

John Michael Hayden

STATE OF THE STATE: ANNUAL MESSAGE TO THE 1988 LEGISLATURE

Mr. Speaker, Mr. President, Mr. Chief Justice, colleagues and friends:

It is a great pleasure to appear before you this evening. As I stood before you a year ago we marked the beginning of our administration. I stated at that time that I accepted the responsibilities of the Office of Governor with eagerness to serve for the benefit of all Kansans, seeking bipartisan cooperation in meeting the obligations of the office.

In the last twelve months, we sought and received your cooperation in many endeavors that have indeed benefited the people of Kansas. For that, I express my deep gratitude.

I meet with you tonight to fulfill my constitutional obligation to report on the state of our state. In doing so, I want to reflect upon those accomplishments that have been made during this first year, assess the needs which still exist, and give you my recommendations for their resolution.

I am aware, as I am sure are you, that your efforts in this legislative session will occur against the backdrop of an election year. Already we have seen reports that the next ninety days will be marred by partisan division and electioneering.

We must not allow such predictions to come true. Assuredly, there is ample time after this legislative session is complete for each, if so motivated, to carry on the partisan campaign.

The task before us is public policy, not politics.

Let us embark on a course barren of partisan bickering, choosing in its place a course of responsive and responsible statesmanship for the people of Kansas.

I look forward to working with each of you in ensuring that course be followed.

A Year of Progress

1987 was a year of great progress for Kansas. I sought and received legislative support for numerous initiatives.

Our major goals for the 1987 legislative session were to restore fiscal integrity, implement the constitutional amendments, enact a constitutional capital punishment bill, and establish a Kansas Department of Wildlife and Parks.

These goals were, in large measure, accomplished. Our fiscal position has been greatly enhanced over the course of the past year. Our progress in this regard is unparalleled in recent history.

According to the 1987 Fiscal Survey of the States, on July 1, 1986, Kansas ranked thirty-fourth among all fifty states in terms of state fiscal stability. Actions recommended by me and agreed to by the Legislature last year enhanced that ranking to eighteenth in the nation by July 1 of 1987. The same fiscal survey moves Kansas into the top five among all states by the end of this fiscal year.

I applaud the Legislature for its courageous actions in working to restore fiscal stability to state government. Together we charted a new course for fiscal integrity. By embarking on this financially sound course, we now find ourselves better prepared to meet the demands of our citizens in education, public health, social services, and other primary obligations of state government.

In this regard, we have put an end to the previous practice of borrowing to meet ongoing state obligations. Five times in the past five years the state was forced to borrow to keep the state operating. I am pleased to report today that no certificate of indebtedness will be required in the current fiscal year. Sound financial management has put that practice to an end.

Among top priorities for the legislative session in 1987 was timely enactment of legislation implementing the constitutional amendments adopted by Kansas voters in 1986. These amendments authorized a state-operated lottery, liquor-by-the-drink, and parimutuel wagering.

I signed into law House Bill 2043, implementing the Kansas Lottery, on March 12; Senate Bill 141, implementing liquor-by-the-drink, on April 15; and House Bill 2044, implementing parimutuel wagering, on May 5.

Upon receiving statutory authority to implement these new ventures, my administration moved swiftly yet deliberately in establishing these operations. My commitment to the citizens of Kansas has been that these new ventures operate in a manner that is beyond reproach and in the best Kansas tradition.

Implementation of liquor-by-the-drink on July 1 represented the most sweeping revision of our state's liquor laws in one-hundred six years. I am extremely pleased that this change took place in an orderly fashion, with rules and regulations assuring that essential controls were in place.

The first game of the Kansas Lottery was initiated November 12, one year after Kansas voters adopted the lottery amendment. On its first day of operation, an estimated 2.1 million tickets were sold. In the first week, 7.8 million tickets were sold; in the first month, 12.1 million were sold. A second instant game was initiated December 30, and ticket sales have continued to exceed estimates.

Successful lottery implementation has paid early dividends to the state. Thirty percent of the money collected from ticket sales will go to the state treasury to help fund economic development initiatives, property reappraisal, and improvements in state correctional facilities designed to alleviate overcrowding. On December 4, the first installment of \$2.5 million was returned to the state for these purposes.

And, finally, parimutuel wagering is moving forward under the guidance of five outstanding Kansans who comprise the Kansas Racing Commission. These individuals hold the credentials to assure Kansans that horse and dog racing in the state will be "squeaky clean."

One of the greatest steps in state history concerning the management of our natural resources was taken last year with the establishment of the Kansas Department of Wildlife and Parks. This new department was established by merging operations of the Kansas Fish and Game Commission and the Kansas Park and Resources Authority. Legislative acceptance of this executive reorganization order, the first successful departmental reorganization in eleven years, cleared the way for a new and exciting chapter in our Kansas outdoor heritage.

Under the skillful guidance of a new secretary and the Kansas Wildlife and Parks Commission, the new cabinet-level department is operating smoothly and efficiently. The path this new department is charting will pave the way for future generations to enjoy and appreciate our precious Kansas natural resources.

Enhancing economic development in Kansas was another major achievement in 1987. The Kansas economy began a slight upturn. State revenue estimates are ahead of projections. The rate of unemployment for 1987 declined from 6.4 percent in January to 4.3 percent in October, with September experiencing the lowest rate since 1981. In June, Kansas established a record level of employment with the most people employed in state history. Over 13,000 more Kansans are working today than were working one year ago.

Although these indicators show improvement, three major segments of the Kansas economy remain troubled. The general aviation industry has not rebounded from the national economic downturn that occurred earlier this decade. Our state's oil and gas industry remains plagued by volatile market conditions. And agriculture, while expected to improve slightly in 1988, also remains depressed by global factors.

The past year has been a year of implementation and adjustment in the economic initiatives and programs established in the 1986 and 1987 legislative sessions. I am pleased to report great progress has been made by those agencies assigned to address our state's economic development needs.

Kansas Inc. Has matured and begun the work of setting a strategic agenda for the Kansas economy. Through this cooperative venture of public and private sectors, priorities have been established, and research on the tax structure and other major issues affecting economic development in Kansas has been conducted. The board of Kansas Inc. will continue overseeing the implementation of economic development initiatives as well as identifying specific ways in which Kansas government can work cooperatively with business within the state. I will continue to look to this important body for policy guidance and strategy that best advances our state's economy.

The Kansas Technology Enterprise Corporation (KTEC) shares a similar success story. After completing its national search and selecting its president, KTEC has developed a business plan for guiding the agency in both the short and long term. KTEC is dedicated to encouraging the

transfer of advances in science and technology into commercial products. During this past year, KTEC has approved twenty-one research matching grants and established guidelines for the implementation of seed capital initiatives, incubator programs, research on small business innovation, and possible expansion of Centers of Excellence within our state.

A third entity, the Kansas Development Finance Authority (K DFA), began operations in the second half of 1987 and has already concluded two successful projects, including the purchase of equipment and office space for state government. These financings have attracted highly competitive rates from investors in Kansas and surrounding states and will reduce state government's expenditures over the next few years by nearly \$4 million. Leadership of K DFA is now exploring other options to encourage private development in Kansas and to provide an avenue for meeting state obligations in more cost-effective ways.

A reformed Department of Commerce has been in operation for only one year but has already established programs assigned by the legislature and implemented many new innovations for improving economic opportunity in Kansas.

The Existing Industry Division has opened six regional offices, developed a venture capital program, and completed a business retention survey in the state. Small businesses are the backbone of the Kansas economy, and we intend to continue emphasizing this priority. We seek to retain those businesses we have and, if possible, expand them in the future through cooperative relationships between private and public sectors.

The Industrial Development Division has taken the initiative during the year to place Kansas in a competitive position for attracting new industries. We have already seen positive results of the cooperation among the state, local government, and new industries considering Kansas as a location. In one instance, a combined recruitment effort between state and county officials attracted a new business and 500 new jobs to a small Kansas community. Another successful effort was the recruitment of the Best Western reservations facility into Wichita, winning out over such large metropolitan areas as Atlanta.

On January 12, 1987, concurrent with the initiation of the Department of Commerce, a new Trade Development Division was established, and for the first time Kansans have a single agency to assist in selling their products within the state, outside the state, and around the world. The new organization is already paying dividends. For example, a working relationship with the Daiei Department Stores in Japan has created a high level of activity in promoting Kansas beef as well as other Kansas products.

On the domestic side, Bloomingdale's Department Store in New York has agreed to feature Kansas for a six-week promotion this spring. This program will allow Kansas to showcase its products as well as its heritage and culture. These opportunities will undoubtedly provide capabilities for Kansas producers to enter the marketplace on a national and international scale.

Community development and improvement projects targeted to economic growth during 1987 will have long-term impact on Kansas communities. Approximately \$16 million in grants and loans has been provided to small cities throughout Kansas in the areas of community

improvement and economic development. In addition, the PRIDE program has seen extensive participation with eighty-seven cities now enrolled. The Main Street program has bolstered community improvement in a number of cities, as well.

A highly successful travel and tourism program was also launched last year. Known as "Linger Longer," more than 5,000 individuals from outside our state took advantage of a promotional program encouraging travelers to visit a state attraction, eat at a Kansas restaurant, and stay overnight in the state. Research indicates that seventy-one percent of the 5,000 participants stayed longer in Kansas than originally intended.

To assist in the development of future programs in the travel and tourism areas, the new Travel and Tourism Commission created by the 1987 Legislature is already working to identify additional opportunities for enhanced travel and tourism.

The legislative and administrative accomplishments outlined above will have long-term impact on Kansas. Equally important are steps this administration has taken over the course of the year to prepare for the future. Although no agreement has yet been reached by lawmakers regarding a comprehensive highway program, our nineteen-member Highway Task Force devoted many long hours toward identifying the problems facing our state highways.

This task force was assembled early in the year and immediately set out to assess the depth and severity of our state's highway problem. By establishing this task force and focusing attention on this matter, we have defined the needs and laid the foundation for lawmakers to take the necessary action to improve our state highway system. The work of this task force has been a wise investment in our future.

Another early step taken by this administration was the establishment of a special state task force on AIDS. Operating under the direction of Lt. Governor Jack Walker, this group of Kansans worked diligently, documented the scope of the AIDS problem in Kansas, and identified areas in which state resources could best be targeted in combating this dreaded disease.

In August, a task force of top financial managers in Kansas was assembled to investigate ways of improving the financial management of state government. While their efforts are still underway, early indications are that this team of private sector managers will be able to find better methods of financial management in state government. I look forward to receiving their recommendations and implementing those which enhance economy and efficiency in state government.

Before the end of the current fiscal year I will be establishing a special commission on children and families in Kansas. Problems affecting our children and families deserve special attention, and the charge to this special commission will be to help elevate these issues on state government's agenda. I want this commission to target the most vulnerable children and families and to help prepare state government's response to their needs.

Selection of the members of my cabinet was a task I considered to be among the most important I undertook in 1987. I could not be more pleased with the outstanding individuals who have agreed to put their experience, skills, and expertise to work for Kansas. Our state now has

assembled a cabinet which is second to none in qualifications and willingness to work in behalf of all Kansans.

Limited room in this document does not allow me to highlight the impeccable credentials these individuals hold. However, my office will soon be making available a directory of the cabinet with narrative describing their backgrounds. A copy of this document will be made available to each of you.

Both individually and collectively, the members of my cabinet are dedicated to serving the public interest. To that end, I can assuredly speak for them in offering our full assistance and cooperation as together we work for the best interests of our state.

Upon taking office a year ago, I set as one of my chief personal goals being accessible not only to lawmakers, but to Kansas citizens as well. Despite growing demands on the Office of Governor, I am pleased to have made significant progress on this goal. On eight occasions during the year I have set aside days and opened the doors of the governor's office to the citizens of Kansas through a series of "Tell the Governor" programs. During each of these sessions members of the public who would not ordinarily have the opportunity to tell the governor their concerns or ideas did so. I heard from state employees concerned with work conditions, from farmers agonizing over federal farm programs, and from teachers interested in improving the job we do in preparing children for the future, to name just a few.

I remain firmly convinced that the most important tool I have available to be me is listening to the thoughts and ideas from the grassroots. My "Tell the Governor" programs will continue, and the thoughts and concerns I hear will be used in helping this administration govern.

I also believe in an open door policy for the members of the Kansas Legislature. Last year I blocked time on my schedule during the legislative session to listen to members of the legislature, both Republican and Democrat. This year will be no different. I want to work closely with lawmakers on both sides of the aisle to address the problems that face our state.

1987 marked the beginning of what I hope will be a most productive term as your governor. With your help, guidance, and support, progress was made on several fronts. I seek your continued advice, counsel, and support as we move forward in meeting the needs of Kansas and her citizens.

Tax Cuts Through Reform

The 1988 Kansas Legislature is presented with a rare opportunity to achieve an historic reform of the Kansas tax structure. The federal Tax Reform Act of 1986 has created a need for state tax reform and set the stage for change. Federal reform has made our income tax significantly more complex for Kansas taxpayers and creates certain inequities that must be addressed. We must respond to these changes if we are to have a tax structure that commands the confidence of our citizens and raises the revenues required to meet the fundamental obligations of state government. With the return of stability and integrity to the fiscal position of our state, the time is right to address the reform of our tax structure.

The tax reform plan I am recommending was developed by the Governor's Task Force on Tax Reform. This bipartisan group, which consists of key legislators from the tax committees as well as private and public sector tax experts, has analyzed our tax structure fully over the last year. This task force has developed a sound plan that holds many benefits for Kansans. This plan is based on the following fundamental principles:

- Tax reform should simplify our tax code. Tax laws must be understandable to our citizens, minimize the costs of compliance, and facilitate fair, efficient enforcement.

- Tax reform should improve the equity of our tax structure. Steps should be taken to ensure that we treat taxpayers in similar economic circumstances equally and that low-income households are protected from excessive income tax burdens.

- Tax reform should enhance the business climate in our state by reducing tax rates, minimizing economic distortions, and making our structure more competitive with other states.

These principles are best achieved, in my judgment, by adopting a tax base that is more broadly defined, contains few provisions for special treatment, and has marginal tax rates that, while graduated, are as low as possible. The plan I am recommending meets these criteria.

Individual Income Tax

The major reforms of the personal income tax I am recommending to you include:

1. Revising the definition of taxable income and itemized deductions to conform in essential respects with those of the federal government;
2. Increasing the standards deduction available to Kansas taxpayers significantly, for example, from the current maximum of \$2,800 to \$5,000 for families and from the current maximum of \$2,400 to \$3,000 for single taxpayers.
3. Allowing additional standard deduction amounts for elderly and blind taxpayers as allowed by the federal government.
4. Increasing the personal exemptions from \$1,000 to \$2,000 per dependent by 1989;
5. Cutting tax rates from the current maximum of 9.0 percent to 5.4 percent for married taxpayers and to 6.2 percent for single taxpayers;
6. Reducing the number of tax brackets from eight to two.

Adoption of these recommendations will reduce tax liability for Kansas taxpayers by approximately \$21.3 million or 2.3 percent in 1988. Most major taxpayer groups will experience some reduction, on average, but the greatest reductions will be provided to low-income

households. Two-thirds of all taxpayers will see their taxes reduced or remain the same under the recommendation.

The recommendations I have made provide for a simple, broad-based, and fair tax system and should provide real benefits to Kansas taxpayers. The principle benefits are:

- The state income tax liability for 105,000 households below the poverty level is eliminated because of increased standard deductions and personal exemptions.

- Approximately 500,000-600,000 taxpayers will be able to file on a "short" tax form that can be reduced to as few as nine lines compared to a minimum 27 lines now required.

- Tax returns for those not filing on the short form will also be simplified.

- The recommendation provides over \$21 million in tax cuts to Kansans, with most income groups receiving some tax reduction. The tax burden for two-thirds of all Kansans will be reduced or stay the same, and the greatest relief is directed to low-income households.

- The availability of a tax credit for child care expenses is expanded to all households claiming the federal credit and set at 25 percent of the federal credit.

- Taxpayers in similar economic circumstances will more likely be treated equally under the recommendation due to the repeal of several exclusions and deductions.

- The top tax rate is slashed from 9 percent to 5.4 percent for married taxpayers and 6.2 percent for single taxpayers, and the number of brackets is reduced from eight to two. The arbitrary distinctions between relatively small amounts of income as are now present in the rate structure will be eliminated.

- The recommendations reduce economic distortions and resource misallocations by minimizing preferential treatment of various types of income or expenditures and reducing tax rates.

- The proposal exempts interest on Kansas general obligation bonds from state income tax in order to achieve equity and reduce local government borrowing costs.

Business Taxes

The Governor's Task Force also made several recommendations to reform those taxes imposed on businesses operating in Kansas. I endorse those recommendations and encourage your adoption of them.

The purchase of certain machinery and equipment should be exempted from the retail sales and compensating use taxes. The exemption would be limited to purchases of productive machinery and equipment used directly in the manufacturing and distribution processes in primary job creation industries with a significant value-added or export component to them.

The recommended exemption will directly reduce the cost of capital investment in productive assets within Kansas and improve our competitive posture with other states, most of which already provide such an exemption. The primary benefits of the exemption will flow to existing firms and businesses which are engaged in normal replacement investment or in expansions of productive capacity. This incentive is appropriate given that 80 percent of all jobs are traditionally created by existing firms.

A state alternative minimum tax for corporations should be enacted. The tax should conform to and "piggy-bank" on the federal alternative minimum tax with the apportionment to Kansas for multistate firms being based on the formula used to apportion regular taxable income to Kansas. The state alternative minimum tax rate is to be equal to 20 percent of the federal alternative minimum tax.

Adoption of this recommendation will improve the fairness of our tax system by eliminating possible avoidance of state taxes through the excessive use of tax preferences. It will also improve the stability of the corporation income tax and enhance the ability of state government to forecast and plan our revenues and expenditures.

The statutory formula for apportioning the income of multistate businesses to Kansas should be amended to allow taxpayers whose payroll factor is 250 percent of its average property and sales factors to elect an apportionment formula utilizing only property and sales factor on an equally weighted basis. The change will reduce receipts by less than \$1 million annually.

The income of multistate corporations is apportioned currently on the basis of a formula giving equal weight to property, payroll, and sales factors. The recommendation is designed to make Kansas a more attractive environment for the location of company headquarters or other large installations by eliminating the influence of the payroll factor in selected instances. While narrow in its effect, the proposal can prove useful in attracting highly desirable business activity.

Current law allowing the carryback of net operating losses for three years should be repealed and replaced with an extension of the carry forward period from seven years to ten years. The estimated fiscal impact is a one-time \$15 million revenue increase. The recommendation will reduce the volatility of the corporation income tax and improve the ability of the state to plan its revenue and expenditure needs.

Conclusion

Enactment of this tax reform package will mark the most significant reform of the Kansas income tax since its adoption on March 29, 1933. The recommended tax package will provide Kansas with a tax structure that can be described in two words -- simple and fair. Yet it will provide us with a tax system capable of meeting our needs into the 21st century. It will provide tax cuts and protect low-income Kansans from excessive income taxation. At the same time, it will improve the business climate of our state and make Kansas a more attractive place for investment and business expansion. This plan is based on sound tax philosophy and should inspire the trust and confidence of our citizens.

The challenge before us is clear. The temptation to preserve certain deductions or preferences will be great. We must resist them, however, if we are to develop a tax system that is fair to all Kansans. Rarely are we presented with such historic opportunities. We must not fail to seize the moment.

Fiscal Integrity

When I came before you last year, I reported that the state's financial condition was not sound and asked for your cooperation to chart a new course and restore fiscal integrity in state government. I asked you to assist me in taking dramatic actions to protect dwindling general fund balances in FY 1987, balances estimated at the time to be in deficit by \$30 million. The budget rescissions enacted last January were extremely difficult, required sacrifice on all our parts, but were vitally necessary to place our financial affairs in order. The austere budget recommended for FY 1988, also designed to rebuild general fund balances, called for each of us to rise to a level of great statesmanship.

With your help, fiscal integrity was restored to the general fund. We improved our fiscal health, as measured by ending balances as a percent of general fund expenditures. We have moved from thirty-fourth in the nation in FY 1986 to eighteenth as of this past spring and are estimated to be among the top five in the nation for FY 1988.

The budget I present to you for FY 1989 is designed to respond to the compelling needs of Kansas citizens while continuing to provide for the fiscal integrity of the state general fund. The balances we so arduously built last year must be retained and, over time, improved. Over the last decade, each time we allowed our balances to fall dangerously low, we were faced with either certificates of indebtedness, tax increases, or both.

The State of Kansas has issued five certificates of indebtedness to meet current operating obligations since FY 1983. In each case the message we sent to the citizens of this state was that we were not able to manage our fiscal affairs. Indeed, we issued debt so frequently that the use of indebtedness to meet operating requirements had become a routine course of doing business. I believe the time has come to stop this practice and to manage the fiscal affairs of Kansas more wisely. Dependence on the use of certificates encourages a practice of operating on minimum balances and increases the possibility that disruptions in state operations as occurred last year will be repeated in the future.

Restoring balances to an adequate level will help avoid future tax increases. On four occasions since 1966, our balances have fallen precipitously, and as a result, taxes were raised. Indeed, we were forced last session to use the increased revenues resulting from the federal Tax Reform Act of 1986 to secure reasonable ending balances for FY 1988. Without adequate ending balances, we will find ourselves forced into tax increases at the most inopportune times economically.

I believe that ending balances should be approximately ten percent of expenditures. That represents five percent for cashflow requirements and five percent for emergencies or "rainy days." Ten years ago in FY 1977, our balances were 17.2 percent; they grew in FY 1978 to 18.4 percent and to 20.3 percent in FY 1979. We considered those balances to be adequate, and indeed subsequent events proved us to be right.

My budget for FY 1989 allows us to achieve balances of 7.4 percent at the end of FY 1989, a figure which is up significantly from 4.2 percent last fiscal year. As the Kansas economy improves, we may be able to gradually make our rainy day funds grow so that we can avoid the crisis of the past decade.

For FY 1989, I am presenting you a balanced budget. The recommended ending balance for FY 1989 is slightly above that recommended for FY 1988. In my budget, expenditures will not exceed revenues. A balanced budget is the best way we can serve the purposes of education, economic growth, social welfare, health, and other vital obligations of state government. Indeed, a balanced budget will communicate to those who might invest in our state that we are willing to take the long view and provide for the future. "Black Monday" of last October has shown us what results from a lack of confidence in government's ability to balance the budget. A balanced budget is the best guarantee we can give all Kansans concerning a stable and predictable future.

This budget I am presenting was not achieved without difficulty. The budget allocations given to the state agencies last June to guide preparation of FY 1989 budget requests were castigated in some quarters as being too miserly. Some felt the allocations did not provide for enough growth in areas of special interest.

Many of those who earlier felt my allocations were too austere now speak of agency requests as "pie in the sky." Those requests consisted of funds necessary to provide for the elderly and the less advantaged, to relieve property tax burdens through adequate aid for education, to keep our universities competitive, and to provide a level of service demanded by our citizens. However, if funded, those requests would have left us with a deficit at the end of FY 1989. The budget I am presenting to you began in the red but has been rebuilt to a balanced budget, one in which expenditures do not exceed revenues.

My approach to the FY 1989 budget for state government is best exemplified by my action on the budget for the Office of Governor. I have long believed that it is best to lead by example. It simply isn't fair to ask others to hold the line on state spending without setting an example at the highest level. In this regard, I have frozen the budget for my office and have kept the number of employees below that of the former administration. The governor's office budget for next year has been frozen at current funding levels and remains less than that operated under the previous administration by \$15,707.

In building the FY 1989 budget I have also asked each member of my cabinet to conduct a thorough review of current operations -- of every law, every program, and every position that we administer. I specifically asked cabinet members to recommend the repeal of rules, regulations, and statutes which are obsolete, the elimination of boards, commissions, and other authorities that have outlived their usefulness, and reorganizations which could achieve economies in operation. Their proposals are under review, and I expect to have specific recommendations for removal of unnecessary laws and authorities to you shortly. I have also recommended improvements in automation and telecommunications for agencies in which efficiencies of operation could be achieved, and those are reflected in a number of agency budgets.

A significant issue facing this legislative session is that of tax reform and the disposition of revenues generated by the federal Tax Reform Act of 1986. Those revenues were estimated to contribute \$135 million in FY 1988 and the same amount in FY 1989, of which \$123 million in paid by Kansans. In the current fiscal year, these funds were used to rebuild general fund balances.

For FY 1989, I am recommending that approximately \$49 million, forty percent of the windfall, be returned to Kansas taxpayers in the form of tax cuts and property tax relief. My tax reform recommendations include reform of the individual income tax structure designed to decrease the tax burden by \$21.3 million annually. I recommend that the sales tax on productive machinery be exempted which would save Kansas businesses sales tax expenditures of \$7.3 million in FY 1989 and \$16 million per year thereafter. I further recommend that \$20 million be returned through the school district income tax rebate and be used to lower local property taxes.

I further recommend that 30 percent of the windfall be used for education and research. Those funds increase school district aid and provide funds for the Margin of Excellence for higher education in FY 1989. This investment of proceeds from the federal Tax Reform Act of 1986 can yield a greater return in the future, as well as provide property tax relief.

Finally, I am recommending that the remaining 30 percent be used to provide for less advantaged Kansans. This proposal includes funding for the division of assets which allows seriously ill elderly to receive adequate care without impoverishing their spouses. My recommendation provides funds to ensure that all Kansas children receive necessary and essential nutrition, education, and care. We recognize that children do not cause their own condition. They do not vote to be poor or to be sick. It is our obligation to ensure that they are buffered from the accidents of birth.

My budget responds to those who find themselves in precarious circumstances. Our fiscal integrity must be met with moral integrity. Neither can be sacrificed at the expense of the other, and I will exercise the full powers of my office to ensure that neither is neglected.

Education

Public education is this country's most profound contribution to mankind and should be our most potent competitive advantage in nearly all fields of human endeavor. Within our federal structure the principal responsibility for education lies with state government. Education in Kansas is

sound, clearly above average, but we must continue to strive for an educational system on the cutting edge of change. Demands in our economy for increased productivity, higher-order skills, and better thinkers require that education be assigned our highest priority.

Regents Universities

In order to maintain the state's commitment to higher education of high quality, I am supporting a margin of excellence targeted to teaching faculty, and my budgetary recommendations reflect substantial additional resources for the support of the Regents universities. For FY 1989, my recommendations reflect additional general use expenditure authority of \$41.3 million, of which \$11.0 million is financed from the State General Fund.

The highest priority in my recommendations for education is the commitment of additional resources for faculty salaries at Regents universities. I endorse the margin of excellence concept for instructional personnel at the Regents institutions. Under my recommendations, faculty salaries will increase statewide an average of 8.2 percent.

To finance the additional costs of increased enrollments and student credit hour production which several of the Regents institutions experienced during FY 1987, my recommendation includes additions to base budgets of over \$3 million for additional faculty positions and other operating expenditures. With respect to the current fiscal year, I recommend that a portion of the additional tuition receipts derived as a result of increased enrollments be expended to finance operating costs associated with the additional students. A total fee release of approximately \$1 million is recommended.

In addition, I recommend a base increase of four percent for other operating expenditures. My recommendations also include additional resources to operate new buildings on several of the Regents campuses and reflect an increase of \$1 million in general revenue funds to support maintenance and repair of university buildings.

In order to improve the quality of programs at the University of Kansas Medical Center, my recommendations include additional resources to expand and enhance the organ transplantation program, increase nursing staffing on intensive care and critical care units in the hospital, and initiate a program of lithotripsy treatment of gallstone patients. In addition, my recommendation includes resources to finance the second and final year of an initiative to expand the Mid-America Cancer Center.

Washburn University

Because of Washburn University's unique status in postsecondary education in Kansas, I am recommending that responsibility for administering state aid to Washburn University be transferred from the Board of Education to the Board of Regents, effective July 1, 1988. For FY 1989, the resources recommended for state support of Washburn University represent an increase of 5.2 percent over the amount of state aid recommended for the current fiscal year. I also recommend that the current statutory programs providing categorical aid to Washburn University be abolished and that state assistance to Washburn be consolidated into an operating grant.

Public Schools, Community Colleges, and Vocational Education

Support of education for the youth of Kansas will continue to be a high priority of my administration. The future of economic development is dependent upon an educated public capable of adapting to a changing environment and new technologies. Therefore, I am recommending a five percent increase in state aid provided by the Department of Education for aid programs to local school districts, community colleges, and vocational educational programs.

My recommendations for school district equalization state aid will provide for budget limitations of two to four percent and will be financed with additional funds totaling \$46 million above the FY 1988 amount. This level of support will allow the percentage of local school districts general fund budgets that is supported by state aid to increase from 42.4 percent to 43.3 percent. My recommendations will allow teacher salaries to increase by an estimated 4.5 percent, an amount comparable to my recommendations for state employees. Last school year, the average teacher salary in Kansas exceeded three of the four border states, and the pupil-teacher ratio for the state was 15.4 to one compared to a national average ratio of 17.9 to one.

In addition to the funds provided for school equalization aid, my recommendations provide for an increase of \$1.1 million for transportation aid, \$4.0 million for special education aid, and \$1.5 million for education in human sexuality and AIDS mandated by the Kansas Board of Education. My recommendations also provide \$36.5 million for local assumption of the employer contribution to KPERS for teachers. In summary, my recommendations for primary and secondary education will require 38.6 percent of State General Fund expenditures in FY 1989.

The state community colleges provide an important role in providing continuing education beyond the primary and secondary level. For FY 1989, the number of credit hours that are financed with state aid are estimated to increase by 3.8 percent. The percent of community college expenditures financed with state aid has decreased from 31.2 percent in FY 1982 to 24.2 percent in FY 1987. This decrease in state aid requires that local communities and students bear more of the cost of operating the community colleges. In order to assist in relieving the burden to local communities, I am recommending an increase in the state credit hour rate paid to the community colleges as state aid. Included in this recommendation is \$400,000 as general state aid to community colleges.

The area vocational education schools within the state provide a necessary service to complement the community colleges in providing postsecondary education to Kansas students. My recommendations, in conjunction with other funding available to these schools, will allow expenditures to increase by approximately six percent.

During the last six fiscal years, \$2.5 million has been allocated as state aid to assist area vocational schools in obtaining needed instructional equipment. In order to provide training in new technologies, modern equipment must be made available to students. To respond to this need, my recommendations include \$1.0 million for capital outlay grants to these schools.

Educational Reform

Educational reform should go hand-in-hand with improvement in educational finance. If Kansas is to compete in a rapidly changing national and international environment, our educational structures must adapt not only to current realities but also in preparation for future requirements.

Kansans are willing to invest in education but also expect improved performance. They want our public schools, colleges, and universities to do a better job in preparing our young people to function in an increasingly complex society. Those who perform should be rewarded. Increased spending should produce results.

We have failed to establish adequate performance standards for admission to our Regents institutions. Far too many students enter our state universities ill-prepared. Many require remedial work, and as a result, our state universities spend nearly \$2 million each year to prepare these students for college-level courses. Other students quickly drop out. Last year, for example, one in every four freshmen entering our Regents institutions failed to return for their second year. The absence of clear performance standards misdirects the time and energy of young Kansans and wastes scarce educational resources.

Over the past year the Board of Regents has initiated a broad-ranging discussion of admission standards at Regents universities. This dialogue has involved interested constituencies both on and off state campuses. At their meeting of December 17, the Regents unanimously adopted a plan for qualified admissions at Regents universities. This educational reform is long overdue. It will help guide aspiring students in preparing for a college education; it will set clear standards for educational offerings at secondary schools; and it will improve the quality of Regents universities. I urge the Legislature to act affirmatively on this plan for qualified admissions.

The governance of postsecondary education is another area of education sorely in need of reform. Postsecondary education in Kansas now comprises the work of sixty-two diverse institutions, expends \$1 billion annually, 60 percent of which comes from the state's taxpayers and students, and touches over 140,000 Kansas residents each year.

Over the past twenty-five years, profound changes have occurred in the character of postsecondary education. Twenty-three new schools have been added, an increase of nearly 60 percent. Ninety thousand additional students are being served, an increase of 180 percent. Annual revenues have jumped by over \$800 million, an increase of over 600 percent.

In the face of these profound changes, however, how decisions are being made concerning postsecondary education has not been revised significantly in this period. The governance of postsecondary education in Kansas has not adapted well to the magnitude of the enterprise nor to its changing character. The state's interest in postsecondary education is not being well articulated. Functions critical to the future of postsecondary education are not being performed. No agency is assigned authority to work on maximizing the utilization of existing resources on a systemwide basis. Master planning is nonexistent. A policy agenda for decision making by the governor and the legislature, is not being established. To shape the future of postsecondary education in Kansas, both thoughtfully and compassionately, the governor and the legislature need help.

Revising the governance of postsecondary education in Kansas should be high on our reform agenda. I continue to support action on Substitute for HB 2102 which passed the House last year. I am willing to work with you on other alternatives. We should not let this issue go unattended. The time for action is upon us.

The problem of AIDS demands a response from all educational institutions in Kansas, and I want to take this opportunity to commend the State Board of Education for its leadership on this issue. The Board conducted full hearings, deliberated on this issue, and concluded that all accredited schools in our state should provide instruction in human sexuality and sexually transmitted diseases, including AIDS. As governor, I know that the correct course of action is not always the easy one. Tradition in Kansas education would suggest that local boards of education should make curriculum decisions. In light of the profound impact of AIDS on all of society, the Board was right to break with tradition, and I laud the Board for its courageous stand on this issue.

I am recommending funding to support implementation of the Board's actions. This funding will aid in the development of educational materials and resources at the state level and classroom instruction on human sexuality and sexually-transmitted diseases, including AIDS, at the local level.

Finally, I am recommending that the Legislature address a major educational shortcoming in Kansas and mandate the teaching of a comprehensive course in Kansas history in Kansas schools. The State of Kansas has a rich historical heritage steeped in individual courage, sacrifice, and perseverance. Politics in Kansas has on numerous occasions been on the forefront of national political change. Colorful figures in Kansas history have contributed significantly to most every field of human endeavor. And yet, few Kansans are aware of our historical character, and most young Kansans are deprived of this knowledge.

This Legislature has exhorted the state Board of Education, the Board of Regents, and local school boards to respond to our failure to teach Kansas history, but to date little has been accomplished. I recommend legislation which mandates action by the Board of Education and the Board of Regents and assures that every high school graduate in Kansas has completed a comprehensive course in Kansas history.

Good Health for Kansans

A fundamental concern of my administration and the people of Kansas is that we maintain and improve the health of our people. Kansas has a long and reputable history of excellent public health programs, and I intend to build on that tradition as we move toward the 21st century.

Good health is central to all other endeavors we undertake, and we must embark on a long-range program that encourages the maintenance of good health through the prevention of illness. Prevention is a sound strategy because it reduces human suffering and misery. Preventive health measures are also cost-effective because they help us avoid or limit the high costs of treatment.

Prenatal care for pregnant women is one instance where preventive health pays a clear dividend. Adequate prenatal care reduces the incidence of premature and low birthweight babies who often

require extraordinary and expensive care in order to sustain life, and who often are born with conditions that require continued treatment throughout much of their lives. Each year in Kansas, there are nearly 5,000 women who receive inadequate prenatal care during their pregnancies. Provision of basic health services such as prenatal care, health assessments, immunizations, and nutrition information during these formative stages will go far toward ensuring healthy children and eventually healthier adults, and I am recommending substantial improvements in funding targeted to expectant mothers.

Health promotion cannot and should not end with prenatal care but must extend to young people in our state. Lack of education concerning health should not stand in the way of our young people becoming productive members of our state. For these reasons, I am recommending additional funds to assure that our children are well tended in child care facilities and to focus more attention on adolescent youth, an underserved segment of our population. This latter work will be aimed toward reducing the incidence of teenage pregnancy and moderating its negative effects.

Good health habits begin during childhood, and decisions concerning tobacco use are particularly critical. Smoking not only poses the single greatest health risk for adults, but also influences choices of young people concerning alcohol and drug use. State government should use every reasonable means available to discourage tobacco use among our youth, and for this reason, I am recommending legislation to prohibit the use of tobacco in public school buildings. Such legislation would give official notice to young Kansans and to those who work daily with them that our state does not sanction the use of tobacco in public schools.

Local health departments form essential components in our delivery of basic health services such as health screening, immunizations, and health education. Demand for services provided by community health agencies has intensified, not diminished, in recent years. Therefore, I am recommending improvements in basic operating support provided by state government to local health departments. My recommendations provide funding equal to 60 cents per capita under the statutory formula authorizing general state aid to local health departments.

I also recommend increased funding for the purchase of drugs and vaccines used by local health departments in their treatment and immunization programs. The higher funding level reflects continued, dramatic increases in the price the state must pay for purchase of DPT vaccine.

State government has adopted policies which encourage preventive health through a number of public programs. Until recently, however, the state has fallen short in giving proper attention to preventive health care for state employees. This shortcoming is being corrected now through the health benefits program in which health-risk appraisals will be made available to state employees in 1988. This initiative should aid individual state employees in identifying serious health risks, taking steps to reduce those risks, and avoiding expensive and preventable treatment and hospitalization. Over the long run, this program of preventive health care should help contain health care costs for the state employees group and reduce the expense of health benefits for both state employees and state government. This initiative should allow state government to be a model for a healthy workforce, and I strongly urge your support of it.

Division of Assets

No discussion of health issues in Kansas is complete without considering the provision of care for the elderly. Our senior citizens have contributed much to the state and deserve care that aids these Kansans in their quest for a full and quality life in their later years. Assurance of quality care for the elderly is difficult, but I am committed to make certain that our parents and grandparents receive the care that we would want for ourselves when we get older.

A major concern of older Kansans is catastrophic illness. Catastrophic illness in our state has two victims. The first is the Kansan who is a victim of Alzheimer's disease, Huntington's disease, stroke, or any of the other chronic illnesses which can create a need for years of home care or nursing home care. The second victim is the spouse who must provide most of the care during the illness but is forced by the lack of outside help to sacrifice his or her own health and welfare. All too often catastrophic illness forces the spouse to spend the rest of his or her life in poverty because help is available only if the family dissipates nearly all of its resources.

The bill I am recommending will allow a married couple to divide their income and assets in half when one of them needs long-term care. The sick spouse can then qualify for help when half of the resources are spent, leaving half for the well spouse who remains at home.

Victims and spouses are now waiting from month to month as their resources dwindle. They have worked and saved only to see their life savings disappear because of institutionalization. The least we can do is allow these Kansans the dignity to live by their own means when a catastrophic illness has taken their loved ones.

AIDS

One of the most menacing public health threats facing Kansas, the nation, and the world is AIDS, the acquired immunodeficiency syndrome. As of December 1, 1987, there have been one hundred Kansans reported as afflicted with AIDS; sixty-six have died. These numbers will most certainly increase.

Aggressive and immediate action must be taken to combat this deadly disease. Several months ago I appointed a task force to develop recommendations for a state response to the problems presented by AIDS. The task force has completed its work and has made recommendations in three broad areas. The first calls for a massive educational effort to inform Kansans about how the AIDS virus is transmitted and precautions to take to avoid contracting the disease. The second recommends an expansion in voluntary testing for the HIV antibody to monitor the prevalence and incidence of the HIV infection in the state. And the third calls for further examination into ways that the costs of caring for AIDS patients can be reduced through development of outpatient services, hospice care, community care, and long-term care.

Education forms the first line of attack against AIDS. A massive educational effort for all Kansans, in the schools and in the workplace, must be initiated. People must be made aware of the behaviors that lead to the spread of AIDS, and they must be informed as to how to avoid contracting the disease. I am recommending substantial funding for the Department of Education

and the Department of Health and Environment to initiate a program of AIDS education that will be targeted at schools, businesses, and the public at large. Funding is recommended to develop educational materials and resources and also to provide aid to implement educational programs at the local level.

I also recommend that we proceed with a program of expanded voluntary testing for the HIV antibody. The expanded testing effort will be directed at those segments of the population considered to be high-risk for contracting the AIDS virus. Associated with the intensified testing will be an increase in related activities such as counseling and contact tracing. The expanded testing effort will be directed by the Department of Health and Environment but also includes a major role for local health departments.

In related areas, I also recommend substantial resources for increased AIDS testing at the state's correctional institutions and to provide for treatment of AIDS victims who qualify for eligibility under the state's medical assistance program.

Finally, ways to reduce the costs of caring for the patients with AIDS and HIV-related conditions must be sought, including the development of outpatient services, hospice care, community care, and long-term care. A concerted effort will be requested to control the spread of this terrible disease and ultimately conquer it. I am instructing the appropriate state agencies to move with deliberate speed to implement the recommendations of the task force.

We must move to prevent health problems whenever and wherever possible. I am dedicated to maintaining the quality of life that we enjoy in our state. Prevention is the key! It is better to spend the resources now rather than spend millions more later for expensive treatment. I am committed to bringing the full resources of our state to bear on this problem. My concern for health has deep roots and reflects my love for my children and my love for Kansas.

Conservation of Natural Resources

One of the hallmarks of my administration will be the commitment to protect our environment and to manage our state's natural resources wisely. How we address these issues in the next few years will have far-reaching implications for the quality of life enjoyed by present and future generations of Kansans. The generations of Kansans that will follow in our footsteps must be presented with an environment that is clean, an environment in which they can raise their families in health and safety, an environment in which they can fulfill their dreams and aspirations. We can no longer continue to deal with our environmental and natural resource problems on a piece-meal, crisis-to-crisis basis.

Conservation of natural resources is intimately linked with the long-term economic vitality of our state. Responsible, effective economic development must go hand-in-hand with preserving the unique environment that is Kansas. In turn, maintenance of a healthy environment and proper management of our natural resources will provide a climate that is conducive to balanced and sustained economic growth.

For these reasons, I am recommending that a portion of the lottery proceeds set aside for economic development purposes be committed this year to conservation and development of natural resources in Kansas. And further, I am recommending that when the state's financial obligations for property reappraisal are completed, a portion of the lottery proceeds be dedicated to projects which conserve and develop our state's natural resources. Your support of these actions will provide funding for state purposes which have been inadequately tended in the past and will at the same time avoid tying an unpredictable revenue source to on-going operations of state government.

In accord with these objectives, I want to review several recommendations concerning the environment and natural resources.

Water

Our forefathers learned quickly of the vast differences between the east where we have as much as forty inches of average annual rainfall, and the west where rainfall averages as little as fifteen inches a year. They were faced with the eminent threat of flooding in the east and droughts in the west. They encountered shortages of water supplies for planned urban development in both the east and the west. They lacked access to water-based recreational facilities in many areas of the east; such facilities were virtually nonexistent in the western half of the state.

Over the years, we have made substantial progress in responding to these inherent problems. We have built thousands of dams, large and small, to protect our urban and rural areas from costly floods and provide much needed water supply and recreation. In the west we surveyed and exploited one of the world's largest underground freshwater bodies, the Ogallala Aquifer, and fostered one of the most productive agricultural economies in the world.

We have learned, sometimes the hard way, that once we alter our environment, we must protect those alterations from the forces of nature. For example, dams already built must be inspected and maintained; reservoirs cannot be allowed to fill up with silt or the water supplies and the recreational facilities we have come to enjoy will disappear.

We have also learned that there are limits on our ability to modify the natural environment. Sometimes we have gone too far. We cannot afford to deplete our precious groundwater resources, or we will do irreparable harm to our natural environment. When we destroy too much of our natural wetlands and riparian areas, we do more harm than good. We must strike a balance and live in harmony with nature, even if that means returning wetland and riparian areas to their original state.

Responding to the excesses and shortages dealt to us by nature is not our only problem. We must deal with the man-made problems we have brought upon ourselves, the most serious of which is chemical and saltwater pollution of our water supplies.

Plans which respond to issues affecting our natural resources have been developed. The Kansas Water Authority and the Kansas Water Office in cooperation with citizens from across our state have identified water problems and outlined a course of action for conserving our water

resources. The time for implementation is upon us, and I am recommending action on a number of fronts.

For FY 1989, I am recommending funding for the completion of the Centralia Site 50 multipurpose small lake and for state participation in the Wellington multipurpose small lake. These multipurpose projects will provide the optimum utilization of the best available reservoir sites. The state's assistance in these objects will assure that the maximum benefits are achieved for the combined purposes of flood control, water supply storage, and recreation.

In 1987, funds were appropriated for the purpose of adding water supply to the Centralia flood control structure. The state's share for the land treatment will help protect this reservoir from siltation. The Wellington site is being developed by the city to expand its existing water supply capacity. The state's participation in this project will be for adding flood control to the structure, sharing in the recreation benefits of the structure and the associated land treatment.

Recreation and Wildlife

As we have gone through the difficult times of the past few years, we have become increasingly aware of the significant contributions of recreation and tourism to our Kansas economy. Other states around us are eagerly pursuing recreation and tourism development. The state must invest in outdoor recreational facilities in order to maintain and improve this important segment of our economy.

For example, recreational facilities at Hillsdale Lake are inadequate to meet the demand generated by proximity to the Kansas City metropolitan area. At the present time, there are only limited park facilities at the reservoir. This minimal development has led to a concern about public safety. There is little security at the lake, and the available boat ramps are insufficient to get all boats out of the water quickly in the event of a storm.

In 1981, the legislature created Hillsdale State Park. However, no state money was appropriated to construct the park at that time. The Department of Corrections received \$300,000 in FY 1988 for recreation development and maintenance at the park. The Kansas Department of Wildlife and Parks is developing an agreement with the federal government to lease the lands around Hillsdale Lake. Johnson and Miami counties have a high interest in Hillsdale recreational development, and their advice will be valuable as we pursue this agreement. I am recommending funding to develop a master plan for recreation and wildlife at Hillsdale Lake. Also included is funding for the Department of Wildlife and Parks to begin implementation of this master plan in cooperation with the Department of Corrections and local officials.

Last month I signed a memorandum of understanding with the Bureau of Reclamation which clears the way for the state and federal government to maximize the benefits of Cedar Bluff Reservoir. Since water supply from the reservoir is inadequate to meet all demands, this agreement is an essential first-step in changing the operation of the reservoir to maximize the fish, wildlife, and recreation uses of the reservoir for the people of Kansas.

Cedar Bluff Lake is the only major opportunity for water-based recreation in this region of Kansas. The final draft of this agreement was reviewed at a public meeting in Ness City which was attended by over 175 people. Those in attendance indicated resounding support for its implementation.

Execution of this agreement will require approval from the U. S. Congress to reassign the project purposes of the lake and funding through the Kansas Department of Wildlife and Parks to acquire the storage area. Your support of this proposal will give the State of Kansas control of the storage space in the lake and result in the maximum utilization of the lake's fish, wildlife, and recreational benefits.

Since 1955, an estimated 40 percent of the wetlands in Kansas have been lost due to conversion, depletion, and stream alteration. Although remaining wetlands are not extensive in size, they are important to numerous wildlife species and for improving water quality by helping to control non-point source pollution. Wetlands in south-central Kansas are also important for regional groundwater recharge during summer drawdown periods.

To implement the wetlands protection program established last year, I am recommending funding to begin acquisition of critical natural wetlands from willing sellers. This money can also be matched equally with Ducks Unlimited funds for waterfowl management.

In Kansas, where well over ninety-five percent of the land area is privately owned, any meaningful conservation of our wildlife resources must be done through habitat protection and enhancement on these privately owned lands. The Department of Wildlife and Parks will be focusing on cooperative efforts with farmers and other private landowners to protect and develop wildlife habitat. A unique opportunity to do so is presented through the Conservation Reserve Program (CRP) authorized under the federal Food Security Act of 1985. Highly successful in Kansas, CRP has already taken nearly two million acres of highly erodible cropland out of production, and estimates are that this figure may reach three and one-half million acres in the next several years.

I am recommending that the Department of Wildlife and Parks establish an incentives program to encourage farmers to consider CRP practices that are most beneficial to wildlife -- such as tree and shrub planting -- by helping defray their costs of establishing these practices. This program will not only benefit wildlife habitat but will also help to assure long-term protection of the soil.

Water Quality

Clearly, prevention is the best method of protecting the water supplies of the state from contamination. However, modern society has a myriad of substances that have the potential to contaminate surface water and groundwaters in varying degrees. Public concern over water quality issues has been growing steadily in recent years. As the number of pollution incidents increase, they touch the lives of an increasing number of citizens.

Serious contamination of water supplies resulting from mining in southeastern Kansas and extensive saltwater contamination in the oil-producing areas of our state demand, and will receive, my attention in the months ahead.

A first priority is to protect our public drinking water from contamination. Industry, agriculture, and our individual lifestyles all have impact on the quality of the water supplies of the cities and towns of the state. Kansans must have a dependable supply of clean water for their consumption, and they must have modern and dependable wastewater treatment facilities in their communities. The federal government has adopted a phased withdrawal of assistance for these purposes, and I am recommending the establishment of a state revolving-loan fund for building wastewater treatment plants in Kansas communities.

Not only are clean, dependable water supplies necessary for human health and well-being, but they are key elements looked for in any responsible economic development efforts. Protection of our water can be assured only by effective controls on water pollution- - controls that prevent pollutants from entering our streams, rivers, lakes, and groundwaters. I am pledged to take every step necessary to reduce the contamination of the waters of the state!

The Kansas Department of Health and Environment has identified over 330 contamination sites statewide and has established priority sites for cleanup for FY 1989. I am recommending a major initiative for the Kansas Department of Health and Environment to clean up these highest priority contamination problems.

Mining and smelting activities in Cherokee County dating to the 1880s caused widespread environmental contamination throughout the area. The contamination has affected both surface and groundwater quality with contaminants above drinking water standards in the shallow aquifers. This area has been designated as a national priority under the federal superfund, and initial cleanup plans are in progress. I am recommending matching funds necessary for the first phase of cleanup in Cherokee County.

Eight saltwater contamination sites were also established as priority sites for cleanup. These eight sites are of particular concern because of their potential for spreading contamination to nearby water supplies. Therefore, I am recommending funding to clean up these eight saltwater contamination sites for FY 1989.

Finally, I am recommending funding from the hazardous waste cleanup fund. A portion of these funds will be used for the cleanup of four priority contamination sites. The balance will be used by the Kansas Department of Health and Environment to respond to emergency cleanup situations statewide. Each year there are incidents within the state in which hazardous materials are released into the environment. Approximately 400 incidents of this type occur annually. Responses to such incidents vary widely according to the nature and the magnitude of the spill. While the response may be relatively small, the handling of such incidents requires flexibility in both the technical approach and in the expenditure of funds. For these reasons, it is important for the Kansas Department of Health and Environment to maintain the funds necessary to respond to these emergencies.

Improved Coordination

During the fourteen years I was in the legislature, there were several attempts to improve the organizational capacity of state government to deal with the important issues of water, other natural resources, and the environment. I believe we should continually look for the most efficient and effective methods of dealing with our responsibilities in these areas.

Last year, I took the initiative in executive reorganization to consolidate the Kansas Park and Resources Authority with the Kansas Fish and Game Commission into a single, cabinet-level Department of Wildlife and Parks. This action raised the standing of this segment of natural resources in state government. This reorganization is already paying dividends in improved coordination and cooperation, not only between wildlife and recreation interests, but with other departments such as Commerce and Corrections and the Water Office.

While I do not rule out additional reorganization in the future, I believe much can be done to improve the efficiency and effectiveness of the system we have in place today. As a starting point, I have directed the heads of all water-related agencies to explore options for developing more coordinated planning and management. They have already begun their discussions, and I expect to have a proposal from them that can be reflected in the 1990 budget. My intent is to encourage full cooperation and communication among all agencies to achieve greater efficiency. I can say to you that the people I have selected to manage our state agencies are committed to this goal.

Toward a Drug-Free Kansas

This administration will vigorously continue our work to prevent and reduce substance abuse in Kansas. The tragedies related to illicit drug use and alcohol abuse are all too frequent in our society. We can not and we will not quietly resign ourselves to this threat simply because it is so complex and the occurrences have become so commonplace.

I am encouraged at the progress we are making in our announced programs to prevent and treat substance abuse, as well as to enforce this state's drug laws.

- Local school districts are now designing drug education programs for students with federal funds administered by the Kansas Department of Education.
- Our Regents institutions now have a twenty-six point plan to provide substance abuse education and support services to college students.
- We now have five regional drug abuse prevention centers to provide comprehensive assistance to local communities.
- Treatment services for our underprivileged addicted youth are increasing.
- Seventeen cities and counties were recently awarded grants to reduce drug trafficking through new or enhanced methods of drug law enforcement, primarily focused on youth.

Resolving substance abuse is more than a government responsibility, and it is inspiring to see the many extra efforts of Kansas youth, families, educators, businesses, media, and citizen activist groups to reduce drug abuse. Toward A Drug-Free Kansas which is our goal, also serves as a challenge and a commitment for every caring Kansan. Indeed, every Kansan is needed to fight substance abuse.

To continue our campaign against illicit drug use and alcohol abuse, I am recommending a number of statutory changes:

First, I am proposing a number of measures to reduce the incidence of driving under the influence in Kansas. Drunk and drugged driving continues to be a major threat to the health and safety of Kansans, and our state has an obligation to free our streets and highways of drunk drivers. Recent legislation, educational programs, and increased citizen awareness efforts, coupled with changes that will strengthen our drunk driving laws, should further reduce the tragedies caused by drunk driving. To achieve these goals I am recommending the following actions:

- 1) authorizing police officers to pick up the driver's license of an individual arrested for D. U. I., until a hearing can be held.
- 2) requiring mandatory 30-day suspension of a driver's license for violators convicted on a first D. U. I. charge. There would be no exceptions for driving during the 30-day period.
- 3) authorizing victim restitution, which would allow D. U. I. crash victims to recover losses in much the same way as victims can now recover their losses due to felonious actions.
- 4) authorizing a victim impact statement which would allow a D. U. I. crash victim to testify in court on how the crash has affected them.
- 5) establishing a stiffer sentence in the existing felony classification of aggravated vehicular homicide for causing a death while driving under the influence.
- 6) requiring the revocation of a driver's license for any minor who is convicted of D. U. I. or who refuses a D. U. I. test until the minor reaches age eighteen.
- 7) establishing a stiffer sentence in the event an individual is severely injured as a result of a drunk driver's actions.

The adoption of this package of legislation will further indicate our intolerance toward drunk driving. The time for additional swift and sure sanctions against the drunk driver is now. We can make our roads drunk-free.

Second, I am recommending a funding increase for student drug education and teacher training in our schools by increasing the federal funds available to local districts. With these additional funds local school leaders will be better able to implement the programs that they have been

planning over the last year. By investing in drug education for our young, we are assuring the best opportunity for a truly drug-free generation.

Third, I am proposing that two new regional drug abuse prevention centers be added to our existing network of regional prevention centers. This innovative network is proving to be an effective way of assisting Kansans in learning about the causes and effects of substance abuse. The centers also assist communities in planning and implementing a local response to the drug dilemma.

In addition, I am proposing the establishment of a twenty-bed residential halfway house for recovering youth. This improvement in the treatment of drug and alcohol abuse will focus on our youth, an area of compelling need. This type of treatment program helps the addicted young person to adjust to a drug-free lifestyle. By investing early in the treatment of our young citizens, we all stand to gain from their new healthy and productive future.

Fourth, I am recommending legislation that will authorize the screening of certain state employees for the use of illicit drugs.

The use of illicit drugs in America has substantially increased in recent years and has had serious adverse effects on the drug user and on those who rely on the drug user for support and services. The use of illegal drugs by state employees interferes with job performance as well as the efficiency of state government. Moreover, the use of illegal drugs by state employees is inconsistent with the law abiding behavior expected of all citizens, and with the special trust placed in such workers as employees of the public.

The use of illicit drugs by state employees in certain positions of sensitivity and trust poses a special risk to public safety and to effective enforcement of the law. Therefore, I am recommending legislation which will authorize drug screening of state employees whose work affects the life and safety of Kansas residents, specifically, state law enforcement officers who carry firearms, state correctional officers, and the applicants for these positions. Current employees in these groups will be tested when there is a reasonable suspicion that they are using illicit substances.

A safer Kansas and rehabilitation, rather than punishment, are my goals for this drug screening program. An enhanced employee assistance program for state employees, education for them about drug and alcohol abuse, the training of supervisors to identify characteristics of an impaired employee, and referrals for assessment and treatment, if necessary, will provide employees the basic help they need to overcome these types of problems.

Additionally, upon the approval of our legislation and the necessary development of personnel regulations, the Governor, Lt. Governor, cabinet appointees and gubernatorial staff will participate in the drug screening process to establish the leadership of state government as an example of a drug-free workforce.

We will continue to work with the Attorney General to ensure that all known constitutional protections concerning the drug screening of these employees and applicants are met.

Fifth, I am recommending mandatory prison sentences for large-scale drug dealers. Current law fails to distinguish between minor and major possession of illicit drugs as both are subject to the same range of minimum sentence. Drug peddlers who are in possession of large quantities of illegal drugs should be treated more harshly than the user. I recommend that threshold amounts be set for various illicit drugs and that individuals in possession of quantities above the threshold be subject to a mandatory sentence for drug trafficking.

Finally, I call on all Kansans to help create a climate against illicit drug use and alcohol abuse in Kansas. Let us make it perfectly clear that we don't need and we don't want substance abuse in any form in our state. Let us learn together, vow together and work together for the common goal of healthy, safe, productive and drug-free lifestyles. Let us move together Toward A Drug-Free Kansas.

Economic Initiatives

With successful implementation of the Kansas Lottery, funds are coming available to fulfill the agenda for economic development in Kansas. In the current year, for example, a number of important economic initiatives have been contingent on the availability of revenues from the Gaming Fund. The transfer of \$2.5 million in lottery proceeds to this fund on December 4 will help turn our dreams for economic improvement into reality.

During the current fiscal year, proceeds from the lottery will fund a number of initiatives through the Kansas Technical Enterprise Corporation (KTEC), including research matching grants, research equipment grants, and assistance to Centers of Excellence at regents universities, the seed capital program, and small-business incubators. In the current fiscal year, lottery funds will also support projects in the Department of Commerce, including small business development centers, training funds for industries locating in Kansas, marketing of Kansas products, and initiatives of the Kansas Film Commission.

In developing priorities for the use of lottery proceeds for economic development purposes in FY 1989, I asked the assistance of Kansas Inc. last spring. The board of Kansas Inc. recognized that in the past Kansas has lacked the resources to compete on equal footing with other states in the birth, expansion, retention, and recruitment of businesses. The board also understood that the revenues generated in the first full year of lottery operation would represent a unique opportunity to make strategic investments in Kansas' future and materially improve the state's competitive position.

My proposals to you have followed guidelines developed by Kansas Inc. concerning the use of gaming revenues for economic development purposes. These are: First, gaming revenues should be allocated to bolster the six key elements of an economic development strategy, that is, improvements in infrastructure, entrepreneurial environment, capital markets, human capital, capacity, and technology. Second, gaming revenues should primarily fund economic development initiatives that are short-term commitments rather than on-going obligations of state government.

In line with the highest priority designated by Kansas Inc., I am recommending major funding for an infrastructure loan program operated through the Department of Commerce. Local governments are least equipped to respond quickly to opportunities in which new or expanding industries require infrastructure improvements to support new industrial activity. A community may have need for an access road or for a water or sewer extension with expanded pumping or treatment facilities to attract a new industry or industrial expansion. The state benefits from increased business activity and should be a partner in financing the improvements.

The revolving loan fund would implement a low or no-interest loan pool to finance infrastructure improvements in support of new or expanding primary industries. The loans would be made to local governments that would be responsible for repayment. The purpose of state funds is to leverage or complement other funding for the local projects or improvements. The loans could be used for road, water, or sewer improvements for projects which will produce more jobs. The loan criteria should specifically include an analysis of benefits flowing from the project and costs to the state. Highest priority would be accorded projects in which an existing industry needs to expand; a new industry will go into production; or an industry will relocate or expand into Kansas. Over time, funding for this program can be reached as loan repayments replenish the fund.

I am also recommending funding for infrastructure improvements which conserve and develop natural resources in Kansas. These improvements are intimately tied to the long-term economic vitality of our state and will help provide a climate conducive to balanced and sustained economic growth. Specific projects recommending for funding include multiple-use water improvements, wildlife and recreation development, and improvements in water quality.

My recommendations for gaming revenues will also provide for continued funding of enhancements of the current year commitments to the programs of KTEC and the Department of Commerce. In addition, I am supporting the recommendation of KTEC and Kansas Inc. to fund a grant program for Small Business Innovative Research, which will provide small business owners with assistance for new, technologically advanced products. This program should be an attractive inducement for inventors or small business owners to remain or to locate in Kansas. Finally, I am recommending an expansion of the Main Street Program through the Department of Commerce to assist Kansas communities to enhance business climate through downtown improvements.

The Future of Rural Kansas

During the first twelve months in office, I traveled throughout the state, visiting well over half of our 105 counties.

What I heard and saw on these visits reinforces my growing concern about the future of rural Kansas. The effects of low farm prices and the sagging oil and gas industry are clearly being felt in our state's urban areas. In rural communities the effects are devastating.

Since 1983, rural communities in Kansas have lost 21,000 people while metropolitan areas have grown by 56,000.

Many of our state's young families are leaving Kansas to seek job opportunities in other states.

Main Street businesses are closing their doors, no longer able to serve their communities.

Low farm prices and declining land values are eroding local tax bases, further threatening availability of vital services.

It is time that small towns and farm communities get the attention they deserve from state government.

As a step in that direction, I recently appointed an 18-member Task Force on the Future of Rural Kansas. We must identify problems, explore solutions, and then work to implement them.

State government has a responsibility for contributing to a favorable climate for economic development in rural Kansas. I look forward to having this group of highly qualified Kansans put its collective skills to work for our rural Kansas communities.

Coupled with these difficult economic conditions is the threat facing our rural health care delivery system. Access to adequate and affordable health care in Kansas is in serious jeopardy.

In many towns, the only doctor that practices is nearing retirement. Other communities have seen long-standing members of the medical community close their doors.

Although many factors contribute, the future of health care in Kansas is jeopardized by the escalating cost of liability insurance.

Under current conditions, hospitals and physicians in Kansas can expect the cost of mandatory liability insurance to increase as much as 70 percent on July 1, 1988. With a jump of that magnitude, the total premium collected from doctors and hospitals in 1988 will be as high as \$86 million, compared to \$11 million just six years ago.

The estimated dollars paid out in awards and settlements in 1988 will be as much as \$30 million, up from \$7 million in 1982. And there will be an estimated 360 medical malpractice suits filed this year, nearly three times the number filed in 1982.

This crisis is felt by Kansans in many ways. We not only feel the effects in restricted availability of care, but also in health care costs. The cost of skyrocketing malpractice insurance is borne by all of us, including the patients of doctors who have never been sued.

Recognizing this problem two years ago, when I had the privilege of serving as Speaker of the House, I supported legislation which addressed this crisis in a fair and equitable manner. I was joined by the overwhelming majority of Kansas legislators, who also believed that the time had come to enact changes that would bring reasonable guidelines to medical malpractice. The new laws struck a balance between the rights of the injured patients to be adequately compensated for their losses and those of the health care providers whose liability insurance costs would be stabilized.

Now, the Kansas Supreme Court has ruled that a vital section of the new law is not constitutional in that it singles our health care providers and pertains to medical malpractice actions alone.

It now appears that the key sections of that landmark 1986 tort reform package will be declared unconstitutional on the same basis.

The challenge before us is to address the malpractice issue in order to preserve adequate and affordable health care for all Kansans. I ask that you send me legislation that will preserve access to health care for Kansas citizens. Reform must be pursued if we are to ensure that future generations will be afforded the opportunity to obtain medical care.

As you know, as a member of this Legislature, I originated legislation creating the Kansas Medical Scholars Program. This program was designed to provide added incentives for young physicians to practice in Kansas and has brought doctors to rural communities that would otherwise have been left unserved.

Some suggest that this program be discarded, leaving nothing in its place. We must not only preserve this program but also expand its application.

I ask that you amend the program's definition of a medically underserved area to include our state's correctional institutions, mental health and retardation hospitals, and other such state facilities so that the benefits of this program can be extended.

Unfinished Agenda

Two major issues remain on an unfinished agenda for Kansas and for Kansans. I placed capital punishment and highway improvement on the legislative agenda last year because most Kansans want action on these issues, and I am most disappointed by the failure of the Legislature to resolve these matters. I continue to support the enactment death penalty bill and a comprehensive highway program for Kansas and again urge the Legislature to act affirmatively on these issues.

Resolution of these issues during this legislative session will require those who opposed action last year to step forward and work toward agreement. Progress will be impossible until those who blocked action last year say where they stand. I am willing to work with opponents and proponents to resolve the issues of the death penalty and highways during this legislative session. Kansans will not let these issues go away. Now will I.

Conclusion

As we embark on this legislative session, we face many challenges. At the same time, we have many opportunities. The recommendations I have made to you this evening represent the best judgment of the chief executive of this state as to what course we should follow to meet these challenges and opportunities.

The agenda I have placed before you was developed with sound advice and counsel from the leaders, both Republican and Democrat, of this Legislature. This high degree of consensus bodes well for the success of this legislative session and ultimately for the people of this state.

To a large extent the outcome now rests in your hands. The recommendations I have made must now be debated and considered by you, the lawmakers.

I pledge to you my continued support in the timely passage of those proposals on which there is consensus and my willingness to work together in those areas where differences arise.

Numerous, complex issues will dominate the days ahead. I am confident, however, that next year as we assemble for the 1989 State of the State, the accomplishments made in the year ahead will be many.

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