansas are regulated.

Currently, both SRS and KDHE are involved in the inspection and licensing of nursing homes in the state. This system is both cumbersome and ineffective.

We must streamline the inspection and regulation of our nursing homes, thus ensuring quality care for nursing home residents.

Consequently, I have directed that all duties for nursing home inspection and regulation be consolidated within KDHE. The Adult Care Home Program, the SRS component currently involved in nursing home regulation, will be reassigned to KDHE.

I also have requested a review of regulatory staff positions to determine which positions are performing duties no longer required under federal regulations. These staff positions will be reassigned to improve the state's inspection and complaint investigation process.

This centralization of nursing home regulation should improve the quality of care for nursing home residents and increase vigilance in inspections.

Agriculture

Implementation Council

for Rural Development

Much of our state is rural, and I understand both the problems and the aspirations of rural Kansas.

Last year I appointed a task force to study the problems facing rural Kansas communities, and to make recommendations on how state government should address these issues for the betterment of our state.

The task force's efforts were thorough and their recommendations to help rural Kansas were right on target.

I will be issuing an Executive Order appointing an Implementation Team whose task it will be to carry out as many of these recommendations as possible on rural health care, infrastructure needs, agriculture, economic development, youth out-migration and senior citizens.

On this team will be the Secretaries of Commerce, Aging and Agriculture, along with a representative from the Governor's office.

I am deeply committed to our rural communities, that they not only survive but thrive.

Promotion of Kansas

Products

State programs such as the highly successful Bloomingdale's promotion, the Celebrate! Kansas Food promotion, and the FROM THE LAND OF KANSAS trademark program have resulted in nearly \$4 million in new first-time sales and have assisted in generating an additional \$4 million in direct economic impact during the last year-and-a-half.

State programs such as the highly successful Bloomingdale's promotion have resulted in a direct economic benefit to Kansas of \$4 million in the last year-and-a-half.

The processing of raw Kansas agricultural products into value-added items has seen a

tremendous surge in activity. Entrepreneurs from across Kansas and established businesses from across the country have seized the opportunity to produce a wider variety of consumer goods from the crops and livestock raised in Kansas.

I am very proud of this expansion and what it has meant to the agricultural industry, to rural development and indeed to the entire economic health of Kansas.

The economic impact of this movement is nothing short of phenomenal. The initial processing of beef in Kansas adds nearly \$2 billion dollars to the state's economy alone.

This creates jobs, helps in rural development and gives a price advantage of \$1 to \$2 a hundred weight to Kansas farmers and feeders.

Wheat flour milling adds more than \$200 million to the value of wheat used and provides local marketing opportunities to our wheat growers. Marketing opportunities for new agricultural enterprises have been created by this movement.

Less than three years ago, a confectioner sunflower processing plant opened in Goodland, creating a local market for this type of sunflower seed. A second one is under construction in Colby.

The development of regional and national markets for our processed agricultural products is well underway.

A single processing plant can create tremendous economic opportunities. Less than three years ago Monfort of Colorado located a lamb processing facility in Harper. At that time, Kansas ranked 24th in the processing of lambs and 10th in the number of sheep and lambs on feed. Today, we rank 5th in both categories.

But perhaps most exciting is the entrepreneurial activity that is associated with food processing.

All across the state, food businesses are appearing. Some of these are taking old family recipes and commercializing them. Others are looking at local agricultural production and finding ways to add value to it.

One of Kansas' basic economic missions has always been to feed people. Today this spirit is expressing itself in renewed entrepreneurial activity.

There are presently 205 businesses that are part of the FROM THE LAND OF KANSAS program that promotes foods which are either grown or processed in Kansas. Two years ago, only 60 companies were involved in this program.

These results come from a total state investment of \$1.1 million--an 800 percent return on our investment!

This entrepreneurial spirit and drive is being shown by people like Doug and Carolyn Wright of Little River, who have created Cookies by Carolyn.

From a rented house in their central Kansas town, they are employing 10 people to make gourmet frozen cookie dough. Their business is less than a year old, yet they already are marketing their product regionally and have plans to enter the national market.

Their story and dream is being lived by other Kansans who are processing and marketing sauces, soup mixes, bakery products, speciality meats, snack foods, fruits, vegetables and other items.

This living of the American Dream is what has made Kansas great. We must encourage it.

Over the past two years, we have pursued the development of international markets for our agricultural products.

We have experienced excellent success in the sale of breeding livestock to Latin American countries, particularly Mexico. This effort is continuing.

By increasing the amount of breeding livestock available to Latin American countries, we increase the market for Kansas grains as these countries buy more grain to feed their cattle.

Kansas has been successful in working with the Republic of China on Taiwan on sales of wheat, feed grain and livestock. These efforts will continue to be aggressively pursued.

We also must look to new, non-food uses of agricultural products. These include the manufacturing of building materials from wheat and milo, plastics from corn and ink from soybeans.

State government has an obligation to support these innovative uses of the agricultural products we so abundantly produce by providing visibility and assistance where feasible.

Valued-Added

Processing Center

I support funding of the value-added processing center, a place for processors of agricultural products to receive technical assistance.

Located at Kansas State University in Manhattan, the center would provide a point of contact for

food entrepreneurs and companies which are having technical difficulties in production.

Such technical difficulties might include problems with the shelf-life of a product, or with packaging or producing a consistently high-quality product. This center would utilize the resources available throughout Kansas to solve such problems and help our businesses meet the needs of the marketplace.

Permanent Sales Tax

Exemption On

New Farm Machinery

In 1988, I signed legislation enacting a sales tax exemption for a new farm machinery purchased in Kansas. This tax exemption was granted for one year only.

My budget recommendations call for making this tax exemption permanent. This recommendation provides for on-going support to our state's struggling agricultural sector.

Economic

Development

Venture Capital

and

Community Revitalization

Economic development continued to move forward in 1988, with a record number of jobs created. Today, Kansas has nearly 50,000 more jobs than one year ago.

The Department of Commerce, in its second year of operation since reorganization, forged ahead with new programs and economic development tools provided by the Legislature.

The Community Development Division worked closely with the Governor's Task Force for the

Future of Rural Communities and identified several needs to be addressed by the state to insure the revitalization and future of our rural communities.

The establishment of a rural assistance center within the Department of Commerce to identify administrative and professional support to increase community competitiveness is a major component of the task force's recommendation. I endorse the task force's recommendation for creation of a rural assistance center.

Program elements of the rural assistance center include:

- * development of a rural assistance data base;
- * establishment of a referral service to aid rural communities; and
- * coordination of existing and new programs for rural development.

In addition to a focus on rural development, small community improvement programs continue to be an important part of the Commerce Department's service to Kansas.

One of the most significant industrial recruitment announcements of the year was UARCO's printing plant located in Eudora. The Small Cities Block Grant Program provided approximately \$16 million in grants and loans to small cities throughout Kansas for community improvement and economic development. The Main Street Program bolstered community improvements through the addition of the Small Cities Demonstration Program, which provides downtown revitalization assistance to cities under 5,000 population.

A new program now being implemented, the Kansas Partnership Fund,

The start-up, expansion and retention of small business is critical to the Kansas economy.

provides loans to cities and counties in financing public infrastructure improvement projects to aid the expansion, relocation and attraction of Kansas basic enterprises. The State's Existing Industry Division, which includes six regional offices, provided technical assistance and referral to more than 2,000 existing and potential Kansas businesses in the last six months of 1988. This assistance came through programs such as: first-stop clearinghouse, finance packaging, and minority advocacy.

The start-up, expansion and retention of small business is critical to the Kansas economy, as shown by the Department's commitment to programs such as the venture capital program.

During the past year, the Department certified 12 venture capital companies and one local seed capital pool, totaling approximately \$23 million in venture capital. Several more funds are likely

to be certified in 1989.

A computerized network is being established to match potential projects with appropriate venture capital companies.

The Department also sponsored capital conferences to match emerging small businesses with potential investors. The certification of Kansas venture capital funds is one step toward enhancing the availability of capital needed for business growth.

A More Competitive

Business Tax Code

In the major income tax reform bill enacted last year we made sweeping changes in our tax code, including enhancements of the overall business climate in Kansas.

This legislation exempted manufacturing machinery and equipment from the sales tax, sending a strong signal to Kansas businesses that we want them to remain in Kansas and to expand in Kansas, creating jobs and economic opportunities for our citizens.

The package of tax reform carried many other items as well. One of those items was the imposition of an alternative minimum tax. Recently, the Interim Legislative Committee on Assessment and Taxation recommended the repeal of this tax. My budget recommendations concur with the legislative committee's proposal in this regard.

Classification and

Reappraisal

In 1986, Kansas voters adopted a constitutional amendment providing for classification of property for purposes of property taxation, and with this adoption initiated local, county reappraisal of all property in Kansas.

These actions represent fundamental and historic changes in the administration of the property tax in Kansas and will take effect this year.

As a result of these changes, effective January 1, 1989, we have:

* Eliminated the property tax on business and farm inventory and thereby enhanced the business climate in Kansas;

* Protected homeowners and farmers from major tax shifts by reducing the value on which residential and agricultural properties may be taxed; and

* Limited property tax increases by placing a one-year lid on property taxes levied by cities and counties.

As a result of classification and reappraisal, however, certain properties in Kansas will experience significant property tax increases this year.

Last year I recommended substantial increases in state funding of education to help relieve local property taxpayers from the burden of educational finance, and these proposals were adopted by the Legislature. I also recommended the establishment of a Shock Absorber Fund to soften the impact of these increases. However, the Legislature failed to enact this legislation.

I am again recommending substantial increases in state funding of education and other forms of aid to local government to lighten the financial load on property taxpayers. Also, in recognition of the overall burden and responsibility placed on county government, I am proposing a continuation of state funding of one-half of the counties' administrative costs in maintaining the local data base.

In addition, as the full effects of classification and reappraisal become known, I urge the Legislature to monitor the situation and work with my administration in finding ways to alleviate the adverse impact of classification and reappraisal.

Transportation

Rail Abandonment

Closely tied to problems of providing adequate maintenance for our existing highways is the growing problem of rail line abandonment. Since 1980, Kansas has lost more than 500 miles of railroad.

An additional 290 miles of track are approved for abandonment. In addition, there are 361 miles in the process of being abandoned.

Given the current trend, it is quite likely that the state could lose an additional 1,000 miles in the next five years. Each mile of rail line abandoned increases the use of heavy trucks to move

freight previously moved by rail and places an additional hardship on many of our struggling rural communities and businesses.

Last Fall, I asked various state agencies to provide me a report on the extent of the problem of rail abandonment and outline action being taken to address the problem.

Based on the presentation by that inter-agency group, I recently ordered a comprehensive, six-month study to determine what state assistance options are available and the estimated costs of the various options.

I believe state government can and will play a useful role in a cooperative effort to reduce or moderate the effects of rail abandonments.

Highways

We depend on highways in all 105 counties of this state. Our roads and bridges are the economic lifelines of Kansas.

The needs of our highway system are a responsibility we can no longer ignore. The current level of annual maintenance on our roads and bridges is inadequate.

And even this level of maintenance cannot be funded through the next fiscal year without legislative action.

There is a large and growing disparity between highway revenues and highway needs. Our highway system grows old and its needs for repair and maintenance become more extensive and costly.

Comparison of Kansas Highway Revenues and Expenditures

The needs of our highway system are a responsibility we can no longer ignore.

In addition, the use of our roads both in terms of frequency and magnitude continue to increase, accelerating the rate at which the quality of our highways decline. Revenues have not increased to keep up with the needs, due to two key factors:

Kansas drivers in general are driving more fuel-efficient cars. Because these cars use less gasoline, the State's collection of motor fuel gallonage tax has not kept pace with needs; and

The smaller, lighter cars qualify for lower vehicle registration fees.

Thus, two major sources of highway revenue--gasoline taxes and vehicle license tag fees--are not sufficient to meet our state's escalating highway needs.

I am encouraged by the State Legislature's responsible actions last year to meet this challenge. An excellent interim committee gave serious consideration to all aspects of this issue. The legislative committee's bi-partisan cooperation speaks well for the potential for finding a solution in this legislative session.

The highway issue transcends partisan politics. We can and must continue to work together, as the interim committee did, to address the need for improved highways.

Based on a detailed needs assessment of the Kansas highway system by the state Department of Transportation the interim committee recommended a comprehensive highway program to address specific deficiencies in the Kansas highway system.

I agree with the interim committee improvement in highway maintenance. There is no point in talking about new highways until we have a plan to maintain the roads we already have. We need to establish an adequate level of maintenance funding through FY 2000 to stop the decline of our state road systems total some 10 times that amount! Consequently, I too support substantial increases in our level of highway aid to cities and counties because of their needs and deficiencies.

And finally, I endorse funding for road enhancement projects. Sometimes called debottleneckers, these projects would improve public safety, relieve congestion, improve access to, and the transaction of business in and between, our cities of commerce.

Another element of the interim committee's report, and one which I proposed and continue to endorse, is additional funding of transportation programs for elderly and disabled Kansans.

The interim committee recommended additional tax revenues, and I commend the committee's recommendation for a phased increase in the motor vehicle fuels tax and an increase in vehicle registration fees.

I generally concur with the committee's recommendation to transfer to the state Highway Fund an amount equivalent to 10 percent of sales tax collections.

However, I have a strong preference to stay with out traditional user fee concept, and thus encourage the Legislature to consider, as an alternative, increasing the transfer to 100 percent of sales tax collections on new and used vehicles.

I am directing the Kansas Department of Transportation and the Kansas Development Finance Authority, under the direction of the Secretary of Administration, to investigate a more sophisticated financing plan to mitigate or eliminate the sales tax increases.

The legislative committee's bi-partisan cooperation speaks well for the potential for finding a solution to our highway needs.

We know that highway improvements will mean immediate construction jobs for hundreds of Kansans.

Economic Lifelines, a group of Kansas leaders formed to educate the public about state highway needs and to urge support for a legislative solution, has noted that while highways cannot guarantee economic growth, the lack of access to first-rate roads dooms an area to economic decline.

I have long supported a comprehensive highway program and with the above recommendations, I endorse the interim committee's proposal.

Forward in Cooperation _____

The past two years have been years of great progress for our state. Budgets are no longer awash in red ink. Our state treasury is no longer on the critical list.

Thanks to the bi-partisan spirit of cooperation from the Legislature, Kansas no longer is forced to issue short-term debt just to meet on-going state obligations.

Our treasury is in remarkable shape, allowing us to return the remainder of the federal tax windfall and to make the sound investments our citizens deserve in the areas of education, transportation, health care and other important state obligations.

The recommendations I have made for our state represent my best judgement and were developed with the sound advice and counsel from many in our state. Legislative leaders, both Republican and Democrat, were consulted in the shaping of these recommendations.

Also incorporated in these recommendations are the suggestions and ideas generated by citizens from across this state. By traveling to every one of our state's 105 counties I have listened to the advice and concerns of the people of our state.

I have also used history as a guide, taking a page from our past as written by such great leaders as Dwight Eisenhower and Alf Landon.

For it is Kansans such as these who envisioned the future of Kansas which we now enjoy. The Kansas heritage of freedom and opportunity for our children and grandchildren is a tradition which must continue.

Let us build on that tradition in a spirit of frontier cooperation and perseverance.

A commitment to families is the set of my sail.

By working together, new chapters to the Kansas success story will surely be written. Our responsibilities are great, but our path is clear. As Ella Wheeler Wilcox said, "It's the set of the sail that decides the goal and not the storms of life."

A commitment to families is the set of my sail. After all, that's what it's all about.

Let us keep to the path we have begun and the best days of Kansas will be yet to come.

Ad Astra.

Transcribed from: State of the state message: Mike Hayden, Governor, January 9, 1989.

[Topeka?, Kan. : Governor's Office?, 1989]

Transcription by Rita Troxel.

Images provided by Kim Harp.

Editing and html work by Victoria A. Wolf,

State Library of Kansas, October, 2006