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January 16, 2015 Legislative Update

The Legislature kicked off Monday, January 12 with the Governor's Inaugural, State of the State Address, and the release of the state budget. In between that, legislators were introduced and committees started receiving updates from state agencies.

Governor Brownback was sworn in as Kansas' 46th governor on Monday, beginning his second term. In his speech he called a "crisis of the family" one of the principle issues facing Kansas and America in his inaugural address, which acknowledged economic difficulties in the state. He also praised healthy families as the way to economic growth. He said the lack of healthy families is a big part of poverty in the state and nation; childhood poverty must be substantially reduced — which he said can be done by strengthening healthy marriages and families, as well as with work and education.

The Governor's State of the State Address was the first glimpse into his proposed budget for FY 2016 and solution to the revenue shortfall. In his State of the State Address, he promised to continue the march toward zero income taxes, and said states with no income taxes consistently grow faster than those with high income taxes. Brownback also said his two-year budget proposal will balance and leave the state with revenues exceeding expenditures.

The Governor also outlined the following agenda items:

- A state constitutional amendment to require the state to pay its debt before anything else;
- On education, Kansas should take a "timeout" from its school finance formula and appropriate money directly to school districts; the formula should be repealed while the Legislature crafts a more modern formula;
- The expansion of the Rural Opportunity Zones to urban areas of the state — including Kansas City, Wichita and Topeka. Individuals who move into the zones are eligible for income tax waivers and student loan forgiveness;
- Judicial selection needs to be changed through a constitutional amendment that would either allow for the direct election of justices or use the federal model, in which the governor appoints justices who are confirmed by the Senate; and
- Move local elections to the fall as Secretary of State Kris Kobach has publicly endorsed.

The budget was released Friday morning. Legislators face a big job as revenue forecasts have trended significantly downward, creating a \$436 million shortfall for FY 2016. Many members of the legislative leadership have said it is not a revenue problem but a spending problem. The Governor's proposed budget and tax policy include the following highlights:

- Specific state agencies will have a 4% cut for the rest of FY 2015 and through FY 2016 and 2017. Agencies and other appropriations not affected by the 4% reduction include K-12 education, higher education, Medicaid, State Hospitals, and Dept. of Corrections institutions. Other savings and efficiencies found in state agencies will total \$350 million of State General Funds.
- To drive state costs lower, three major budgetary cost drivers need to be changed: K-12 school finance formula, Medicaid and the KPERS pension system. From FY 2012 budget to the FY 2015

proposed revised budget, SGF expenditures for K-12 and Medicaid increased by \$492.2 million. All other budget expenditures decreased by \$242.5 million during the same time period.

- Proposal for school finance includes a sunset the current school finance formula, effective July 1, 2015, and to work with the Legislature to comprehensively reform school finance. The state would appropriate state aid to school districts in the form of block grants for two years or until lawmakers devised a replacement formula.
- A mix of KanCare policy and contractual changes are being proposed and implemented by KDHE and KDADS that will achieve \$50 million in SGF expenditure savings in FY 2016 and 2017 budgets.
- Working with the Legislature, the Governor intends to examine various possibilities to further reform the KPERS system. He proposed two initial policy changes to be considered among other future options: 1) issuing bonds, and 2) extending the current amortization period of payments to KPERS.
- Establish a "Budget Stabilization Fund," which would claim a portion of annual revenue increases to establish a safety net when the state faces unexpected deficits. The Governor estimated the fund could draw \$22.9 million in FY 2016 and \$86.9 million in FY 2017.
- The Governor will introduce a tax bill that will drop the lowest bracket of tax rates from 2.7% to 2.66% in January 2016. The upper bracket stands at 4.6%. However, the plan would block reductions in state income taxes scheduled for in 2017 and 2018 unless growth in state tax receipts exceed 103% of the previous fiscal year's receipts. It was also proposed to implement a tax amnesty program for individuals or businesses, an estimate of \$30 million for the state. In addition, the phase-down of the itemized tax deductions in Kansas set for 2017 was proposed to take effect immediately, which would inject \$50 million into the FY 2016 budget.
- An increase in the so-called "sin taxes" was also proposed, increasing the tax on a pack of cigarettes from the current 79 cents to \$2.29. The tax on tobacco products would grow from 10% to 25% of the wholesale price. The liquor tax would climb from the current 8% to 12%.

We will continue to pour over the budget to find what it includes and does not include and how it may impact our clients.

Much of the week in the Legislature was spent on staff and committee introductions.

- In the Transportation Committees, presentations were given by the Secretary of the Kansas Department of Transportation regarding the T-WORKS.
- Both budget committees reviewed the current state of the budget and State General Fund, examining the reasons as to why the state is in a large shortfall and the options that are available to them to fill that revenue hole.
- The House Commerce Committee held a hearing regarding Kansas Department of Labor's study of whether Kansas should implement a "state plan" for OSHA. KDOL did not recommend that Kansas implement its own OSHA state plan and recommended the state continue with a federal plan instead.
- Some other committees didn't meet this week including tax.
- Others met simply to provide introductions of committee members, overview of rules and introduce bills.

Legislators are off on Monday for Martin Luther King Day, and will return on Tuesday for a 4-day work week.

- House Appropriation Committee will hear briefings from Secretary of Transportation on Tuesday. On Thursday, they will look at the K-12 budget.
- House Commerce, Labor and Economic Development Committee will hear a briefing on unemployment insurance on Tuesday and from the Commerce Department Wednesday.
- House Education Committee will be hearing updates from the Board of Regents on Tuesday. They will get an update on the school finance lawsuit on Wednesday.
- House Taxation will review last year's change to the tax appeals process. On Thursday, the committee will hear a report from Legislative Post Audit on the effectiveness of economic development tools.

- The Senate Commerce Committee will hear from the Commerce Department on Tuesday; a report on OSHA on Wednesday; and a presentation on the Governor's Council of Economic Advisors on Thursday.
- The Senate Ways and Means Committee plans a hearing Thursday on the Governor's Rescission Bill.
- The Senate Financial Institutions and Insurance Committee will hear an overview on the Kansas, regional and national economy from representatives of the Kansas City Federal Reserve Board.