

# John William Carlin

## MESSAGE OF GOVERNOR JOHN CARLIN TO THE KANSAS LEGISLATURE January 17, 1983

Mr. President, Mr. Speaker, Members of the Kansas Legislature and Fellow Kansans:

Today I present to you the first legislative message of my second term. It addresses many of the same problems and issues which my last two messages identified. But this year, more than any in the past, there is a new urgency that we address these issues. The gravity of our State's current circumstances compel us to make practical progress now on an agenda for renewal.

We must reestablish our State on a firm financial footing despite revenue shortfalls caused by the national recession and do so while still addressing critical human needs.

We must provide adequate funding to ensure quality education for our children without overburdening the property taxpayers of our State.

We must rebuild our highways without continuing to rely on the same inelastic revenue sources which are part and parcel of our current funding dilemma.

We must seek solutions to problems such as excessive gas prices and insufficient farm prices which have traditionally been the nearly exclusive territory of federal policy-makers.

We must protect our environment and natural resources from depletion or contamination which threatens our very way of life.

Without practical progress in these areas we will not be able to make headway towards the broader goal of revitalizing our State and its economy. We are truly at a crossroads where our choices will dictate whether or not we renew our State or allow the quality of life we all cherish to slip away.

I have outlined in the following pages a plan which I believe will address the challenges we face. It provides, I believe, a framework for renewal of our State.

To fully realize our potential for progress, however, there must also be a firm foundation of resolve on the part of each and every one of us. We will not be able to make practical progress if we are not willing to make investments in the future even though it means sacrifice in the present. We will not move ahead unless we achieve fiscal stability in an equitable manner. And if we cannot look beyond our own political and parochial interests we will never achieve our goals.

We cannot approach our problems as eastern or western Kansans, rural or urban Kansans, or as Democrat or Republican Kansans. For in the final analysis, we are all citizens of a single state which can only move forward when we all commit ourselves to a shared vision of the future. As

we each make that commitment individually, there will form a collective covenant for progress and a foundation for renewal.

The challenges we face are immense but the opportunities they present are equally bright, for in every problem lies the seed of a solution far greater than the problem it seeks to address. Our forefathers felt this was such a tangible truth they made it our State's motto: "Ad Astra Per Aspera: To The Stars Through Difficulty."

We must look to the challenges before us as opportunities for practical progress and not as obstructions to it. If we can do this then we will move forward, limited only by the confines of our best visions and aspirations and the strength of our resolution to look beyond ourselves to a dream of what we can be and achieve together.

## REVENUE

Relative to other states, Kansas government has withstood the effects of the national recession better than most. The duration of this recession, however, has finally brought Kansas to a crossroads. It is time to decide whether we will maintain the quality of services Kansas government provides, or whether we will begin to dismantle the structure we have all worked so hard to build. To achieve the former will require cooperation and a commitment from all.

Decreased revenue collections for fiscal year 1983 have necessitated operational adjustments and budget reductions. We have met these challenges with increased efficiency, thereby allowing us to maintain the vital services and quality programs to which we have committed ourselves.

Having effected these management changes and reduced our expenditure levels, we now must prepare for fiscal year 1984 in the face of a lingering recession and the reality of insufficient revenues to maintain even an austere budget. In addition, we have failed for the last two years to address the continued and critical problems our State faces in the areas of education and highway finance.

There are few who continue to insist the Kansas does not need an additional major revenue source. For those of us who have recognized such a need for the past two years, we must now accept the fact that the need has increased dramatically. Faced with the necessity of pursuing adjustments in our tax structure within the context of a depressed economy, we must more than ever before make "fairness in taxation" our guiding principle.

I recognize, of course, that fairness within the context of a taxing system is a very complex concept that must balance competing interests and differing viewpoints. It necessitates an interweaving of such concepts as ability to pay, administrative efficiency and sharing of the tax burden. I also recognize that one's perception of fairness and the reality of it may change as economic, social and fiscal conditions change.

Ownership of real property, for example, was once a primary measure of wealth and usually indicated the owner's ability to shoulder a substantial tax burden. As a result, we developed a tax system that relied heavily upon property taxes as a means of funding essential government

services. That system may once have been fair. But today, for a variety of reasons, ownership of real property does not so clearly indicate wealth, nor income, nor ability to pay heavy taxes. It is now clear that a taxing system relying too heavily upon property taxes is unfair. Too much of the burden may fall upon homeowners whose property produces no income or upon farmers whose return of income upon investment in property is quite low. Because the underlying economic realities have changed, our perception of what constitutes a fair taxing system has undergone subtle, but significant, changes.

I believe it to be a fundamental duty of those in government to accept the challenge of defining "tax fairness" in tangible ways and of proposing specific measures for achieving it. Recommendations contained in this message, as in past messages, are quite specific and reflect a strong commitment to enhancing the fairness of the tax system in Kansas.

The substantive tax issues that I am recommending today for your consideration are not new issues, but they are important matters that bear directly upon the question of fairness as we address the need for additional state revenues and the need to fund adequately the programs of state and local governments. They are also issues which have been discussed in great depth by the Legislature and before the people of this State.

Whether Kansas should impose a severance tax on oil and gas production is not a new issue; whether the State should adopt a constitutional amendment permitting classification of property for ad valorem tax purposes is not a new issue. The new element in your consideration this year comes from the urgent need for legislative action, a need that may not have been so clearly perceived in the past, and from the realization that Kansans believe a severance tax and classification amendment to be essential elements of a fair tax structure.

In conjunction with these substantive tax proposals, I have also recommended enactment of new administrative and procedural initiatives which address immediately the need for more rapid collection of revenues in this fiscal year and which enhance the tax enforcement capability of the Department of Revenue.

To meet an unquestioned need for additional state revenues, I again recommend passage of a tax on oil, natural gas and natural gas liquids produced in Kansas. Specifically, I recommend that the Legislature enact a tax at the rate of seven percent on the value of natural gas and oil produced in the State and at the rate of four percent on the value of natural gas liquids processed in the State. It is estimated that such action will raise \$138.5 million in additional revenue in fiscal year 1984. Along with the accelerated collection process that was previously outlined for you in my Special Message of January 10, 1983, no other revenue raising initiatives will be needed to meet the State's fiscal year 1984 budgetary requirements.

From the beginning, the severance tax has been presented as an alternative to other major general tax increases, such as corporate income, sales and gasoline taxes. The severance tax remains an alternative that must be judged upon its merit alongside other tax proposals.

Today, there is no debate about the need. The fiscal realities we confront are grim.

Today, because of the failure to enact a severance tax a year ago, Kansas property owners are paying tens of millions of dollars more in ad valorem taxes to fund our public schools and have been denied any opportunity for property tax relief.

Today, our State's roads and highways continue to erode and the necessary, on-going funding is not available to prevent it.

Today, because of bleak national economic conditions, we face revenue projections for this fiscal year that are \$82 million less than we all expected a year ago.

The need is clear. The question is: How can we most fairly and equitably address it?

For decades, other resource-rich states have relied upon severance taxes to assist in sharing the cost of state government. Those states have recognized that mineral wealth is non-renewable and that good public policy would dictate they be compensated for its depletion. Those states have found that much of the severance tax cost is exported to the federal government and to consumers and producers in other states. Those states which have severance taxes have benefitted directly from the extraordinary price increase that have been enjoyed by the owners of such production.

Passage of a moderate and reasonable severance tax will permit Kansas to meet its obligation to maintain a high quality system of public education without overburdening the State's property taxpayers. It will also provide the budgetary flexibility necessary to adequately fund the repair and maintenance costs of our roads and highways without an increase in motor fuel taxes.

My proposal protects the fundamental integrity of the local property tax system and provides for a payment to local units to compensate for any potential reductions in local property tax collections attributable to the severance tax. It provides a specific tax exemption for the production from marginally profitable wells. It also excludes the production attributable to royalty interests from the provisions of the tax.

When evaluating the issue of tax fairness, the federal tax benefits accorded independent oil producers must be contrasted with the situation confronting other Kansas property owners whose overall tax burden has not lessened. Commencing January 1, 1983, producers of stripper oil were exempted from the federal windfall profits tax. As we are all aware, independently-owned stripper oil constitutes a large share of Kansas production. It is estimated that the windfall profits tax exemption will result in a tax benefit to Kansas independent producers of more than \$100 million per year.

It is fair to ask why Kansas property owners and Kansas schools should be denied the benefits of a severance tax; why Kansas property owners and schools should be sacrificed to protect the privileged position of a small, but rich and powerful special interest group; why Kansas, unlike Texas, Oklahoma, Wyoming and other major mineral producing states, should fail to be compensated for depletion of non-renewable resources that one day will be gone? I submit that there are no fair or satisfactory answers to these questions. I, therefore, renew my call for swift action to pass a severance tax for Kansas.

The general property tax which in fiscal year 1982 accounted for 83.7 percent of all local government tax revenue is the largest and often the most inequitable tax paid by Kansans. Pending court actions seeking reappraisal of real property, federal intervention to reduce property taxes for selected industries and continuing legislative efforts to grant special tax exemptions to certain classes of property in piecemeal fashion all underscore dissatisfaction with the present system. They highlight the urgent need for comprehensive measures to correct the current property tax situation.

In recent sessions, there have been legislative efforts to begin the reappraisal process for real property. This action is to be commended as necessary to cure many of the present inequities in our property tax structure. The application of reappraised values without the concomitant ability to assess different classes of property at differing rates would create a far larger problem than it would remedy. To do nothing but reappraise would result in a massive shift of property taxes to homeowners and farmers. The consequences for these property owners, as well as for local governments, including our elementary and secondary schools, would in many instances be devastating.

The principle of tax fairness demands that we act aggressively to equalize assessment values within classes of property. As a matter of policy, this Administration will redouble its efforts to achieve intra-class equalization.

The principle of tax fairness also demands that we address the issue of class exemptions and differing class assessment values in a comprehensive way. Only through a constitutional amendment permitting classification can we achieve a rational, comprehensive adjustment of our property tax system that will enhance the equalization process, that will protect homeowners and farmers from massive property tax increases, that will permit other essential assessment changes to be made and that will avoid placing a basic, fundamental policy decision squarely in the hands of the courts.

As a matter of high priority, I ask that the Legislature adopt early in the Session a resolution for a constitutional amendment to establish certain limited property classes for purposes of property taxation and, in certain instances, to phase-out or exempt selected property from taxation.

In conjunction with the constitutional amendment, I also urge that the machinery be set in motion to begin the lengthy process of updating real property values. As I have previously indicated, however, the reappraisal process should not begin until action has been taken to place a classification amendment on the ballot.

Fundamental to fairness and equity in taxation is the proposition that all people who owe taxes should file returns and pay the proper tax. It has become evident, however, through a Department of Revenue tax return comparison program and through the experience of other states, that there are a number of non-residents who are not paying the required tax. Such non-compliance is unfair to those Kansans who do comply with the law because it effectively places a heavier burden upon them.

To take steps to correct this situation, I recommend that funding be provided for a Fair Share Project to enhance the federal/state comparison program and to expand non-filer detection efforts administered by the Department of Revenue. It is estimated that an additional \$201,309 appropriation for the necessary personnel and related expenses will result in an increase of \$4-6 million in additional income tax assessments in the first year. Further, I recommend that the Department accompany initiation of the project with a major public information effort to further encourage compliance on the part of non-filers.

Finally, I recommend that \$297,361 be appropriated to complete final programming, testing and implementation of the Kansas Business Integrated Tax System (K-BITS). This program has been a major, multi-year systems development effort to integrate and enhance the revenue collection systems for business taxes. Business taxes represent a major portion of state revenues and require considerable agency resources to process. For example, business taxes constitute some 1.4 million returns annually and involve some twenty (20) taxes including sales tax, withholding tax, motor fuels tax and corporation income tax. Revenue collected from the business taxes in fiscal year 1982 was approximately \$1.27 billion and represented 80 percent of the total revenue collected by the Department of Revenue.

Whether viewed singly or as part of a comprehensive tax package, the proposals for substantive and administrative change that I recommend today, including the severance tax, a classification amendment, Project Fair Share and K-BITS, advance in specific and tangible ways the cause of equity and fairness in our system of taxation. Of equal importance is the fact that these proposals will generate the revenue necessary to address our critical needs in the areas of highway and school funding and will further enable us to maintain those services and programs which are vital to the well-being and future development of Kansas.

## EDUCATION

A tradition of Kansas state government is its strong commitment to public education. This investment in our youth has paid dividends through the state's relatively high per capita income, the productivity of the labor force and the performance of Kansas scholars in national competitions. Over 60 percent of recommended State General Fund expenditures are dedicated to programs of elementary, secondary and higher education and education-related agencies.

As we look to the next four years and beyond, we face a tremendous challenge to the quality of public education in our State. The challenge is to provide adequate funding for education without overburdening the property taxpayer. In the context of current budget constraints, the danger is that we will, as a state, choose to allow fiscal limitations to also limit our investment in education and accept mediocrity. We all know, however, that such a course would mortgage not only the aspirations of our children but also the future of our State to the problems of the present. This is and should be unacceptable to us not only as individual parents and grandparents but also as stewards of the states greatest asset for the future--our youth.

There is only one way to avoid such a shortsighted path and that is to provide additional revenue for schools. The only equitable way to provide additional revenue is to enact a fair severance tax. It is appropriate that the State as a whole be compensated for the depletion of its non-renewable

mineral resources and that it re-invest that money in our most important renewable resource--our youth. I, therefore, recommend the enactment of a 7 percent severance tax on oil and gas produced in our State and a 4 percent tax on natural gas liquids produced. I also recommend that \$62.2 million of the proceeds from this tax be used to increase the General Fund State support for elementary and secondary public education. In this manner we can preserve and increase the quality of our children's education without overburdening the Kansas taxpayer. We must, however, make sure that as we increase state support that we invest the additional dollars in our most pressing needs in education. In this context I have been increasingly alarmed by the great disparity between salaries paid our teachers in public schools with those paid by other states surrounding Kansas and nationwide.

Kansas teachers rank 38th nationally in their average salary as compared to the other 49 states. This ranking has remained comparatively unchanged over several years, in good times and bad. The Kansas average is \$2,702 below the national average. The national average is \$20,208; the Kansas average is \$17,506.

This low salary has been, in part, the cause of a startling reduction in the number of high school graduates who enter teacher-training programs. Over the most recent nine years, the number of entrants into such programs has reduced an astonishing 50 percent.

I am determined to reverse this disturbing trend by allowing school districts to utilize funds already collected in local units. My intent is to bring the average salary of Kansas teachers up to the national average in a long-range program over the next four years.

I recommend that this increase be accompanied by a sharply strengthened program of pre-certification assessment of teacher-candidate quality and an inservice program for already-certified teachers. The increased emphasis on quality of teachers, coupled with increased reward for this critically important service, will, I hope, institute a balance which will once again attract the best of our young people to the teaching profession.

A new comprehensive teacher preparation and development program is recommended for initiation in fiscal year 1984. Under the program a beginning teacher will be required to pass a certification examination and complete a year of internship teaching before being fully certified. Additional resources for in-service training of existing staff and aid to local schools to help offset the costs of implementing these changes is also recommended. A sum of \$1.25 million is included in my budget recommendations for fiscal year 1984 to initiate this program.

My recommendation is that the certification tests for prospective teachers be developed in the first year and that the state inservice training program be initiated at the earliest feasible time.

Anyone familiar with the school finance act will realize that school boards have enjoyed for many years the option of transferring unexpended general funds to special funds such as their capital outlay, food service, special education and transportation accounts. As these monies were transferred, they became a part of the per pupil budget expenditure and, as such, received state aid in whatever percentage was then current in state law. These funds could be transferred only "one way." As they accumulated, they were invested in commercial accounts which generated

still more income for the district. Many millions of dollars, transferred and invested by prudent districts, have generated large sums of money.

In this critical time when state finances are at a low ebb, it is time to alter state law to allow districts to utilize these unencumbered funds.

These are my recommendations to you:

1. I recommend that any future transfers of money from school district general funds to the capital outlay fund and to the food service fund be prohibited.
2. I ask that budget limits of 4-8 percent be imposed with another 1.5 percent budget authority available for teacher salaries for those districts which maintain the percent of their budget which currently is committed to teachers' salaries.

am particularly sensitive to efforts to keep the cost of school lunches down in local school districts. To offset any loss of transferred funds to food service funds, I recommend that interest earnings from other idle funds be available for transfer into the food service funds for the purpose of controlling the price of lunches charged to students.

These two budget recommendations for the School District Equalization Act establish budget limits for local school districts of four and eight percent and provide \$493 million in both general aid and income tax rebates, and an increase of \$62.2 million over the level established under the January 1 allotment for fiscal year 1983. These recommendations will finance 48 percent of estimated local school budgets and an average teacher salary increase of 8-9 percent. Under this proposal, local property taxes are estimated to increase by only \$23.3 million. With the growth in adjusted valuations, however, this would have a negligible impact on mill levies.

My long-range goal for school finance is to reach 50 percent State participation in the financing of school district budgets by the end of my four-year term.

I also ask that you support my recommendation from the 1982 Session concerning amendments in the Professional Negotiations Act.

One area of our education program, Special Education, needs to be examined with renewed attention. In recent years, the demands placed upon this critically important area have increased dramatically. Each passing year creates a greater discrepancy between the needs of the program and the resources available from State funds.

Young people with special education needs must receive access to programs which will provide them with every chance to reach their potential for a happy and productive life. To explore means of accomplishing this goal, I will establish a panel of citizens to examine the entire area of Special Education with the charge to issue a report prior to the 1984 Session.

Our Regents Universities, Washburn University and our community colleges continue in a time of financial restriction to render fine education programs for our young people. While these

schools have and must continue to share in the more stringent budget controls placed upon other state institutions, we must exercise great care that their still-strong faculties and programs are not impaired.

In a time when sharpened attention is being given to the attraction of our youth to Kansas universities and colleges, high quality faculty and school facilities are of utmost importance.

New capital improvement projects at our Regents institutions will be kept to the barest minimum. Therefore, in this time of scarce state resources, we must maintain our investment in the current physical plants. Concentration on maintenance and repair work will be given higher priority. The \$2 million I recommend for this purpose is twice the amount I have previously recommended.

I also recommend the infusion of \$700,000 into a work-study program for students which will provide greater opportunity for them to help defray expenses of their education while simultaneously providing experience in the work place.

The arrival of this age of high technology places a significant burden upon our universities and colleges. Programs to enhance this area of learning and activity should be instituted or strengthened at once. Federal or other money relevant and available for such programs should be channeled to the schools best prepared to take part in such an effort. I recommend a \$1.5 million fund to be administered by the Board of Regents for matching grants from private industry for high-technology research based upon proposals submitted by universities.

Although many states have, in the face of revenue downturns caused by the current recession, had to cut faculty and unclassified salaries and layoff instructional personnel, I believe we must maintain a standard of excellence. Therefore, I propose an average faculty and unclassified staff salary increase of 4.0 percent, the same as recommended for classified employees in the State.

I propose discontinuing new entrants into the Kansas Medical Scholarship program. The recommendation is made on the basis that current graduates and participants constitute a substantial number of additional practitioners and that conditions relating to supply have stabilized.

Several significant changes were made in programs of aid to community colleges and Washburn University in fiscal year 1983. Included were a new program of out-district aid for Washburn University and vocational-technical schools, increased aid for credit hours taken in the Washburn Law School and increases of \$.50 per credit hour for both fiscal year 1983 and fiscal year 1984 in community college and Washburn University aid. Due to fiscal constraints, I recommend that the \$.50 credit hour aid increases scheduled for fiscal year 1984 be deferred but that the fiscal year 1984 appropriations provide funds sufficient to finance the expected enrollment growth in these institutions.

TRANSPORTATION

Since the time that our pioneer forefathers traversed this country in covered wagons, roadways have been a major need and priority for both our country and our State. Today, the State of Kansas is responsible for maintenance of more than 10,400 miles of roads. For Kansas, our roads and highways are an enormous capital investment which is necessary to sustain our State's diversified economy. I am fully committed, as are the citizens of our State, to preserving the investment in our roads and highways through a program of resurfacing, reconstructing and renovating our present system.

While our primary program is one of maintaining our system rather than constructing new highways, there are areas of our State where new construction is highly desirable. However, to preserve our system and to make the necessary improvements, it will require a commitment of new revenues.

Traditional sources of financing for the state and local transportation programs are no longer adequate to preserve our highway system. Motor fuel conservation efforts have caused gasoline and fuel tax receipts, the principal source of state highway monies, to turn downward. This downward trend began in the late 1970's, and highway receipts have remained stagnant into the 1980's. At the same time highway maintenance and construction costs have continued to rise steadily.

Under the current highway revenue structure which relies heavily upon motor fuel taxes, the gap between revenues and costs of maintaining the current network will continue to grow. It is time that we look to a new revenue measure to fund our highway program. The solution which I recommend is an equitable one which will allow us to maintain our State's investment in our highways without overburdening our reliance on the motor fuels tax. I recommend a 7 percent severance tax on oil and gas produced in Kansas and a 4 percent tax on natural gas liquids.

To provide the additional revenues necessary to allow the Department of Transportation, as well as local units of government, to preserve the basic transportation system, I renew my recommendation that the existing state sales tax on motor vehicles, parts, supplies and services be transferred from the State General Fund to the State Highway Fund. Due to the unprecedented current shortfalls in State General Fund receipts, however, my proposal provides for the phase-in of the sales tax transfer in equal installments over a four-year period. Based upon current estimates, the transfer will provide an additional \$21.1 million in highway funding in fiscal year 1984, rising to \$84.5 million by fiscal year 1987.

Moreover, in order to provide an adequate highway funding program which will meet our needs, I recommend that \$110 million in funding, currently dedicated to the State Freeway program, be released over a three-year period for use statewide as priorities dictate. The amounts programmed for release from the State Freeway Fund will provide for a balanced improvement program over the period in which the sales tax transfer is being fully implemented.

I recommend that the new highway money be distributed according to the current formula of 35 percent to the local units of government and 65 percent to the State. Since the freeway monies were collected specifically for projects on the State system, the local split would be limited to no

more than the amount of the sales tax transferred from the State General Fund to the State Highway Fund in any one year.

The four-year proposal is shown below (in constant fiscal year 1984 dollars):

	(Millions of Dollars)			
<u>Source of Funding</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Sales Tax Transfer	\$21.1	\$42.3	\$63.4	\$84.5
Freeway Funds Release	<u>50.0</u>	<u>40.0</u>	<u>20.0</u>	<u>--</u>
Total	\$71.1	\$82.3	\$83.4	\$84.5
<u>Distribution of Funds</u>				
State	\$50.0	\$53.5	\$54.2	\$54.9
Local	<u>21.1</u>	<u>28.8</u>	<u>29.2</u>	<u>29.6</u>
Total	\$71.1	\$82.3	\$83.4	\$84.5

The highway funding program which I recommend is complimentary to the highway funding program recently passed by Congress. Although the federal government will provide the Department of Transportation with additional resources, this does not reduce our need for a long-term highway funding solution. Moreover, the restrictions placed on the federal money will not allow us to use the money statewide, but instead it will be targeted primarily to the interstate system.

My fiscal year 1984 recommendation for the Department of Transportation continues the reorganization and staff reduction plan begun by the Department in fiscal year 1983. My proposed fiscal year 1984 budget includes 106 fewer positions than were provided for in the current year.

To realize necessary efficiencies within the Department of Transportation we must look to more than simply reducing the number of positions. Last year the Secretary of Transportation developed an Office of Policy Development. It is specifically designed to analyze and recommend major departmental policies. This Office is also responsible for three separate task forces, each of which is responsible for determining the most effective use of funds.

Though in Kansas we tend to think of highways when we think of transportation, railroads are also an important transportation link. The past year has been a productive one for the State of Kansas in the railroad area.

One year ago, the Oklahoma-Kansas-Texas Railroad Company had stopped operating on the old Rock Island line which runs from Salina and Abilene south through Herington, Wichita and Wellington. For several months, this important transportation corridor was dormant.

In March, 1982, Attorney General Robert T. Stephen and I led a conference in Oklahoma City where the Trustee of the Rock Island estate and representatives of twelve states met to discuss various issues involving the Rock Island bankruptcy. One of the most important developments which resulted from this meeting was the recommencement of negotiations for the purchase of the Rock Island line between Salina, Kansas, and Dallas, Texas.

In the months following the Multi-State Rock Island Conference, the parties involved in the OKT purchase reached agreement. The sale of nearly 700 miles of Rock Island track was completed on November 1, 1982. The line is currently in operation again, serving over 20 Kansas communities, 40 grain elevators and employing many Kansans. I am proud of my involvement with this transaction and look forward to the many benefits which will accrue to communities, shippers, and employees in Kansas in the years to come.

Another development following the Multi-State Rock Island Conference was the formation of a council comprised of representatives of twelve states. The cooperative effort of the Rock Island states, led by the State of Kansas, has resulted in many positive developments.

Recently, two settlements were reached with the Rock Island Trustee. The first involves the payment of 90 percent of back taxes which are owed to 41 Kansas counties. The second involves the payment of debts owed to over 300 Kansas businesses and individuals who provided materials or services to the Rock Island after it declared bankruptcy in March, 1975. These settlements combined will return over \$7 million to the State of Kansas, its counties and its citizens.

The State of Kansas has been fortunate to see rail service restored on two major rail lines during my Administration. The purchase of the Tucumcari route in 1980 by the Southern Pacific was an important step for the economy of our State following the demise of the Rock Island. The Tucumcari line has since been rehabilitated at a cost of \$100 million. Rehabilitation efforts will also be undertaken by the OKT in the coming years.

One major project remains. The State of Kansas, in conjunction with the Mid States Port Authority, will continue its efforts to restore rail service to counties and communities in northern

Kansas formerly served by the Rock Island. I pledge my continued support to the Mid States Port Authority and will work to see that rail service is restored to the northern Rock Island line.

Current economic realities dictate that the old solutions to our transportation problems will no longer suffice. We must continue the innovative course that we have set. But most of all, we must continue to work together to ensure that essential transportation services are provided for all Kansans.

## ENERGY

Less than a decade ago, our nation faced a serious problem that became known as the Energy Crisis. Rarely in American history had we faced such shortages. Our lives were altered as we were forced to lower our thermostats at home, at work and at our children's schools.

This winter, we face a different kind of energy crisis. We are not lacking a good supply of energy. In fact, there are surpluses. But the cost of that energy has skyrocketed. Thousands of Kansans and hundreds of thousands of Americans now face life-threatening situations.

The price increases being imposed on Kansas consumers are the result of the Congressional action in 1978 which phased in deregulation of natural gas. These prices take larger and larger portions of every Kansan's income. Although the increases are especially devastating to low-income and elderly persons on fixed incomes, there is no one who has escaped the adverse impact of these increases.

Though more than 95 percent of the increase in the cost of natural gas paid by Kansans has been caused by federal actions, the State of Kansas must do all that it can to take a strong and vocal message to Congress; natural gas prices have increased too much, too quickly.

I am proud that I was one of our nation's first leaders to call for an extension of price controls on natural gas. But I have not stopped there. I have been instrumental in organizing our nation's Governors through the National Governors' Association to take a position urging Congress to enact restrictions on industry practices which tend to inflate prices artificially by undermining market forces which would otherwise be at work. Take-or-pay and indefinite price escalator clauses in natural gas purchase contracts are two such practices.

Take-or-pay clauses in natural gas contracts of some of the major pipelines serving Kansas are a cause of particular concern. The effect of these contracts has been to force pipelines to take expensive "new gas" and "deep gas" or pay for it. The result is that: 1) less expensive "old gas", such as the gas produced from the Hugoton field in southwest Kansas, is shut in although it could be delivered to natural gas consumers at a lower cost per unit; 2) as prices increase and consumption drops, consumers served by pipelines, such as Cities Service (now Northwest Central Energy Company), which has 70 percent of its supplies under take-or-pay contracts, may be forced to pay for gas they will never receive; 3) as natural gas prices increase to the point where large industrial consumers switch to more economical alternative fuels, the fixed costs of the pipeline which they had carried are shifted to the remaining consumers. The net effect of these individual impacts is the inverse of the law of supply and demand which was supposed to

moderate natural gas prices in a deregulated market. In the perverse world of "take-or-pay" prices increase in the face of over supply and diminishing demand.

The impact of take-or-pay clauses on Kansas consumers served by the Cities Service (now Northwest Central Energy Company) has been a 53 percent increase in gas prices while purchases on the system have declined 31 percent. Although the problem is especially intense in this region, it is a national problem of a magnitude somewhere in the neighborhood of \$10 billion.

To alleviate this problem, I am pursuing two separate but complimentary courses: first of all, with the Attorney General as counsel, I have intervened in the Cities Service rate case before the Federal Energy Regulatory Commission (FERC) to urge disallowance of cost increases caused by take-or-pay. I have also directed the KCC to request the FERC to convene a "Joint Board", a forum composed of various representatives of producers, pipelines, regulatory agencies and consumers to investigate the extent of the "take-or-pay" problem and recommend ways to deal with it.

Secondly, I will work with the National Governors' Association and our congressional delegation to compel Congress to address the "take-or-pay" problem with legislation which:

1. Inserts in all current and future natural gas contracts, which contain "take-or-pay" or "indefinite price escalator" clauses, a "market out" clause which allows the purchaser to refuse to take gas supplies which cannot be marketed at the specified price without penalty and to renegotiate the contract; and
2. Amends Section 601 (c) of the NGPA to remove guaranteed pass-through of natural gas purchase costs and instead require the FERC to determine the purchased gas costs to be just and reasonable expenses incurred through prudent management of the pipeline company. In this regard, I will suggest that as a measure of whether the gas costs are reasonable, the FERC determine whether the company has purchased gas ratably from the fields and producers which comprise its total supply. This would prevent a company from taking a greater than proportionate share of expensive "new gas" or "deep gas" than "old gas" such as the supplies available from the Hugoton field.

Although the most significant decisions which relate to gas prices must be made at the national level, I have brought and will continue to bring, all the resources of my Administration to bear in pursuing options to control the prices of gas to Kansas consumers and to deal with the economic hardships and human needs caused by increased heating costs.

Last year, I recommended Senate Bill No. 878 which would create the Kansas Natural Gas Price Control Act. I again recommend this legislation to you. If passed, the bill would freeze the price of intrastate natural gas at the price on the introduction date of the Act and would impose a moratorium of at least one year on any prices increase for natural gas. This bill could save Kansans tens of millions of dollars.

While I am firmly committed to the long-range efforts to establish a fair and equitable price for natural gas, we must deal with the immediate concern that some of our citizens may freeze in their homes without our action. As Governor, I cannot stand idly by while some Kansans face a bitter winter without heat. As Kansans, we all share a heritage of helping others in times of great need.

Therefore, in December, I initiated Project Winter Warmth which is designed to restore disconnected gas service to all occupied homes. At my request, the Kansas Corporation Commission (KCC) issued an order preventing further utility cut-offs for the balance of the winter and established the conditions under which disconnected service should be restored. The State Emergency Preparedness Division is assisting local communities in implementing this program. To be successful, it will require the effort of people throughout the State; of people from all walks of life--and a joining of the private and public sectors. But if we prevent one tragic death, it will be worth all our time and effort.

Kansas has also been a leader in conservation activities which are crucial in reducing utility costs. The KCC began the Audit for Conservation Today (ACT) Program in 1982. This home energy audit program, conducted by the twelve major investor-owned utilities in Kansas, has received over 6,800 requests for audits in its initial months of operation. The KCC also oversees the Rural Electric Cooperative Energy Conservation Program which provides home energy audits to customers of 36 rural electric co-ops.

Through the efforts of SRS' weatherization program, approximately 3,650 homes of low-income persons were weatherized in 1982. To supplement this federally funded program, Operation Volunteer was carried out in the Fall of 1982. Through the efforts of 1,547 volunteers, 2,157 homes were caulked and weather-stripped in the month of September.

Because of the high priority I place on weatherizing homes, I recommend that \$247,000 from the State Energy Conservation Plan be contracted to SRS to supplement their low income weatherization programs in fiscal year 1984.

Yet, we all know this is not enough. The LIEAP program can only pay a small proportion of low-income Kansans' heating bills. Federal weatherization funds only meet a small percentage of the total need.

I, therefore, recommend that the KCC be given authority to establish a conservation rate structure applicable to all residential customers. Such a rate structure will provide a specific incentive to conserve, and it will benefit a substantial number of low-income consumers.

Moreover, I recommend that the current solar tax credits which are scheduled to end this July be extended through 1985. Encouragement of solar energy use should remain a high priority for state government.

According to the provisions of the Kansas Sunset Law, the Kansas Energy Office will be terminated July 1, 1983. Consequently, I have made no budget recommendation for the Energy Office. In its place I recommend the establishment of a new Kansas Office of Federal Energy

Grants Management responsible for the State Energy Conservation Plan, institutional conservation activities and funding for the Energy Extension Service. The Office will make requests for and accept federal funds and other assistance from federal agencies for energy conservation and other energy-related activities in the state. The agency will be under the direction and supervision of a federal programs manager who will be appointed by the Governor.

Additionally, I recommend that the Kansas Corporation Commission assume total responsibility for energy emergency preparedness planning.

Utility costs for state buildings continue to skyrocket each year. At times, it seems that we are incapable of controlling the expense. In an effort to aggressively take control of these costs, I will form a Governor's Working Group on Energy Conservation in State Buildings. The Working Group will be comprised of representatives of state government who are already actively involved in energy conservation in state buildings.

Now, more than ever, we must aggressively pursue every option to provide our citizens with affordable energy. Our poor and our elderly should not be subjected to life-threatening circumstances which force them to choose between heating or eating. Working together and creatively exploring alternatives, we will be able to establish a course which we can follow through the eighties.

## AGRICULTURE

Agriculture is the single most important component of the Kansas economy. Whether one lives in a metropolitan suburb or in the rural countryside, the future success of farming vitally concerns us all.

Farmers all across our nation are suffering from the worst economic stress since the Great Depression. Declining farm income, massive grain surpluses, farm foreclosures and the inability to market commodities in sufficient quantities have led me to the conclusion that a new long-range approach to agriculture policy is essential.

It is critical that we begin to establish a system of fair prices for farm products and assist our nation's food suppliers in recovering their costs of production and realizing a fair profit.

This is a difficult but an attainable goal. Last summer, I called upon Congress to implement a short-term moratorium on foreclosures on federally financed and guaranteed loans to farmers. This initiative would allow time for the Federal government to get its economic house in order, reduce the competition for credit, and allow struggling farmers temporary relief from high interest rates.

Further, as part of my involvement with the National Governors' Association, I urged the United States Department of Agriculture to undertake a vigorous effort to reduce this nation's vast surpluses of grain. These, however, are not long-term solutions for our country's farmers. They only buy time to reassess the overall direction of our farm policy.

The old patterns of erratic and contradictory commodity price support programs working at cross purposes with the grain embargoes of the seventies; and the restrictive trade agreements of the current Administration exemplify a system which is bankrupt. It is time that Kansans take the initiative to develop a strategy for American agriculture which will strengthen the farmers' position in the marketplace.

I have appointed an Agricultural Working Group which is composed of individuals from all sectors of the agri-business community. Their charge is to develop a new marketing strategy for agriculture. It is my hope that our efforts in Kansas can be expanded to a regional level that would ultimately establish a new direction for our national marketing program. The goal of any new marketing strategy should be to place a greater share of the agricultural consumer dollar in the hands of the producers. The improvement of our agricultural economy is critical to the well-being of our state and nation.

While an appropriate marketing strategy is of the utmost importance to agriculture, it is no more important than the quality and quantity of our state's water.

My budget recommendation for the Kansas Water Office includes the necessary resources to develop a statewide water management, development and implementation plan that will guide our utilization of water resources throughout the 1980's. I have instructed the Office to begin concurrently to construct a master water-related research process. The process will entail inter-agency coordination and information gathering and will be developed with the assistance of all state water-related agencies.

Despite an extremely difficult fiscal year, I recommend funding to provide for positions related to water rights processing in the Water Resources Division of the Board of Agriculture which were not filled due to budget constraints in the current year.

Though budgetary constraints require that funding for the water resources cost-sharing and watershed construction programs administered by the State Conservation Commission remain at approximately the level approved for fiscal year 1982, I support the long-term role of these programs in protecting our natural resources. I have written the Commission and encouraged them to adopt policies which will maximize the effectiveness of these funds.

The financial insolvency of a small number of grain warehouses has demonstrated clearly the need for enhanced inspection and enforcement activities by the Grain Inspection Department. I recommend additional funding to provide a staffing level sufficient to conduct two examinations of each warehouse annually.

It is essential that we maintain our investment in programs such as these. To accomplish this within the context of current budgetary constraints we must, however, set priorities for scarce state resources. For this reason, I recommend that the state administration of the Meat and Poultry Inspection program by the Board of Agriculture be discontinued. Responsibility for regulating meat and poultry plants engaging in intrastate commerce will thereby transfer to the United States Department of Agriculture under federal law. The inspection process and standards utilized by the Federal government are similar to those employed by the State. In Minnesota and

Nebraska, where state administration has been terminated, the transfer has had little effect on the operations of the plants and most state employees involved in the program have been absorbed by the Federal government.

The conversion of prime farmland to other uses is an issue which should concern all of us in Kansas. I remain cognizant of this issue and encourage state agencies to consider all alternatives before converting prime farmland to state purposes. I am especially pleased with the proposal developed by the Department of Transportation which will release excess right of way where it is not needed by the State. The land which is released will be available for agricultural use, if appropriate, and will be disposed of through public auctions. Where local units of government have need of the land for public use, it will be conveyed without remuneration.

Again this year, I recommend with increased urgency the enactment of a classification amendment. The general property tax, which in fiscal year 1982 accounted for 83.7 percent of all local government tax revenue, is the largest and often the most inequitable tax paid by Kansans. Pending court actions seeking reappraisal of real property, federal intervention to reduce property taxes for selected industries, and continuing legislative efforts to grant special tax exemptions to certain classes of property in a piecemeal fashion, all underscore dissatisfaction with the present system. They highlight the urgent need for comprehensive measures to correct the current property tax situation.

In recent sessions, there have been legislative efforts to begin the reappraisal process for real property. This action is to be commended, as it is necessary to cure many of the present inequities in our property tax structure. However, the application of reappraised values without the concomitant ability to assess different classes of property at differing rates would create a far larger problem than it would remedy. To do nothing but reappraise would result in a massive shift of property taxes to homeowners and farmers.

As a matter of high priority, I ask that the Legislature adopt early in this Session a resolution for a constitutional amendment to establish certain limited property classes for purposes of property taxation and, in certain instances, to phase-out or exempt selected property from taxation.

Over the last year, one of our areas of proudest achievement has been in restoring rail service to previously abandoned lines. On November 1, 1982, the sale of nearly 700 miles of Rock Island track running between Salina, Kansas, and Dallas, Texas, was completed. That sale resulted in rail service for over 20 Kansas communities, 40 grain elevators and employment for many Kansans. Moreover, two recent settlements have been reached with the Rock Island Trustee which combined will return over \$7 million to the State of Kansas. One major rail project still remains. In the upcoming year, the State of Kansas, in conjunction with the Mid States Port Authority, will continue its efforts to restore rail service to counties and communities in northern Kansas.

While I am deeply concerned about the farm economy, I share the eternal optimism that appropriately characterizes so many Kansans. I believe that we can overcome the current difficulties with imagination and foresight, coupled with renewed determination. We can pave

the way to a brighter future, developing a more democratic and responsive farm system in the process. I believe the opportunity is before us today, and we must pursue it.

## ENVIRONMENT

Kansans have a deep respect for the natural resources of our State. They expect a healthy and safe environment composed of clean air, productive land and quality water. They recognize that these natural resources contribute to the productiveness which is of a distinctive quality in Kansas. Preserving and protecting our natural resources must be an effort joined by individuals as well as public and private agencies.

Ensuring the quality and quantity of water for current and future generations is one of my Administration's highest priorities. Water is essential to the growth and development of our agricultural and industrial economy and is necessary to human life. The issues are far too critical to permit bureaucratic turf battles or short-sighted proposals to dictate our future direction. The time is now right, and I believe that the key leaders of various agencies responsible for water-related activities share my commitment to work together to develop plans for setting long-term policy goals for all of our agencies to follow. I am optimistic that we will be making major advances during this year.

I have recently made changes in the Kansas Water Office which will allow the State of Kansas to move forward for the future. It is my belief that all necessary reorganizations for the time-being have been made, and we are ready to make progress.

I am giving top priority to the development of a water policy plan. My time schedule calls for the development of a plan to be submitted to me and to the Legislature one year from now. This plan will guide the future decisions made in this State concerning water priorities.

I want to emphasize that the planning process will involve all key parties who share responsibility for water issues in this State. This plan will utilize resources and talents from within various agencies to assure the development of a reliable roadmap for future use.

I commend the Kansas Water Authority for diligently working to fulfill the tasks given them by the Legislature and me. Later this month they will be making their recommendations to us on such issues as interbasin transfers of water and on a water marketing plan. I look forward to receiving the recommendations and to working with the Legislature to make these important decisions.

This year, I ask that you approve the Statewide Groundwater Quality Management Plan which was developed by the Department of Health and Environment and reviewed and approved by the Kansas Water Authority. The final development and approval of the Groundwater Quality Management Plan is a good example of the State water agencies working cooperatively to protect our State's groundwater. I am encouraged by the productive attitude displayed in the development of this Plan.

Cooperation between State agencies was the premise behind 1982 Senate Bill No. 498, which mandates stricter measures to prevent surface and groundwater pollution from oil and gas operations and establishes joint authority between the Kansas Department of Health and Environment and the Kansas Corporation Commission. The importance of this program cannot be minimized. There are a total of 13,652 injection wells in this State; 10,700 of them are oil and gas wells and fall under the jurisdiction of this program.

With few exceptions, the program is working well. On November 1, 1982, the Kansas Corporation Commission and the Kansas Department of Health and Environment signed an interagency agreement and submitted it to me. They are currently negotiating a Memorandum of Agreement for the Environmental Protection Agency. The agreement should be signed within the next month. Additionally, the staffs of the KCC and KDHE are working in the same district offices, and policy manuals are being written jointly by the two agencies.

In this important area of surface and groundwater protection from oil and gas pollution, enforcement has been stepped up and stiffer penalties have been enacted. The key to successful implementation lies in a coordination of efforts between the KCC and KDHE. I am confident that we will be successful.

Although the issue of water quality and quantity deserves our greatest attention, other concerns for our environment are equally important.

Protecting our environment from the deterioration that improperly monitored hazardous and low-level waste can cause demands our watchfulness; and great strides have been made in dealing with both of these issues. Significant legislation in the past few years has gone a long way toward addressing the complex problems of hazardous and low-level waste. Kansas now has a comprehensive and effective set of statutes with which to regulate hazardous waste disposal. Last year, I was proud to join with members of the Kansas Legislature in recommending that Kansas pave the way for Congressional approval of one of our nation's first Interstate Compacts for the disposal of low-level waste.

During the 1982 Session, the Kansas Legislature approved adoption of the Southern States Energy Board's Low-Level Nuclear Compact. Kansas was the first state to adopt the Low-Level Nuclear Interstate Compact. Since Kansas' adoption of the Compact, Louisiana has followed suit. This year we expect Nebraska, Oklahoma and Arkansas to adopt the Compact as well. Additionally, Missouri, Iowa and Minnesota are considering the Compact, and I will ask this Session of the Legislature to make the necessary changes to include South Dakota.

As our environment becomes more complex, so must the intensity with which we care for that environment. Recently, I endorsed a reorganization within the Department of Health and Environment creating the Bureau of Environmental Toxicology. That reorganization will facilitate responsive and comprehensive decision-making in times when the environment of our State is threatened by chemical mishaps. The reorganization was done primarily within existing resources, by drawing upon individuals from other bureaus. The new bureau will have the responsibility of working closely with the Toxicology Advisory Committee composed of leading toxicologists and scholars in Kansas.

If we are to continue to have quality water, clean air and productive land, our efforts must be coordinated and cooperative. We have acted well in anticipating many problems, but we must not become complacent with what we have done. We must continue to act knowledgeably and responsibly in caring for our present and future environmental needs.

## ECONOMIC DEVELOPMENT

My Administration has an on-going commitment to programs and policies which support the growth of the state's economic base and promote the development of local communities. The recommendations I present to you today for the continued development of our state's economy build upon the solid foundation we have established and offer a program for necessary growth. Given the current depressed state of our economy, it is more important than ever before that we work cooperatively to maintain for all Kansans the quality of life that our past successes have made possible.

I am proud of the fact that the Alexander Grant Study now ranks Kansas' business climate fourth in the nation, as compared to sixteenth just four years ago. This past fall, Kansas was also ranked sixth among all the states in its support of small business. The fact that our employment rate has maintained at levels significantly lower than the national average is another positive indication that Kansas maintains a firm economic foundation relative to other states.

Although Kansas has withstood the effects of the current recession better than most, the lingering depressed state of the economy has brought us to a crossroads. Current revenues are no longer sufficient to maintain adequate state services and programs. Further, we have neglected for too long the state's critical needs in the areas of school and highway funding. Adequate roads and highways and a quality education system to train the workforce are critical to the sustained integrity and growth potential of our state's economy. To address these needs, I again recommend that a severance tax be imposed on the production of oil and gas in Kansas. The property tax, the gasoline tax and all other major revenue sources are already at levels which are tremendously burdensome to the general public. A severance tax represents the fairest alternative available, will meet our current needs without necessitating an increase in other general state taxes and will instill equity in our current tax structure.

All Kansans deserve the opportunity to work and lead productive lives. Despite our state's relatively low unemployment rate, the number of Kansans who find themselves without jobs has increased. A new piece of Federal legislation, the Job Training Partnership Act, gives the State a greater opportunity to address the needs of those who seek employment. The Act enables the State to take a leadership role in defining, administering and coordinating a wide array of services designed to prepare disadvantaged Kansans for jobs and to retrain laid-off workers who have little hope of returning to their original jobs. This initiative will seek to foster a strong partnership between government, business and labor in addressing the employment problems of our time.

We must do all that is possible in our efforts to address the unemployment problems that so many Kansans are now experiencing. The most critical service the State provides for the

unemployed is management of the Employment Security Fund. It is imperative that the integrity of this Fund be maintained.

Kansas, long blessed with a lower unemployment rate than most other states, is now approaching a crisis period in its employment history. The Employment Security Fund is being drawn down at an alarming rate. The once-healthy balances are likely to be reduced from last July's \$220 million to a projected zero balance in September of 1983.

As unemployed workers exhaust their benefits, the impact of the State's need to help these Kansans will be shifted to other agencies, such as the Department of Social and Rehabilitation Services. The effect upon that already-strained budget would be catastrophic.

I, therefore, recommend that the Legislature examine this problem with a sense of measured urgency, with the view of making amendments to the Employment Security Fund law to anticipate problems concerning the solvency of the Fund. Not to do so would work a great hardship on many of our citizens and upon the fiscal integrity of the State itself.

In addition to addressing immediate problems the State faces, we must do all that we can to ensure that Kansans are in the best position possible to benefit as the economy recovers. This will require a willingness to commit the resources necessary to expand our job creation by attracting new businesses and encouraging expansions of existing firms.

To this end, I recommend today that State General Fund support for the fiscal year 1984 budget for the Department of Economic Development be increased by \$456,617 to provide for the following enrichments:

1. The creation of an audio-visual presentation for use by the Department, the Cavalry, or any community or region to professionally and completely tell the Kansas story to prospects;
2. The creation of a Field Services Program within the Department, in western Kansas, to enable KDED to better serve that area;
3. The creation of a Small Business Assistance program which will provide direct management and technical programs in the area of debt and equity financing;
4. The addition of two positions in the Development Division of KDED to enable an improved follow-up capability with prospects;
5. An expansion of our overall "image" campaign efforts in the area of tourism and advertising as it relates to attracting new industry to Kansas;
6. A doubling from \$75,000 to \$150,000 of funds available for the Kansas Industrial Training (KIT) Program; and
7. Funding for a Technology Transfer Conference.

This is not an attempt to "throw money" at a problem, but rather a balanced and reasoned attempt to build upon the solid foundation we already possess. But, as we look to the future, we must expand our view of economic development. We must look to new industries and new ideas to create new jobs. But more than that, we must have a more expansive view of what makes our State attractive to business development.

That is why I directed the Department of Economic Development to initiate a study last spring of the potential for the development of high technology industries in Kansas. These industries have accounted for 75 percent of the new growth in manufacturing jobs in our nation in the last decade, and 69 percent of the new jobs in Kansas. They are expected to provide 75 percent of the nation's industrial growth for the remainder of the century. These industries have increased productivity twice as fast as conventional firms and have expanded employment nine times as quickly.

The Study is now complete. Its conclusions establish the direction the State of Kansas should follow and the area of emphasis which I will pursue in developing our economy over the next four years. The Study indicates that high technology centers, such as the "Silicon Valley," face shortages of labor, high taxes, high costs for housing and a lack of room for expansion. High technology firms are looking increasingly to new areas, including our region for expansion opportunities. In fact, a recent survey of high technology industries indicated that firms were planning to develop over 80 new plants in our region in the next four years. It also found that Kansas has the basic tools to attract high technology--renowned university programs in science and engineering and a skilled potential labor force. A review of these and other criteria which make states attractive to high technology firms reveals why we must begin to take a broader view of what economic development is.

Because high technology firms rely upon research and development to initiate new products and production methods, an important locational factor for a high technology firm is access to the technical and skilled labor forces of our universities and to quality research programs. We must, therefore, add increased support for research at our universities to our concept of economic development.

To enhance our Regents' institutions' capabilities in this effect, I recommend that a \$1.5 million matching grant program to stimulate research and developments projects in high technology be established. The program will be administered by the Board of Regents, and awards will be based upon proposals submitted by the various universities. State funds would be matched on a 50-50 basis with private industry support.

Another important factor which a firm considers when choosing a location within a region is the state and local tax structure. A quick look at the Alexander Grant Study will reveal that our tax structure is one of our greatest assets in promoting Kansas to business. That is why as we look to the next four years, we must be perfectly honest with ourselves. There is going to be a tax increase.

If we are going to attract high technology jobs to Kansas, we must not increase the same old taxes. We must diversify our tax base to include a severance tax so that we do not overburden the

property tax, gas tax or business taxes. A severance tax can help to provide the increased support for research, a good transportation system and a quality primary and secondary education system which will attract high technology firms to Kansas and do it without destroying the tax climate that is conducive to industrial development.

To attract high technology industries to Kansas, we must also enable KDED to pursue new initiatives. In this area, I have already directed KDED to implement a number of measures which will immediately put us in a better stance to promote high technology development in our State. In addition, the budget recommendation outlined earlier provides special emphasis for high technology-related initiatives. Finally, and most importantly, I have formed the Governor's Task Force on High Technology Development to review and expand on the KDED Study to develop a long-term strategy for the development of high technology industries in Kansas.

In addition to all of the efforts previously discussed to stimulate our State's economy, we must remain ever cognizant that the economic backbone of Kansas is agriculture. We have all too often in the past commented that there is little that we can do at the state level to address the problems facing farmers. This attitude must be changed, and I have taken measures in the past several months to enhance the state's ability to impact on agriculture policies.

I know you share my concern for farmers who are currently suffering from perhaps the worst economic stress since the Great Depression. Declining farm income, massive grain supplies, foreclosure threats and the inability to market commodities in sufficient quantities have led me to the conclusion that a new, long-range approach to agriculture policy must be formulated, both at the state and the national level.

Those with long-term vision know that the old approach to agriculture policy has outlived its effectiveness and that farmers can no longer rely upon the federal treasury and old-line commodity programs to adequately serve their needs. An effort must therefore be made to explore new ideas and to think innovatively with the best minds available in all states which face similar agriculture problems.

I have appointed an Agriculture Working Group composed of recognized statesmen with vested interests in the farm industry to find solutions to help bring stability to farmers. The Group utilizes resource people at our state universities and will work closely with farmers, farm groups and others with agribusiness interests throughout the State.

It is only through a coordinated regional effort that those of us who represent the heartland of American agriculture can impact significantly on national agriculture policy. It is my desire to combine the results and recommendations of the Group in Kansas with those of fellow Governors throughout the Midwest and we, in turn, will then have the knowledge necessary for input at the federal level.

In Kansas, we have a strong base in the past and the present as we look to the future of economic development. We must, however, realize that we are entering a new era of economic development exemplified by the innovative spirit of the high-technology industry--an era in which developers must have a broader view of what economic development means and an era in

which we must look to new, creative ideas to maintain the assets we already have. The jobs of the future will be located in our State if our promotional efforts are based upon substance. High technology will develop in our State on the basis of the quality of our universities and our primary and secondary education, the equity of our taxes, the adequacy of our transportation system and the renewal of the agricultural base we depend upon.

## PUBLIC SAFETY

Matters of criminal justice and public safety underlie the security of our social and economic life. Government must provide for the basic protection of its citizens. In an era of diminished resources, it is especially important that we contend with this very complex problem in the most efficient and effective way.

While there is no single magical solution to crime, we must continue to provide funding for initiatives designed to prevent crime and to ensure that criminals are dealt with in a swift, sure and just manner. Further criminal acts should be deterred by the perceptions of immediate apprehension and certainty of punishment. If the criminal justice system is to constructively respond to the demands placed upon it, we must renew our efforts to make the process perform as cohesively and productively as possible.

Given the goal of protecting the public, there are some obvious steps that we can take at the present time to improve the criminal justice system and enhance the welfare of Kansas citizens. I am in agreement with the Attorney General that it is time for comprehensive legislation to be passed, ensuring that dangerous, habitual and violent criminals will be kept out of the mainstream of society. We agree that the Legislature should enact a system of presumptive sentencing designed to achieve this goal. The goal of such a system should be to reserve the most severe punishment to the most serious offenders. Therefore, I believe that the presumptive sentencing package should include a minimum mandatory sentence of 30 years for class A felonies. I believe that imprisonment is the only effective way to deal with criminals who repeatedly break the law or who behave as violent predators on society.

Imprisonment protects the public only when facilities for incarceration are well-controlled. I strongly urge the Legislature to follow through on initiatives begun last year to make Kansas State Penitentiary a more secure facility. Many improvements have been made, both in the physical plant and in the administration of the facility. My budget recommendation provides for funds to complete phase I of construction and to equip the new medium custody and support facilities. I also recommend that funding be provided for 76 additional security positions to staff these new facilities. Completion of the three new dormitories will provide housing for 288 inmates. In addition, I recommend that funding be provided for the planning of phase II of the project. It is important that the planning be completed in a timely and orderly fashion.

I am aware that some legislators have expressed concern over the security impact of the current plan for the Ed-Rec building contained in phase I. Although I do not share those concerns, I would not object to modifications to the present plan to address those concerns as long as the modifications do not substantially delay completion of the project.

Projected increases in inmate population at other Kansas adult correctional institutions also create the need for additional security personnel. My budget recommendations include additional security positions at the Kansas Correctional Institution for Women and the Kansas State Industrial Reformatory.

Prison space is a costly and limited resource which should be used for the most serious criminal offenders. We need an alternative to prison for first-time, non-violent offenders. I am more thoroughly convinced than ever before that the relentless increase in our prison population, coupled with the escalating costs of building new prisons, impells us to have a sound community corrections program. From 1980 through 1982 those counties with community corrections programs reduced the number of first or second time D or E felony offenders sent to state institutions by 30 percent. During this same period, non-participating counties increased the number of like offenders by 22 percent. I urge that we maintain our commitment to community corrections by providing sufficient resources to accommodate the eight counties currently participating in the program as well as the addition of Sedgwick County later this year. Given that Sedgwick County accounts for approximately one-fourth of our total prison population, a successfully implemented community corrections program there could have a major impact.

In protecting the public safety we must also enhance the ability of our law enforcement personnel to perform their jobs. Senate Bill No. 499, passed last year, was a recognition of the fact that increased requirements for training and education of our law enforcement professionals is in the public interest. To maximize the effectiveness of the new Training Act, I propose that the Act be amended to give the Law Enforcement Training Commission the power to:

1. Promulgate rules and regulations for the administration of the new Act, including the authority to require the submission of reports and information by law enforcement agencies within the state;
2. Certify persons as being qualified to be law enforcement officers and by rule to establish criteria and procedures for the revocation or suspension of the certification of officers whose conduct would jeopardize public trust in the law enforcement profession;
3. Fix qualifications and standards as they relate to the competence and reliability of persons to assume and discharge the various responsibilities of law enforcement officers; and
4. Give the Director of Police Training the statutory authority to reject applicants to the training center that have failed the mandatory pre-training evaluation.

I also recommend that the Training Act be further clarified to specify that persons with expunged felony convictions be prohibited from serving as Kansas law enforcement officers.

The old adage that "an ounce of prevention is worth a pound of cure" is especially true in our battle against crime. The Crime Watch program administered by the Kansas Bureau of Investigation has proven to be an effective crime fighting weapon. I urge that it be maintained at its current level of funding and that we continue to focus our attention on prevention approaches to the problem.

Certain crimes warrant special attention. Auto theft has become one of the most lucrative property crimes in this country. Over 6,000 thefts occur annually in Kansas alone. I believe that a dedicated effort by highly trained personnel is needed in this area. Last year, with minimal effort, the Kansas Highway Patrol identified 78 auto theft cases resulting in recovered property with an estimated value of \$493,200. This was in addition to those recoveries made during routine patrols. To achieve a more effective use of existing resources, I recommend that the Motor Vehicle Inspection program operated by the Patrol be terminated, and that those resources be utilized to provide increased road coverage and an Auto Theft Unit Within the Patrol.

With the ever-increasing problem of arson it is imperative that the Fire Marshal be able to provide an effective investigative service to local units of government. To provide long-term financial stability to the Fire Marshal's office, I recommend an increase in fire insurance premium taxes.

One of the most sensitive concerns facing us today is domestic violence. Due to the high priority of this problem, I established the Governor's Committee on Domestic Violence. I support the Committee's recommendations for amendments to three statutes.

I recommend an extension of the Protection from Abuse Act to cover unmarried cohabitants with a proviso that exclusive possession of the residence in such cases be limited to ten days when the abuser is the owner or is primarily responsible for leasing it. Also, I would endorse making the entire Act apply specifically to elderly persons.

The Governor's Committee requested that the Interim Committee on Judiciary of the Legislature study the sexual abuse laws and subsequently make recommendations. The Interim Committee realized the need to protect women from sexual abuse by their husbands, recognizing the emotional and physical harm caused by such abuse. In accordance with the conclusion of the Interim Committee, I believe that provisions that would eliminate the marital rape exception by removing "not his wife" from K. S. A. 21-3002 should be enacted.

Probable cause for arrest, under K. S. A. 22-2401, is the third area requiring revision. I recommend that probable cause be expanded to include a signed statement of the victim, with a restriction that this statement would be considered probable cause for an arrest only if it is signed by the victim within four hours of the abusive incident.

An additional needed measure regarding domestic violence, which I have included in my budget recommendations, is the allocation of \$150,000 to the Regents' budget for a one-year pilot program to evaluate existing shelter facilities.

Adoption of these recommendations will significantly contribute to the amelioration of some aspects of the domestic violence problem. The vicious cycle of anger and frustration generated by this violence must be curbed.

Perhaps the most widely discussed problem in public safety is the drunken driver. Drinking and driving is recognized as the greatest and most costly health and safety problem in the United States today. Consider the fact that one out of every two of us will be involved in an alcohol-

related accident sometime during our lives. Furthermore, it is estimated that 50 percent of all highway fatalities and injuries are linked to drunk driving. States all across the nation are beginning to awaken to the tragic consequences of drunk driving.

I am very proud of the progress we have made in Kansas during the last year in response to this major problem. In my 1982 Legislative Message, I committed Kansas to the implementation of a plan to reduce the number of alcohol-related traffic offenses. On March 9, 1982, the Governor's Committee on Drinking and Driving was established as a sub-committee of the Kansas Citizens' Advisory Committee on Alcohol and Other Drug Abuse to study the issue. The Committee delivered its final report and recommendations to me on December 13, 1982, after reviewing what other states and countries have done. In addition, the Committee conducted eleven public hearings statewide, monitored the activities of the Presidential Commission on Drunk Driving and examined the content and impact of the drinking and driving law (Senate Bill No. 699) passed in Kansas during the last Session. Further, the federal legislation (House Bill 6170) approved by Congress in early autumn was analyzed. The members of the Committee receive my highest compliments for their months of effort and judicious formulation of a strategy to further deter drinking and driving in Kansas.

In accordance with one suggestion made by the Committee, I direct the Secretary of the Department of Social and Rehabilitation Services (SRS) to create a Coordinating Board to systematize all state activities related to alcohol and other drug abuse and to accomplish the on-going work of the comprehensive deterrence plan submitted by the Governor's Committee. This Board, comprised of relevant state governmental units and a representative of the Governor's Committee on Drinking and Driving, will report and make recommendations to me on a regular basis. The initial focus of the Coordinating Board will be on monitoring implementation of various recommendations of the Governor's Committee.

The success of the Committee on Drinking and Driving is enhanced by two major accomplishments of the 1982 Legislative Session--the passage of Senate Bill Nos. 888 and 669. SB 888 provides the state with broader powers to enforce the Alcoholic Liquor-Private Club tax. This stricter enforcement generates increased revenues for alcohol and other drug abuse services at both the state and local level. Given the federal cutbacks in alcohol and other drug abuse programs, the State must invest more dollars in this area to maintain the present level of services. Consequently, I recommend that \$910,000 of the SB 888 funds deposited with the State be budgeted for Alcohol and Drug Abuse Services in SRS for fiscal year 1984.

Additional monies for state programs addressing drinking and driving issues will soon be available from the federal government, due to HB 6170. If Kansas' drinking and driving programs meet criteria to be specified in pending final regulations, the State will qualify for a \$450,000 basic grant. I encourage the Legislature to give careful consideration to the regulations after they are released.

In addition to sufficient monetary support, the collective social attitude, or "norm", which accepts the practice of drinking and driving, must be changed if we are to achieve our goals in this area. Thus, I emphasize the need for a high level of public awareness about the consequences of abuse. My budget recommendation to dedicate SB 888 funds to alcohol and other drug abuse

services provides sufficient revenue for the development of an on-going public information and prevention effort to educate Kansans about the hazards of drinking and driving.

In conjunction with the public information effort, other methods can be used to achieve prevention. Education programs for that purpose have been instituted in some schools for students in kindergarten through 12th grade. I strongly encourage the adoption of such programs to address the drinking and driving issue throughout Kansas, as resources become available. Furthermore, of BACCHUS (Boost Alcohol Consciousness Concerning the Health of University Students) and develop other appropriate programs to alleviate alcohol and other drug problems among college students. Additionally, I direct the Secretary of the Development of Revenue to place increased focus on alcohol, other drugs and driving in the Kansas Drivers' Handbook.

Monetary support and prevention of abuse are not enough. Reducing number of alcohol-related offenses also requires a continuing commitment to toughening the law. The penalties for drinking and driving should be commensurate with the crime. Kansas joined approximately half of the other states in increasing the sanctions for alcohol-related traffic violations with the passage of SB 699. This law amended numerous driving statutes, strengthening sanctions and enforcement in the drinking and driving area. A network of alcohol and drug safety action programs in Kansas also resulted from the passage of SB 699.

The changes made in 1982 constituted a major step forward, but we must do more. The need for stricter laws was demonstrated by the fact that, in Kansas, every category of alcohol-related accidents showed a continuous rise for the period 1971-1981. For example, there was a 28.3 percent increase in alcohol-related fatal accidents from 1972 to 1980. During the first eight months of 1981, there were 4,210 alcohol-related vehicle crashes resulting in 6,283 persons injured and 282 fatalities. To continue our efforts to reduce such staggering statistics, I recommend the following:

1. That a new offense of Operating While Impaired (DWI) be created in the law. Operating While Impaired would be a lesser offense than Operating Under the Influence (DUI), applying to persons whose blood alcohol content (b. a. c.) is .05 percent or above, but less than .10 percent (DUI). Currently, reckless driving is the charge that may be applied in such cases, although it does not reflect the alcohol involvement. All violations which involve alcohol impairment should be designated as alcohol-related on the offender's record, establishing clear documentation of all drinking and driving offenses. This information could assist judges in making more appropriate determinations within a range of penalties for OUI remain the same as those for reckless driving under current law, until the Coordinating Board has ample opportunity to make recommendations;
2. That there be a range of stricter penalties for OUI, with a corresponding increase in the severity of punishment, as property damages, personal injuries and fatalities are involved;
3. That the language of the law be revised so that out-of-state offenses and records can be utilized in the sentencing process;

4. That preliminary "breath-testing" procedures be used, as local resources allow, for determining probable cause in what appears to be an alcohol-related offense;
5. That local law enforcement agencies purchase camera equipment, as resources become available, to use for filming field sobriety tests for evidentiary purposes; and
6. That as cost-effective testing capabilities for drugs other than alcohol are developed and utilized, the law for operating under the influence of, or impaired by, other drugs be consistent with the alcohol provisions.

Although the legal drinking age was not a major topic of concern in the testimony presented to the Governor's Committee at the public hearings, it is an issue which arises whenever a comprehensive plan to deter drinking and driving is being developed. The issue is complex, with solutions that have extensive ramifications. The evidence is conflicting, and plausible arguments are offered to support a variety of suggested minimum ages. I concur with the Committee's position on this issue and recommend the establishment of a special legislative committee to investigate the sociological effects of the drinking age, including, but not limited to, its impact on traffic safety.

Success in implementing an effective plan to reduce the number of alcohol-related offenses is inherently dependent upon public support, the unified efforts of governmental units, cooperation of the judiciary, and cohesion of the alcohol and drug abuse field. I commend the coordination that has existed in the past among these groups and has made possible the improvements we have made. It is my hope now that a continuation of cooperation will enable us to increase our efforts to address this serious area of concern.

Positive steps have been taken in the field of public safety that have reaped many tangible returns for the law-abiding citizens of Kansas. Perhaps one of the most notable examples of cooperative success is the fact that for calendar year 1982, traffic deaths were at their lowest level in Kansas since 1949, when records were first maintained. The number of motor vehicle fatalities changed dramatically from 1981 to 1982, dropping from 578 to 486, while more miles were traveled. This improvement is attributed to a variety of factors, such as: better law enforcement practices; voluntary compliance with laws and safety measures; enhanced public awareness of highway traffic issues; and, the passage of a new drinking and driving statute. I urge you to join with me in this spirit of cooperation in finding the solutions for criminal justice and public safety problems. We owe it to the citizens of Kansas to continue with this sound course of action.

## AGING

Older Kansans have contributed substantially to the well-being of our State. Through their initiative, compassion and frugality, they have demonstrated the balance that can be achieved by supporting critical human services while also pursuing fiscal responsibility.

This year is critical to our state's continued development. We have both a short-term need to maintain essential services for the vulnerable, and a long-term responsibility to ensure that adequate resources are available to fulfill our established commitments. In these critical times of

diminished resources, the future well-being of Kansas depends upon accepting this dual responsibility. Within this context, one of the state's most fundamental objectives must be to develop adequate revenues from an equitable tax structure so that individual citizens are not unduly burdened. To meet these needs, I again recommend that a severance tax be imposed on the production of oil and gas in our State. A severance tax represents the most equitable means of securing a major source of revenue which will benefit all Kansans.

My Administration will continue to make Aging a priority. We must maintain the commitment we have made over the last four years to assist the elderly to live independent and productive lives. My goals for the next four years include the following: promotion of independent living, adequate protection for the vulnerable and enhancement of self-support, enabling the elderly to meet ever-rising costs.

The immediate challenge we face for fiscal year 1984 is to preserve the service levels of those critical programs which have proven most successful in assisting older Kansans to remain in their homes and communities.

I recommend the continuation of current service levels for three programs that have proven the most cost-effective in helping older people remain in their homes and communities, preventing unnecessary institutionalization. The In-Home Meals, Homemaker and Congregate Meals programs are pivotal segments in developing a comprehensive and fiscally balanced program which provides services in the least restrictive environment. These critical services contribute to both the physical and mental well-being of many older Kansans.

A long-term care policy has been developing over the past four years which increases the emphasis on community-based, non-institutional alternatives. Initiatives include the community-based Medicaid Waiver program, the Pre-Admission Screening program, the Home Health program and the Adult Family Home program. My budget recommendations in this area reflect this Administration's continued support of these efforts. Substantial savings to the taxpayer can be derived from these community-based programs. They exemplify the innovative creation of delivery systems that both increase efficiency and maintain critical services in a time of reduced resources.

At the same time, we must reaffirm and ensure the protection of our dependent elderly who are often without friends or relatives. It must be recognized that some people require an institutional setting. Major steps have been taken to assist vulnerable elderly to ensure that high quality standards are maintained in nursing homes. An interagency coordinating committee made up of representatives from the Departments on Aging, Health and Environment and Social and Rehabilitation Services now works to coordinate nursing home complaints. Training has been provided to aging groups and nursing home personnel by three Long-Term Care Ombudsmen at the Department on Aging. I also recommend for fiscal year 1984 continued funding of the Nursing Home Monitoring program operated by local health departments. This program ensures a continuous review of nursing homes so that high standards are maintained.

Last year, I initiated and signed legislation to increase the accountability of all those involved in the ownership and operation of nursing homes in our State. This legislation requires that all such

parties be identified on the license of each home. As a next step in this attempt to ensure accountability and quality care, I encourage the Legislature to pass the bill submitted by the Interim Committee on Public Health and Welfare which would now limit the number of entities which could be involved in the ownership and operation of a nursing home.

I am pleased that Kansas continues to enforce protective services for both the institutional and non-institutional elderly. I commend state agencies for their strong response and direct the Department of Social and Rehabilitation Services (SRS) to continue providing protective services for both institutionalized and non-institutionalized elderly.

Guardianship is another means of protection for the frail and dependent. Good guardianship laws balance the need for protection with guarantees for the civil rights of the individual. Recent developments by the Interim Committee on Public Health and Welfare, as well as the Judicial Council, have addressed some of the major concerns in this area. I encourage the Legislature to review fully these proposals and make changes necessary to protect the rights of our most vulnerable citizens.

The contributions of older Kansans are too valuable to lose. To ensure their continuation, we must remove the barriers from those elderly who want to work and support themselves. I recommend the continuation of the Senior Employment program for fiscal year 1984 and again encourage the Legislature to include "age" as a protected class in Kansas discrimination statutes.

In addition, I believe that older people have skills and talents to contribute to the policy and decision-making process. Last year, I recommended and the Legislature unanimously endorsed the creation of a Silver Haired Legislature which will provide a vehicle for substantial participation. The Silver Haired Legislature Committee, Area Agencies on Aging and aging organizations are to be commended for moving ahead with developing this essential forum.

One of the major problems facing many older Kansans is the inability to meet the rising costs of necessities such as health care and utilities. Many are forced to live on fixed incomes and cannot adapt to these difficult economic times without jeopardizing their safety and health. Ultimately, this inability is costly in terms of services that would not have been necessary if some non-direct assistance had been available.

Adequate health care and concern with health costs continue to be of extreme concern to Older Kansans. Although many of these issues are federal Kansas has a long-term interest in controlling health care costs. We have already taken a variety of actions to hold down health costs in the Medicaid program. The Medicaid Waiver, the Utilization Review and Pre-Admission Screening programs are examples of steps taken in the right direction. In addition, under my direction, the Secretary of SRS has been working closely with health care providers to address this area of concern. The provider groups have been most cooperative, and I am optimistic that significant savings will result from these efforts.

To further assist older Kansans to meet health care costs, I have directed the Secretary of Aging to: 1) work with the Kansas Medical Society and other organizations to develop educational and

training programs on consumer and Medicare assignment issues and 2) provide a report on the feasibility of Long-Term Care Insurance.

The State is working on more strategies to reduce the health care expenditures which strike with devastating impact upon the elderly and other citizens with fixed incomes. I particularly commend the initiatives of the Commissioner of Insurance to embark upon a system of controls which will first stabilize, then reduce, the costs of health care. I support the Commissioner of Insurance's legislative proposal to create an independent State Health Care Commission to review, evaluate and develop appropriate recommendations to control the costs of health care in Kansas. This Commission would be comprised of the Secretaries of Social and Rehabilitation Services and Health and Environment, the Commissioner of Insurance and eight additional members appointed by the Governor. The Commission would report to the Governor annually, and funding would come from health care providers. In addition, the Commissioner of Insurance recently released a statement which would limit the amounts of reimbursement that will be made to participating providers for certain services under Blue Cross and Blue Shield prepaid service plans.

In order to ensure adequate health care services for the elderly, we must recognize that the specialized medical needs of the aging are different than the general population. During the past year, significant developments in geriatrics have occurred in Kansas. At my request, the 1982 Legislature appropriated funds for the Long-Term Care Gerontology Center at the University of Kansas Medical Center to recruit a geriatric physician and a geriatric nurse specialist to develop educational programs for health professionals and to develop model ambulatory care programs for the frail elderly. The first special clinic for the elderly is now functional--an Ambulatory Geriatric Assessment Unit. I recommend that funding for this program, as well as for the Gerontology Program at Wichita State University, be maintained for fiscal year 1984 so that the special health needs of the elderly can be addressed.

My gravest concern for older Kansans, and indeed all Kansans, is the rapidly rising cost of home energy. Unfortunately, the great majority of energy price increases are a direct result of federal actions which are not directly controllable by the states. Of the more than 200 percent price increase most Kansas natural gas customers have seen in the last four years, 95 percent has been due to federal actions. I am proud, however, that my Administration was the first to call for actions to address the problems at the root of increases in natural gas prices. I was successful in convincing the Governors of our nation to join me in urging Congress to restrict the artificially inflationary impact of take-or-pay and indefinite price escalator clauses in natural gas purchase contracts. We all hope that the current Administration in Washington will recognize the severe impact of continued decontrol on consumers and mitigate its effects. I will redouble my efforts through all channels to urge the Congress and Administration to take actions to achieve this goal.

The impact of energy price escalations and of future increases resulting from the decontrol of natural gas will be especially devastating to the elderly, those in or near poverty and many small businessmen and farmers. For the first time, many older persons will face the impossible choice of keeping warm, eating properly or maintaining their health.

Kansas has been in the forefront in addressing the home energy needs of its needy citizens. During my Administration, utility bills have been exempted from state sales tax, the Kansas Natural Gas Price Protection Act was passed, a Consumer Information Board was established by the Kansas Corporation Commission (KCC) to increase consumer participation in the rate-making process, the KCC adopted a Consumer Bill of Rights and a Cabinet Sub-Committee on Utility Concerns was formed. The Kansas Natural Gas Price Protection Act alone is expected to save Kansas consumers more than \$130 million through 1985.

This winter, I initiated Project Winter Warmth which is designed to restore disconnected gas service to all occupied homes. At my request, the KCC issued an order preventing further utility cut-offs for the balance of the winter and established the conditions under which disconnected service should be restored. The State Division of Emergency Preparedness is assisting local communities in implementing this program which will reduce the risk of Kansans freezing to death this winter.

Specifically to help older Kansans, the Department on Aging, in cooperation with Area Agencies on Aging and other state agencies, has begun Operation Winter Watch. Winter Watch is a community education program intended to educate older Kansans about the problems of, and the solutions to, winter survival, especially hypothermia. To further assist older Kansans, a special 10 percent income disregard has been established at my direction for elderly Low-Income Energy Assistance Program (LIEAP) applicants.

Kansas has also been a leader in conservation activities which are crucial in reducing utility costs. The KCC began the Audit for Conservation Today (ACT) Program in 1981. This home energy audit program, conducted by the twelve major investor-owned utilities in Kansas, has received over 6,800 requests for audits in its initial months of operation. The KCC also oversees the Rural Electric Cooperative Energy Conservation Program which provides home energy audits to customers of 36 rural electric co-ops. In early 1982, the KCC also conducted a Conference on Community Energy Issues.

Through the efforts of SRS' Weatherization program, approximately 3,650 homes of low-income persons were weatherized in 1982. At least 40 percent of these homes were occupied by older Kansans. In supplement this federally funded program, Operation Volunteer was carried out in the Fall of 1982. Through the efforts of 1,547 volunteers, 2,157 homes were caulked and weather-stripped in the month of September. Because of the high priority I place on weatherization, I recommend that \$247,000 from the State Energy Conservation Plan be contracted to SRS to supplement their Low Income Weatherization Program in fiscal year 1984.

Yet, we all know this is not enough. The LIEAP program can only pay a small proportion of low-income Kansans' heating bills. Federal weatherization funds only meet a small percentage of the total need. The continuing decontrol of natural gas prices and take-or-pay contracts will ensure a continued escalation of home energy prices.

I, therefore, recommend that the KCC be given authority to establish a conservation rate structure provides a specific incentive to conserve, thus benefitting a substantial number of low-income consumers.

Our long-range goals for the future well-being of the aged depend to a great extent upon how efficiently we provide services. Controlling costs and coordinating programs have a positive impact upon the ability to provide services in times of reduced revenues. Without these cost controls, services cannot be maintained. I pledge to continue to provide strong leadership in developing coordination on aging issues. We must not neglect our commitment nor the progress we have made, toward assisting our elderly to lead productive and secure lives.

## HEALTH

I view it as one of the state's major responsibilities to ensure that all Kansans have access to quality health care and a healthful environment. During these difficult economic times, we must not permit scarce resources to erode the investment we have made in our health care system.

The most pressing problem in the health care field continues to be the rising costs of health care. We can make positive inroads into these rising costs by becoming personally involved in our own health care. The responsibility for a healthful lifestyle has to lie first with each individual. Failure to assure such responsibility contributes to increases in demand and costs.

The State must continue to provide health education programs that demonstrate the interrelationship that exists between improved personal habits and improved health. During my Administration, we have initiated several programs that have proven successful in reducing the demand for health care services and the corresponding costs. The Governor's Council on Fitness and "Project PLUS" both stress improved physical fitness as a means of helping to prevent illness and disease. I recommend that funding for these programs be continued for fiscal year 1984.

This past July, the Department of Health and Environment initiated another program of a preventative nature which I strongly endorse. Project VOTE is designed to ensure a smoke-free work environment for those private and public organizations that elect by a majority vote of their employees to do so. VOTE is not a movement to prohibit smoking but, instead, is geared to accommodate both those who smoke and those who do not. Project VOTE is gaining increased support and has been accepted by many local health departments, hospitals and several other agencies.

Early intervention into the complex needs of handicapped children has also proven effective in preventing the necessity for more costly services, thereby positively impacting the dramatic increase in health care costs in our State. The Special Child Care Program, now operational in several areas of the State, has demonstrated the savings in both human potential and medical costs that can be accomplished through early detection and treatment. This program, which is targeted to areas where specialized services are not readily available, is cooperatively sponsored by the Department of Health and Environment and local education specialists. Comprehensive evaluation services are provided to children suspected or known to have neurological impairments.

For fiscal year 1984, I recommend that current funding levels for Special Child Care Clinics be maintained to assure that handicapped children receive the professional advice necessary to meet

their educational and medical needs. Providing needed, meaningful and cost-effective services to the youth of Kansas will continue to be a priority of my Administration.

Protecting the health and safety of Kansas children is a responsibility we all share. With regard to increasing their protection from injury on our roads and highways, we made great progress two years ago with the passage of the Child Passenger Safety Act. This past Fall, a Child Passenger Safety Advisory Committee to the Secretary of Transportation was established to continue efforts in this important area. This Committee will be making recommendations during the current Session to enhance the safety of children, and I encourage you to give careful consideration to their proposals.

One of the greatest challenges we face in our attempt to address the health needs of all Kansans is to reverse the trend in the continued escalation of health care costs. We must pursue innovative measures to control the high costs which become barriers to access to necessary services. My Administration has supported numerous initiatives within the Medicaid program to hold down rising health care costs. Pre-Administration Screening, the Medicaid Waiver and Utilization Review programs continue to provide cost-effective means of addressing rising health care costs. I am anticipating further cost savings to result from the dialogue that has been taking place between the Department of Social Rehabilitation Services and health care providers. The provider groups have been extremely cooperative, and I am optimistic that substantial savings in Medicaid costs will result from these efforts.

The State is working on more strategies to reduce the health care expenditures which strike with devastating impact upon the elderly and other citizens with fixed incomes. I particularly commend the initiative of the Insurance Commissioner to embark upon a system of controls which will first stabilize, then reduce, the costs of health care. I support the Insurance Commissioner's legislative proposal to create an independent State Health Care Commission to review, evaluate and develop appropriate recommendations to control the costs of health care in Kansas. This Commission would be comprised of the Secretaries of Social and Rehabilitation Services and Health and Environment, the Commissioner of Insurance and eight additional members appointed by the Governor. Funding for the Commission, which would report to the Governor annually, would come from health care providers. In addition, the Commissioner of Insurance recently released a statement which would limit the amounts of reimbursement that will be made to participating providers for certain services under Blue Cross and Blue Shield prepaid service plans.

Local health departments comprise one of the most important components of the state's public health network. Because they provide a comprehensive range of services at rates which are adjustable to the client's ability to pay, it is even more critical during these times of economic hardship that we maintain their viability. Many Kansans are already faced with the difficult choice of keeping warm, eating properly or maintaining their health.

Although the state's current fiscal situation has necessitated cutbacks in several areas, I strongly believe that we cannot neglect our responsibility to ensure adequate access to basic health services, I therefore, recommend that the current level of state aid to local health programs be maintained. This maintenance effort will ensure the continuation of many programs such as

Home Health, Home Visitor and LIVELY (Life, Interest and Vigor Entering Later Years) which have proven cost-effective in reducing the need for more expensive intervention.

Equally as important as the cost savings to taxpayers are the savings in human suffering that result from projects such as Home Visitor. This program has proven successful in reducing the number of confirmed child abuse reports in our State and has increased the number of referrals to other necessary and preventative services.

The LIVELY program, in conjunction with other state supported initiatives such as the Homemaker, Home Health and Meals programs, enables many elderly to remain in their homes and communities as opposed to requiring more costly institutional care. This program assists retirees in developing pre-retirement planning to adopt healthful lifestyles.

With further regard for the health care needs of the elderly, I recommend for fiscal year 1984 that the current level of State General Fund support be maintained for the Geriatric Medical Program at the University of Kansas Medical Center and for the Gerontology Program at Wichita State University. We must recognize that the specialized medical needs of the aged are distinct from those of the general population. If we are to provide quality care to older Kansans, we must maintain the capability to specially train personnel to meet their needs.

Emergency Medical Services comprise another critical element of our health care system. State government and local entities have cooperated over the past few years to make significant improvements in the quality and availability of emergency services throughout Kansas--especially in the rural areas.

Our long-range plans for ensuring that none of our citizens are deprived of life saving emergency services must include a commitment to expand our service capability to all uncovered areas of the State. However difficult our current fiscal situation, we must secure the investment we have made in this critical program until resources allow us to reach all Kansans whose lives may depend upon this service. I, therefore, recommend that the current State General Fund commitment to the EMS program be maintained for fiscal year 1984.

Last year, the Legislature passed and I signed a bill which established an excellent formula for funding local health departments. The state's present inability to provide funding for this initiative in no way reflects diminished support by my Administration. As current fiscal constraints lessen, I intend to pursue funding for this new formula aid program.

The policies of this Administration will continue to reflect the belief that government officials should do all that is possible to assure Kansans of quality health care at a reasonable cost.

## SOCIAL SERVICES

My Administration's concern for fiscal constraints has not pre-empted my resolve to provide services and assistance to those most in need. Caseloads in services provided by the Department of Social and Rehabilitation Services (SRS) are sensitive to the economic and social conditions

within our society. The State bears a responsibility for protecting its most vulnerable populations from the threats of encroaching age, disability, poverty and unsheltered childhood.

Kansas' responsibility for its less fortunate is measured in terms of the amount of money spent, the array of programs provided and the number of people served by the Department of Social and Rehabilitation Services. In the current era of scarce state resources, we must, make sure that the money we spend in this area is spent efficiently for the highest priority programs.

One area of critical importance in our pursuit of cost containment measures is the Medical Assistance Program. Under my direction, SRS has limited the annual aggregate increase in medical assistance expenditures less than six percent over the last four years. The Department has been actively involved in cost containment negotiations with medical providers, and I am pleased with the high level of cooperation. I believe it is important to note that through the cooperation of the Kansas Medical Society, the Kansas Hospital Association and SRS, the number of hospital days purchased in the current fiscal year is expected to drop by approximately 15 percent. Even with an increased public assistance caseload, SRS will be paying for fewer hospital days in the current fiscal year than it was two years ago. If the 15 percent reduction is achieved, reduced expenditures of approximately \$7 million will result.

As part of these efforts, SRS, in conjunction with the Kansas Medical Society, implemented a program diverting individuals from inpatient hospital services if their care and treatment could be provided effectively in a more efficient manner on an outpatient basis. This program has decreased the number of individuals receiving high-cost hospital care.

In addition to these manners, SRS is implementing a pharmaceutical utilization review program to eliminate costly duplication and over-medication. Work is also being done in the area of cost limitation on dental services. Most service providers have assumed responsibility for some type of program reduction.

Another challenge we face is maintaining the most critical services in SRS's public assistance programs. In November, 1981, there were a number of federal eligibility restrictions placed in the Aid to Dependent Children Program. As a result of these restrictions, approximately 12,000 persons were dropped from the program. As of November, 1982, there were 67,426 persons being served. The decrease in caseload experienced in the Fall of 1982 has now been totally offset by the increase of the last twelve months.

During the month of November, the number of persons receiving General Assistance totaled 12,556. This represents a 61.9 percent increase over the previous total of 7,755 in October of 1981. I am concerned that these increased caseloads may outpace our ability to adequately fund the Aid to Dependent Children and General Assistance programs.

I recognize that our only options are to substantially increase funding, redefine eligibility or prorate benefits. In choosing among these options, the Department developed legislation which limits General Assistance to those who by virtue of physical or mental handicaps or age are unemployable. We, do however, have a number of single person households who are on General

Assistance for a period of less than one year. I recommend that this group of people receive a one-time \$100 transitional payment.

This is not an easy choice, but it is a choice we must make if we are to preserve the integrity of these programs and maintain benefits for the most needy of our State.

It should be recognized, too, that employable persons with dependents will continue to be eligible for benefit programs such as ADC-UP, medical and food stamp assistance. Further, the General Assistance and ADC programs did not experience earlier reductions under the allotment procedure.

In my effort to assure that a broad array of services is available in the community for disabled and aged Kansans, my Administration has developed innovative programs to assist our citizens to maintain self-sufficiency. We have been successful in diverting a significant number of persons from institutional care by maintaining them in their own homes or in some living arrangement with others.

I am pleased to announce that in April, 1982, Kansas was the fourth state in the nation to receive approval from the Department of Health and Human Services to receive Medicaid funding for alternatives to institutionalization for our elderly and disabled citizens. The Kansas Home and Community-Based Services Program was implemented last Summer to fulfill the diverse needs of elderly, disabled and/or chronically ill persons by providing a continuum of medical and social services in the community, thereby preventing unnecessary institutionalization and reducing Kansas health care costs.

Through such programs, the State has the opportunity to divert people from a state of dependence to a position of independence and self-support. During fiscal year 1982, \$2.4 million was expended in this activity. This has made it possible for 1,393 disabled individuals to be rehabilitated; 57 percent of this number were severely handicapped. Additionally, 28 percent of persons rehabilitated had been on some form of Public Assistance.

While financial pressures have required that some reductions must take place in SRS programs, a few areas have such a close and heavy impact upon certain individuals that I have retained or reinforced them.

The Kansas Council for the Disabled has requested one staff position whose task will be to make the Council a self-sufficient body for future years. I recommend funding for that position in the amount of \$16,500.

I recommend, also, the sum of \$190,000 for the Independent Living program now centered in the four areas of the State. This money replaces lost federal funds for a program which allows disabled and elderly Kansans to avoid institutionalization while continuing to maintain their homes at an actual savings, both in money and in human costs, to the people of Kansas.

The result of these efforts to decrease premature institutionalization can be seen in the reduction in the projected nursing home costs of the Kansas Medical Assistance Program this year. At the

beginning of the fiscal year, the SRS nursing home medical assistance budget was projected at \$94 million. When the budget was revised for submission in September of 1982, the figure was \$88 million. More importantly, however, these results reflect not only cost savings to the State, but also improvements in the quality of life for the individuals served.

My Administration remains committed to providing both institutional and community-based programs for mentally ill and mentally retarded Kansans. Despite the state's current fiscal situation, it is critical that we maintain these services at viable levels. My fiscal year 1984 budget recommendations will maintain the state's commitment to serve those individuals who have the greatest need.

Important as mental health and mental retardation programs are, they must be subject to scrutiny for cost containment in the same way other services are. One policy of this Administration is, however, in affect--no cuts in budget nor in programs which would impose severe conditions upon any group of clients will be made.

Working under this proviso, the least threatening cuts have been made in the mental health and mental retardation areas. Although fiscal constraints require a reduction in the units of service available in the optional medical assistance program for mental health, these reductions will not eliminate clients access to needed services.

I have instructed the Secretary of SRS and the Commissioner of Mental Health and Retardation Services to work with various community groups in the development of long-range plans in both Mental Health and Mental Retardation Services. As we move through the 1980's, we need to assure that there is not a duplication of effort and services among the institutional and community programs. In the area of Mental Health, attention needs to be given to the appropriate balance of funding between federal, state and local governmental units.

There are certain kinds of service gaps which will need our attention through the 1980's. My Administration, in cooperation with the Kansas Legislature, will direct attention to service gaps and establish service priorities.

My gravest concern for the poor and needy during these difficult economic times is the rapidly rising cost of home energy. Kansas has been in the forefront in addressing the home energy needs of its needy citizens. During my Administration, utility bills have been exempted from state sales tax; the Kansas Natural Gas Price Protection Act was passed; a Consumer Information Board was established by the Kansas Corporation Commission (KCC) to increase consumer participation in the rate-making process; the KCC adopted a Consumer Bill of Rights; and a Cabinet Sub-Committee on Utility Concerns was formed. The Kansas Natural Gas Price Protection Act alone is expected to save Kansas consumers more than \$130 million through 1985.

This winter, I initiated Project Winter Warmth which is designed to restore disconnected gas service to all occupied homes. At my request, the KCC issued an order preventing further utility cut-offs for the balance of the winter and established the conditions under which disconnected service should be restored. The State Division of Emergency Preparedness is assisting local

communities in implementing this program which will reduce the risk of Kansans freezing to death this winter.

Within SRS, a considerable amount of work is done to assist low-income families with financial assistance to offset utility costs. During fiscal year 1982, over 79,000 households representing \$182,000 persons received utility payment benefits under the Low Income Energy Assistance Program (LIEAP). To further assist older Kansans, a special 10 percent income disregard has been established for elderly (LIEAP) applicants at my direction.

Through the efforts of SRS' weatherization program, approximately 3,650 homes of low-income persons were weatherized in 1982. At least 40 percent of these homes were occupied by older Kansans. To supplement this federally funded program, Operation Volunteer was carried out in the Fall of 1982. Through the efforts of 1,547 volunteers, 2,157 homes were caulked and weather-stripped in the month of September.. Because of the high priority I place on weatherizing homes, I recommend that \$247,000 from the State Energy Conservation Plan be contracted to SRS to supplement their low-income weatherization programs in fiscal year 1984.

I take pride in the fact that my Administration has illustrated concern for those of our citizens who, because of circumstances beyond their control, cannot provide for themselves the means to sustain a secure, dignified and productive life. During difficult economic times, it is even more important that our priorities reflect a commitment to maintain critical services for these, our state's most needy citizens.

## LOCAL GOVERNMENT

During a time of federal budget cuts, New Federalism and a recession-squeezed state budget, it is more important than ever that local and state governments work together.

In the area of road, bridge and highway improvements, local governments' as well as the state's needs are substantial. Traditional sources of financing for the state and local transportation programs are no longer adequate to preserve our highway system. Under the current highway revenue structure, which relies heavily upon motor fuels taxes, the gap between revenues and costs for maintaining the current network will continue to grow.

To provide the additional revenues necessary to allow the Department of Transportation, as well as local units of government, to preserve the basic transportation system, I renew my recommendation that the existing state sales tax on motor vehicles, parts, supplies and services be transferred from the State General Fund to the State Highway Fund. Due to the unprecedented current shortfalls in State General Fund receipts, however, my proposal provides for the phase-in of the sales tax transfer in equal installments over a four-year period. Based upon current estimates, the transfer will provide an additional \$21.1 million in highway funding in fiscal year 1984, rising to \$84.5 million by fiscal year 1987.

Moreover, to provide an adequate highway funding program which will meet both the state's as well as the local units of government's needs, I recommend that \$110 million in funding which is

currently dedicated to the state freeway program be released over a three-year period for use statewide as priorities dictate.

The amounts programmed for release from the State Freeway Fund will provide for a balanced improvement program over the period in which the sales tax transfer is being fully implemented.

I recommend that the new highway money be distributed according to the current formula of 35 percent to the local units of government and 65 percent to the State. The local split would be limited, however, to no more than the amount of the sales tax transferred from the State General Fund to the State Highway Fund in any one year. Under my proposal, local units of governments would receive \$21.1 million in fiscal year 1984, \$28.8 million in fiscal year 1985, \$29.2 million in fiscal year 1986 and \$29.6 million in fiscal year 1987.

I again recommend the enactment of a severance tax on oil and gas to fund our public schools and at the same time to relieve some of the pressure on the local property tax. Some counties express a concern that the severance tax may affect their local tax base. To address this concern, I propose a severance tax which includes a 5 percent rebate fund to reimburse counties for any loss in their local tax base.

In July of 1982, the President rescinded the federal policy of consultation and cooperation with state and local governments in the administration of federal assistance and development programs, commonly known as the A-95 review process.

It is very important that the State develop a review process to fill the void left by the federal rescission. In developing the review process, I plan to consult with regional planning commissions and local elected officials. A state-coordinated A-95 review process will allow state and local officials to focus on their program priorities.

In April of 1982, the problems of the Stanley Sewer District in Johnson County were brought to my attention. The residents of the District were unaware of the magnitude of improvement costs. As a result of the experience of residents of the Stanley Sewer District, I recommended last summer to the Interim Committee on Local Government that statutory revisions be made to K. S. A. 19-2704 and 2705.

As a result of the concern which was expressed regarding the Kansas special assessment laws and procedures, the Interim Committee recommended a recodification of the five county sewer district acts into one uniform law. I support the Interim Committee's proposal and urge its adoption.

The initiatives I have outlined today represent my continuing commitment to local governments. With cutbacks in the federal budget and a modest revenue outlook for the State, local governments as well as the State must look for alternatives to traditional methods of operation. Federal cutbacks are creating hardships for local governments that must seek new revenue sources in order to continue necessary services. We must work together to find new and innovative approaches to the delivery of services which our constituents demand, or face a reduction or elimination of essential services.

## PUBLIC EMPLOYEES

The cadre of Kansans employed by government to carry out the programs designed and funded by our taxes--our public employees--are on the cutting edge of every program. They represent that part of government most directly in contact with the people of Kansas. While public employees are often unsung, without their effort and dedication our efforts as the Executive and Legislative branches of government would be fruitless.

Reduction in revenues has made necessary a lessening of state funding programs involving the approximately 37,000 full-time employees employed by the State of Kansas.

Although many states have, in the face of revenue downturns caused by the recent recession, been forced to lay-off State employees, in Kansas we have striven to reduce our budgets in a way which would result in the fewest possible layoffs. Consequently, the decision was made in fiscal year 1983 to defer awarding merit salary increases to our employees.

This was not an easy choice, but it was a choice which had to be made to preserve the integrity of our workforce. The decision to preserve jobs for people was in my judgment the highest priority. This is a view that I believe is shared by the majority of people working for the State.

In order to ensure that if any layoffs are ever necessary they are implemented in the least painful way, I have appointed a committee composed of public employees and management personnel. The committee's charge is to examine all alternatives to layoffs. The committee has met and worked diligently. Their report will be submitted to me very soon and it will allow us to consider all alternatives to laying off employees.

One message which is clear from the committee's deliberations is that State employees prefer a lower salary increase or no salary increase to the prospect of layoffs. I am pleased that I have been able to submit to the Legislature a budget which provides for a 4 percent increase in State employee salaries without forcing significant reductions in force.

An important component of the benefits the State provides our employees is health insurance. In recent years through, the cost of that insurance to the State and to our employees has risen dramatically. The Secretary of Administration is currently working with the Legislature to provide some measure of self-insurance and containment of health care costs for public employees.

Rising medical costs, accompanied by rising insurance premiums, has caused a much larger expenditure of funds for health coverage than ever before. A program of self-insurance and cost containment measures will provide ample coverage at a reduced cost, both to the State and its employees.

Decreased revenue collections have necessitated operational adjustments and budget reductions. We have met these challenges with foresight. In our need to reduce the costs of State government, we must assure that the most necessary ingredient, the people who directly provide services, be protected.

The maintenance of a high quality work force will remain my primary goal.

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